Manchester City Council
Report for Resolution

Report To: Executive – 10 September 2009

Subject: Homes and Communities Agency Local Authority New Build Programme Round 2 Bid – West Gorton

Report of: Director of Housing

Summary

To seek Executive approval to bid for funding under the Local Authority New Build Programme for building new Council owned homes as part of regeneration proposals being developed in West Gorton. To use existing Investment Partner Status to enter into a Heads of Terms and Grant Funding Agreement with the Homes and Communities Agency (HCA), to accept grant and build Council housing in the West Gorton area under round 2 of the bidding process.

Recommendations

The Executive is recommended to:

1. Approve the proposal to bid for Social Housing Grant to build new Council owned homes for social rent in the West Gorton Area as part of the wider regeneration programme for the area.

2. To delegate authority to the Director of Housing and the City Treasurer in consultation with the Executive Members for Neighbourhood Services and Finance and Human Resources to finalise the details of the proposed scheme including identification of specific sites in West Gorton, proposals for deliverability and an affordable financial model and submit the bid to the HCA.

3. Subject to the Council’s bid for funding being successful delegate authority to the Director of Housing, City Treasurer and City Solicitor in consultation with the Executive Members for Neighbourhood Services and Finance and Human Resources to negotiate and agree terms of any funding agreement with the HCA together with any necessary agreements with third parties for the implementation of the scheme.

Wards Affected:
Ardwick. Specific sites not identified at present.
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Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The detailed financial modelling has not yet been undertaken. This will be done once suitable sites and schemes have been identified. The principle will be that the future rental income will need to be set at the target rent as a minimum to be sufficient to meet the annual management and maintenance costs of the properties, together with the annual costs of repaying the borrowing costs in respect of the net development costs. Target rent is on average around £3.07 more than the average Manchester rents. We will be seeking Homes and Communities Agency funding for up to a maximum of 50% of the costs,

Financial Consequences – Capital

Grant funding is available for up to 50% of development costs and the balance will need to be funded using unsupported borrowing. Once a suitable scheme and site(s) have been identified the detailed financial modelling can be undertaken to ensure that the rental income will be sufficient to cover all the associated costs, including the borrowing costs for a period up to a maximum of 50 years, which ties into the PWLB borrowing duration.
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**Background documents (available for public inspection):**

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Homes and Communities Agency: Local Authorities: Bidding for Social Housing Grant May 2009

Council House Build Gateway 1 Submission
1.0 Introduction and Background

1.1 In the March 2009 budget the Chancellor announced £100M to be made available for Local Authorities to bid to build Council housing. Further guidance was issued in May 2009 which set the criteria for the bidding rounds including the deadlines for two phased submissions of July and October 09.

1.2 In June, Executive gave approval to bid for funding for the development of elderly/disabled person bungalows in the Northwards management area with the intention of using small in-fill sites owned by the Council in areas where they would be attractive to existing tenants who were under occupying family housing. It was always the intention to develop a second round bid once the first bid had been submitted at the end of July. A range of options for a further bid, including the extension of the existing bid have been considered.

1.3 The recommendation to prioritise West Gorton for a second round bid relates to the current housing market conditions and the opportunity to use existing Council owned sites to support a transformational regeneration programme. It is proposed to develop a scheme of approximately 50 units. The final number will depend on the sites, size and mix of stock needed to replace existing stock. It is considered that this is the maximum scale of development that could be delivered in the timescales set by the Government ie the development must be complete by April 2011.

1.4 A recent announcement by the Housing Minister John Healey has indicated that further programmes for Local Authority New Build will be announced shortly. This may give us opportunity to consider further bids in the future. However it is likely that the criteria for accessing grant will be revised and Executive will be advised of the potential to take forward more bids in due course.

1.5 New East Manchester in partnership with the City Council is currently reviewing the West Gorton regeneration masterplan, alongside the scope of stock transfer of Council homes to a Registered Social Landlord. Guinness Northern Counties have been selected as the preferred partner for the stock transfer. The aim is to secure funding that would ensure the delivery of circa 1000 homes for sale and rent, reprovided and refurbished social housing, new retail and public service facilities including the provision of a new school and health centre for West Gorton with a significantly enhanced environment and defined area-wide neighbourhood management.

1.6 The current economic climate has affected the housing market which has required an overall review of the existing masterplan acknowledging the inevitable effect that present economic conditions will have on the speed and scale of development which can be achieved in the short to medium term.

