

## Manchester City Council Report for Resolution

**Report to:** Executive – 16 November 2022

**Subject:** Delivery of Affordable Housing - Project 500 (Update)

**Report of:** Strategic Director (Growth and Development)

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### Summary

This report responds to a meeting of the Executive in September 2019 where delegated authority was given to agree the disposal of a portfolio of sites in Council ownership for the provision of affordable homes in relation to Project 500.

It provides a progress update on the delivery of affordable homes as part of Project 500 and seeks agreement for the disposal of the first phase of sites. Phase 1 represents 378 homes delivered across 27 sites predominantly in the North and East of the city. Future phases of the programme in order to reach the 500 homes originally proposed are currently under consideration subject to evolving market conditions and will be informed by a review of the work to date on Phase 1.

### Recommendations

The Executive is recommended to:

- (1) Note the progress to date.
  - (2) Approve the disposal of the identified land on the principal terms set out in this report.
  - (3) Authorise and delegate the Strategic Director of Growth and Development in consultation with the Deputy Chief Executive and City Treasurer to agree and finalise the detailed terms of the transactions.
  - (4) Authorise the City Solicitor to seek such statutory consents as may be necessary in regard to the disposal of identified land and conclude and complete all documents and agreements necessary to give effect to the terms agreed and the recommendations in this report.
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### Wards Affected - Citywide

<b>Environmental Impact Assessment</b> - the impact of the decisions proposed in this report on achieving the zero-
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The schemes which will be developed as part Project 500 will be designed in accordance with the environmental principles set out at Appendix 4. This includes looking at a fabric first approach to development, seeking to source low carbon
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materials to reduce embodied carbon, intentions to exceed part L of the building regulations, use of renewable energy where possible, employing Modern Methods of Construction (MMC) and encouraging the inclusion and use of Electric Vehicle Charging points (EVC) and cycle facilities to promote sustainable travel.

Where possible the schemes will also incorporate landscaping features to encourage biodiversity, protect natural resources, enhance amenity and retain existing trees.

Project 500 delivers against a number of strategic objectives with carbon reduction being one of them. Despite inflationary cost pressures, low carbon principles have been preserved throughout the development of the project, and the Council will seek to embed this within the final schemes.

Our Manchester Strategy outcomes	Contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The proposed developments will create high quality, low carbon, affordable homes available to Manchester residents contributing to a diverse and distinctive economy. The developments will bring new people to the development locations helping to sustain economic activity within the city's neighbourhoods.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	The development of these sites will create a number of associated jobs, especially in construction. The proposed developments will provide quality homes on sites close to public transport and jobs. This will enable good mobility for future residents who work elsewhere in the city and chance for others to access opportunities for work and skills/ education outside of their immediate neighbourhood.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	The delivery of Project 500 will provide much needed affordable housing – across a range of tenures including 89% of which are available at Social Rent or at the Manchester Living Rent alongside a proportion of home ownership products such as Rent to Buy and Shared Ownership.
A liveable and low carbon city: a destination of choice to live, visit, work	RP partners have committed to work towards zero carbon initiatives as part of Project 500. This will be embedded in the design of all new homes and includes a range of measures to explore (see Appendix 4).

A connected city: world class infrastructure and connectivity to drive growth	The schemes are being developed on well-connected sites close to existing transport links, communities, local amenities and jobs, designed to support a growing workforce.
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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 Financial Consequences – Revenue are contained within Part B of this report.

### **Financial Consequences – Capital**

The Financial Consequences - Capital are contained within Part B of this report.

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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.

Draft Residential Growth Strategy, Executive, 4<sup>th</sup> November 2015

Housing Affordability in Manchester, Executive, 1<sup>st</sup> June 2016  
Housing Affordability in Manchester, Executive, 14<sup>th</sup> December 2016  
Housing Affordability Plan, Executive, 18<sup>th</sup> October 2017  
Housing Affordability Plan New Products, Executive, 7<sup>th</sup> March 2018  
Delivering Manchester's Affordable Housing Strategy, Executive, 12<sup>th</sup> December 2018  
Delivering Manchester's Affordable Homes to 2025, Executive, 11<sup>th</sup> September 2019  
Delivering Manchester's Affordable Housing Strategy, Executive, 25<sup>th</sup> March 2020  
Manchester Housing Strategy (2022 – 2032), Executive, 22<sup>nd</sup> July 2022