1.7 Early discussions between the City and the Homes and Communities Agency (HCA) identified the regeneration of West Gorton as one of the key strategic regeneration priorities for the City in that current investment is poised to make a significant contribution to the City’s Community Strategy, both existing public
and private sector investment is at risk as a direct result of the economic downturn, and there has been extensive community consultation and buy in.

1.8 Following detailed consultation with key stakeholders, including the HCA, the potential to bid for funding to build council homes has been identified as a method, alongside the HCA’s wider National Affordable Housing Programme, to help restore housing market confidence and allow the investment and economic benefits of the regeneration of the area to be realised. The HCA Kickstart Housing Delivery Programme funding (launched on the 8th May 2009) designed to help to address the shortfalls in development finance arising from current market conditions, and intended to offer a wide variety of funding options, could not be tailored to meet the needs of West Gorton’s Regeneration, primarily because development had not started on site.

1.9 The proposed building of new social housing will form part of the wider stock transfer and through working with the preferred partner for the stock transfer, Guinness Northern Counties, tenants and residents will benefit from the development of high quality new homes in the area.

1.10 The proposed bid is a funding opportunity that, if successful, will assist in bringing forward early redevelopment in the West Gorton area.

2.0 Social Housing Grant

2.1 The announced funding of £100m is to deliver new council built homes and will be available over the next two years (£30m 2009/10 and £70m 2010/11). The funding can be used to fund up to 0% of the development costs, with the balance being funded from the Local authorities own resources, or by using prudential borrowing. This funding will form part of the £8bn three year National Affordable Housing Programme and will be subject to the HCA NAHP Prospectus for 2008-2011 which articulates the vision and strategic direction for each Region.

2.2 Under the programme funding is only available to Local Authorities for new house build schemes, which will be available for social rent, and the funding will be allocated through a competitive process. There are no assumptions about a regional split of funding. Instead the bids will be assessed against the assessment criteria identified in the NAHP Prospectus which are summarised below. The HCA has confirmed that there was considerable interest from Local Authorities under round 1 of the current programme (confirmation of successful bids will not be available until early October 09) and there are indications that the programme will be over-subscribed following round 2. This will need to be factored into the proposed bid for West Gorton in terms of both level of grant requested and numbers of units proposed.

2.3 If successful, the City Council will be expected to contribute land at nil cost to the project and will be awarded grant up to a maximum of 50% of the project costs, with the balance being funded through prudential borrowing. The borrowing costs to the City Council must be met from the increased rental income.
2.4 A significant number of projects will be expected to start on site within this financial year and all must achieve practical completion before the end of March 2011.

3.0 Assessment Criteria

3.1 The first bidding round concluded on the 31st July 2009 with the announcement of successful bids expected in October 09. The deadline for submission for the second round bid will be 30th October 2009, with successful bids announced in December 2009.

3.2 In order to bid for funding the City Council is required to pre-qualify as an investment partner with the HCA. Due to the tight timescales involved in this programme qualification is running in parallel with the assessment of round 1 bids. The HCA pre-qualification questionnaire has been submitted outlining the financial proposals and demonstrating the Council’s capacity to deliver projects of this nature we expect confirmation of pre-qualification before the end of September 09.

3.3 The evaluation of the City Council’s bid will be undertaken separately (but alongside) to the pre-qualification process and will be carried out by assessing the bid against the following four criteria identified in the NAHP Prospectus:

- Value for money
- Deliverability
- Strategic Fit
- Design and Quality

3.4 In addition, as the funding is intended to form part of a fiscal stimulus package the bids will also be expected to maximise opportunities to secure community benefits through the creation of employment and training opportunities in the area. These factors are considered in turn below.

4.0 Value for Money

4.1 The City Council’s bid will need to demonstrate that it maximises the benefits from the available grant and prudential borrowings. The bid will also have to demonstrate that the prudential borrowing for the scheme is supported by the net rental income generated by the new homes to be built. Detailed costing and analysis will be carried out by the City Treasurer in advance of any bid being submitted and subsequently delivered.

4.2 There is likely to be a significant amount of financial and legal development work required around VAT and differential rent models, particularly as the costs of Council new build are not likely to be able to be delivered at the same rental level as existing social housing, unless additional grant/subsidy of some form is secured. The Local Authority New Build guidance requires rents to be set at above current rents for similar sized Council owned homes (although all Council rents will ultimately increase to similar levels by 2024/25).
and is likely to require service charges, for example for grounds maintenance, to be levied in much the same way as Registered Providers do so currently. However improvements to the environmental sustainability of the homes will lead to reductions in fuel costs for householders thus reducing the potential for financial disadvantage. The new build homes will also be subject to right to buy and this will need to be considered as part of the financial modeling.

4.3 The Council will carry the risk of whatever properties are developed becoming unpopular and difficult to let, however sensitivity analysis around void rates will be undertaken as part of the financial modeling to ensure the scheme is affordable. This in turn depends upon the quality of the housing offer and accurate need analysis and demand forecasting. A considerable amount of market research and intelligence has been undertaken to understand the need and future demand for housing of existing residents and new homeseekers in West Gorton as part of the wider master-planning for the area and this provides confidence that there will be sustainable demand for the new build.

5.0 Deliverability

5.1 Successful applications for the construction of the homes will be prioritised on their ability to start on site, as early as possible, (as well as adhering to the Council’s procurement standards), with completion by March 2011. Initial work to identify sites in West Gorton with development potential has begun in association with New East Manchester, the West Gorton Residents Steering group and Guinness Northern Counties, (the preferred partner for the stock transfer proposals).

5.2 The key constraints to successful bids will include site identification, planning approval, site investigations, consultation and procurement methods. Discussions with the HCA have already taken place and the project team convened for the first bidding round, will assess deliverability and develop this round 2 bid proposal. The project group includes representatives from: Housing, Capital Programmes, New East Manchester, Planning, Regeneration, Finance, City Solicitors, Green Team, Economic Development, Guinness Northern Counties.

5.3 As land availability is one of the key factors in this proposal to determine whether the scheme is deliverable, it is recognised by the HCA that it is not feasible to secure planning approval within the timescales of the bid process, it is nevertheless important that the proposals will follow and adhere to the City Council’s planning policy framework. The Planning department will be involved at all stages in the project in particular assist in the identification of deliverable sites.

5.4 The City Council, if successful, will be responsible for procuring the delivery of the works to build the new homes. Procurement options are currently being reviewed in conjunction with the Capital Programme and City Solicitor’s Divisions in order to identify the best approach for the project. The options under consideration include the use of existing frameworks, if available, or
undertaking a separate procurement exercise targeted at contractors with specific expertise in the housing sector.

5.5 In addition, as the City Council will retain ownership of the new homes, it is expected that management of the new social rented properties will be delivered through one of the City’s Preferred Registered Providers.

6.0 Strategic Fit

6.1 The City has a deep knowledge of housing need and the ability to tie this in with the physical and community infrastructure required to support neighbourhoods. The HCA are clear that schemes must meet sub-regional and regional strategic priorities and if not will require detailed explanations. They will also need to be evidenced by extensive local needs analysis and have the support of key local partners.

6.2 Using this new opportunity could allow us to provide rented homes to meet specific identified needs, in particular locations, as envisaged in the Housing Strategy Statement, and in particular in those areas where, for whatever reason, the market has been reluctant to provide.

6.3 It is proposed that the development of the new build will help to ensure that tenants affected by the demolition of their homes, are able to access suitable accommodation of a high quality should they wish to remain within the West Gorton area.

6.4 In similar regeneration schemes the Council has agreed a local rehousing policy with residents affected to ensure that the communities can remain together, where possible, and priority is given to those residents who have lived in the area longest.

7.0 Design and Quality

7.1 The City Council’s proposals must meet the HCA’s design and quality standards and in particular must meet the HCA’s Code for Sustainable Homes Level 3. Further, in the guidance issued by the HCA they have indicated that preference will be given to schemes that meet Level 4 under the Code, or higher. There is, therefore, significant potential to link this initiative with the Call to Climate Change and Zero Carbon Homes initiatives. This potential ranges from building the new homes to a high sustainability code level (4 and above), through to build carbon offsetting into the specification for the delivery partner(s), to maximising the potential for green space and community engagement initiatives.

7.2 To complement these standards the 'City Development Guide' also seeks a high level of achievement over these and a range of associated design issues in new development.
8.0 Community Benefit

8.1 The City Council’s proposal will seek to ensure that there will be opportunities to link the building of new Council homes into Training and Employment initiatives.

8.2 This can be secured by ensuring that the City Council identifies delivery partners with proposals that include the provision of apprenticeship opportunities and a willingness to work closely with the City Council and partner agencies to demonstrate that we have been able to maximise the benefits and, importantly in the current economic climate, retain employment opportunities through this initiative. As part of its bid the City Council will need to submit a statement outlining how they will achieve this aim and highlighting past experience in working with the construction sector to deliver such benefits.

9.0 Next Steps

9.1 Subject to Executive’s approval it is proposed that officers will develop a detailed proposal for submission to the HCA as part of the second bidding round that is due to conclude in October 09. In order to meet this challenging timescale delegation is sought to allow officers in consultation with the Executive members for Neighbourhood Services and Finance and Human Resources to develop the detailed bid in accordance with the principles outlined in this report.

9.2 As part of the round 1 bid, the City Council has agreed the Heads of Terms between the Authority and the HCA and is currently negotiating the Grant Funding Agreement in anticipation of a successful bid. This agreement would be binding for the Authority and cover any follow up development activity. The Homes and Communities Agency has published a Grant Funding Agreement, and the City Solicitor will negotiate the terms of the final agreement. Executive are asked for delegated approval to sign the Grant Funding Agreement with the HCA.

9.3 In developing the City Council’s proposal it will be important to ensure that the business plan model is based on a set of realistic assumptions for future management (including overheads) and in particular major repairs and void loss. It will also be important to take into account set up costs in the business model. Further, the guidance is clear that Secure tenancies and Right to Buy will apply to the new homes, but is silent on any changes to the current ringfencing arrangements that apply to the Right to Buy scheme, whereby the Council retain 25% of any receipt and the balance is pooled nationally. If this was not addressed it would be a risk to the long term financial viability of any scheme. The CLG has recently consulted on proposed changes to the Local Government (Capital Finance and Accounting) (England) Regulations 2003 and if enacted this would allow Councils to retain all of the receipts from a subsequent sale of a property. These changes will need to be made by secondary legislation.
9.4 Additionally the guidance recognises that in order to ensure the rental income can support the required level of prudential borrowing it will be necessary for the rental levels to be set, as a minimum, at the target rent to reflect the "enhanced" accommodation offer.

10.0 Conclusion

10.1 The City Council has an opportunity to bid for funding to support the development of new Council owned rented housing which in turn will help support the start of the transformational regeneration of the West Gorton area of the City.

10.2 The opportunity comes with a number of challenging criteria, not least of which is the timescale to develop a good quality bid. In addition, the City Council must in itself ensure that the proposed development meets its longer term strategic aims whilst recognising and addressing the short term challenges presented by the recession and in particular the impact on the housing market.

10.3 Close working with the HCA, New East Manchester, housing partners and the community will help ensure that we have the best chance of success for this bid. The Executive are requested to approve the report overall and to delegate the detailed approval in order to allow the tight timescales to be met.

11.0 Contributing to the Community Strategy

(a) Performance of the economy of the region and sub region

11.1 The council house building proposal will contribute to the provision of affordable homes for Manchester residents and provide homes for properties that are in high demand.

11.2 It will contribute in assisting to the transformation to a low carbon economy through the build of homes to environmentally sustainable specifications. This proposal it will also help to invest funds in the construction industry following this bid using local and sub-regional firms throughout the project.

(b) Reaching full potential in education and employment

11.3 This proposal will increase basic skills and employment through supporting apprenticeships. There may also be opportunities for providing an incentivised-housing offer of released under-occupied family homes for economically active households.

(c) Individual and collective self esteem – mutual respect

11.4 The building of social housing will provide high quality homes, to not only to tenants affected by the demolition of homes in the West Gorton but also for people within the Council’s allocations policy.
11.5 The development and regeneration proposals will seek to enhance community regeneration, through the regeneration of West Gorton and providing locally based tenant focussed services.

(d) Neighbourhoods of Choice

11.6 This proposal will provide an improved and balanced housing offer to support the City’s population and economic growth and improve the quality of place.

11.7 It will also, through physical improvements to tenants homes, and by building new properties assist to create quality local environments and neighbourhoods of choice.

12.0 Key Policies and Considerations

(a) Equal Opportunities

12.1 The implications of this report for the Council’s equal opportunities policy are that the scheme will meet an identified need for affordable homes in East Manchester.

(b) Risk Management

12.2 The Council will carry the risk of whatever properties are developed becoming unpopular and difficult to let thereby reducing the income to repay prudential borrowing. This in turn depends upon the quality of the housing offer and accurate need analysis and demand forecasting.

(c) Legal Considerations

12.3 The procurement of the delivery of the works to build the new homes will be subject to EC procurement rules and the City Solicitor will advise on the process.