## 1.0 Introduction & Background

- 1.1 The Council's Executive approved 'Delivering Manchester's Affordable Homes to 2025' in September 2019. Authority to dispose of a portfolio of sites was delegated to Strategic Director - Development, Deputy Chief Executive & City Treasurer and the City Solicitor, in consultation with the Executive Member for Housing and Regeneration. An update of the delivery of Project 500 is contained within this report.
- 1.2 Project 500 sets out to deliver affordable homes on small, non-commercially facing land assets owned by the Council. This is to be facilitated by 7 Registered Providers (RPs) - One Manchester, Great Places, Southway Housing Trust, Mosscafe St Vincents, Guinness, Jigsaw and Irwell Valley Housing Association. All providers are members of the Manchester Housing Providers Partnership (MHPP) framework.
- 1.3 Project 500 was conceived to deliver the following objectives:
  - Deliver 100% affordable housing on brownfield infill land
  - Address viability and deliverability issues through a portfolio approach to smaller sites
  - Dispose of multiple public owned sites at the same time to improve efficiencies around the associated work for the Council and RPs i.e. site finding, valuations, due diligence etc
  - Identify common areas of agreement i.e. legal matters relating to disposals.
  - Work to establish new ways of working with MHPP partners i.e. engagement through a single point of contact.
- 1.4 The project aims to provide an alternative delivery route for affordable housing that compliments traditional models and compliments the Councils wider Affordable Housing Programme.
- 1.5 The programme represents a new way of working between MCC and MHPP and this has impacted the speed of mobilisation along with inflationary market conditions impacting on the financial viability of some of the original sites.
- 1.6 Due diligence on ground conditions has been completed by the relevant RPs. Tenures and scheme designs have been negotiated by officers – identifying suitable tenures that match identified local demand but also unlock development viability.
- 1.7 Following this period of analysis, 27 sites have been identified as deliverable as part of Phase 1 of Project 500. This will deliver 378 affordable homes – 89% available for Social Rent or Manchester Living Rent. Further detail on the size and tenure of these homes can be found at Appendix 1<sup>1</sup>.

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<sup>1</sup> Final tenures may be subject to further change, but sites will always remain as affordable housing

## **2.0 Delivering our Housing Strategy objectives**

- 2.1 Many of the sites are in areas of very high demand for affordable housing – principally North and East Manchester (as shown in Appendix 2) and correlate with areas of intervention identified within the city’s recently published Housing Strategy (2022-2032) seeking to deliver 10,000 new affordable homes over the decade.
- 2.2 The tenure mix across the project has been designed to deliver the optimal outcome to support the Council’s objectives, whilst remaining viable at a portfolio level. A breakdown of the phase 1 programme outputs is shown in Appendix 1 of this report. 30% of the homes will be available at Social Rent, 59% at Manchester Living Rent. It is therefore envisaged that Project 500 will provide housing for those most in need, contributing to wider Council efforts to reduce waiting times on the Housing Register and those currently housed in Temporary Accommodation.
- 2.3 The remaining 11% are due to be available for Shared Ownership or Rent to Buy. This will provide residents with an affordable route into home ownership and in accordance with our home ownership aspirations outlined in the new Housing Strategy.
- 2.4 Manchester has a target of becoming a Zero Carbon city by 2038. Project 500 prioritises low carbon housing and construction utilising Modern Methods of Construction (MMC) and recycled materials. Full details of the programmes environmental credentials are shown in Appendix 4.

## **3.0 Demonstration of Best Value**

- 3.1 In line with the Council’s obligations to demonstrate and achieve Best Value, an appraisal has been undertaken for each site to consider residual land value. The appraisals had regard to the schemes proposed and was benchmarked against current build costs and values.
- 3.2 A full breakdown of residual land values is included within Part B of this report.
- 3.3 It should be noted that the programme is constituted of predominantly smaller sites which are less efficient in terms of design and remediation efficiencies.
- 3.4 The programme has been subject to additional viability pressures including high construction cost, inflation, labour and material shortages and the impact of Covid 19. Homes England affordable housing grant enables development to remain viable.
- 3.5 Cost savings have been achieved both through geographical grouping of sites between individual organisations and that RPs have worked collectively to procure legal and professional services.
- 3.6 It is acknowledged that Project 500 demonstrates strategic fit with the wider Council priorities in that:

- Project 500 schemes are achieving 100% affordable housing with 89% in either Social Rent or Manchester Living Rent tenures and a mix of housing suitable for those persons in most housing need across the city.
- Site viability is constrained but demand remains high for these affordable housing products. Despite these challenges this programme provides a new supply of affordable homes.
- The programme disposes of surplus land. This is due to the nature of the sites for which the majority would be difficult to develop in isolation and unlikely to be market facing. Disposal of sites will generate revenue savings by negating maintenance costs and completed homes will generate council tax income.
- The partnership has agreed to exploring low carbon principles as set out in Appendix 4 - which is a key strategic objective of the Council.

3.7 In summary, the sites included within this programme are generally more difficult to develop and face rising development costs however Project 500 demonstrates a strategic fit with the wider Council's aspirations for low carbon affordable homes in localities of high demand.

#### **4.0 Disposal of land on a freehold basis**

4.1 The September 2019 report to Executive committed the city to deliver an initial programme of affordable homes on small infill sites "on a leasehold basis unless there is an over-riding reason not to".

4.2 The fragmented nature of the sites and challenging development environment has prompted officers to review the proposal to dispose of the sites by way of a long lease. Following long discussions with MHPP regarding the tenure of the sites to be disposed of and the difficulties expressed by MHPP that would be presented if the disposals were on a long leasehold basis it is considered that the reasons put forward by MHPP represent an overriding reason not to dispose of the sites on a leasehold basis. The fundamental reasons (amongst others expressed by MHPP) is the change to Homes England funding requirements as well as the recent leasehold legislative changes relevant to long leaseholds for residential premises. In addition, although Shared Ownership structures are exempted from such legislative changes, MHPP anticipates that across the project there will be a large presence of initial shared ownership structure sales to buyers. In view for the potential of such buyers to eventually staircase to 100% and then call on the freehold transfer of their home, MHPP have stipulated that a freehold interest is needed to meet the requirements on final staircasing and the demand to take the freehold by the buyer. The Council is able to continue to secure their required objectives by way of freehold disposals of the sites rather than by way of long leasehold disposals and so proposes to dispose of the sites on a freehold basis. This is also aligned with the revised Homes England position, which requires as a minimum a 999-year lease where this is available.

### **4.3 Phase 2 future sites**

- 4.4 The Council continues to evaluate the remaining sites within the original Project 500 programme along with engaging Homes England and GMCA on external grant funding opportunities.
- 4.5 It is envisaged that additional future sites may be identified as part of the asset review process currently being piloted as part of the new Strategic Asset Management Plan and subject to ongoing market conditions.
- 4.6 It is anticipated that Phase 2 will constitute 200+ new affordable homes with also a continuation of the prioritisation of Social Rent.

### **5.0 Conclusion**

- 5.1 The delivery of a sustainable supply of Affordable Homes remains a challenge given current market conditions. Project 500 constitutes a new innovative method of supplementing the wider Affordable Housing Programme, utilising surplus non-market facing brownfield land.
- 5.2 Executive approved the disposal of the land in September 2019 and this reports updates Executive of the conclusions of the feasibility stage of the programme, outlining evaluation of the development proposals and finances along with the wider opportunity to mould the output to demonstrate the Council's delivery of the wider Housing Strategy.
- 5.3 The next stage of the project will move to supporting the delivery of the project working with MHPP, applying when needed Housing Affordability Funding (HAF) funding when required. Lessons learnt, identified efficiencies and accelerated processes shall be reflected in future phases.

### **6.0 Contributing to a Zero-Carbon City**

- 6.1 Details on the environmental principles of Project 500 are set out in Appendix 4. This includes looking at a fabric first approach to development, seeking to source low carbon materials to reduce embodied carbon, intentions to exceed part L of the building regulations, use of renewable energy where possible, employing Modern Methods of Construction (MMC) and encouraging the inclusion and use of Electric Vehicle Charging (EVC) points and cycle facilities to promote sustainable travel.
- 6.2 Where possible the schemes will also incorporate landscaping features to encourage biodiversity, protect natural resources, enhance amenity and retain existing trees.
- 6.3 It is important to note however that evolving market conditions are putting increasing pressures on the ability of Registered Providers to deliver viable low carbon initiatives. Regardless, low carbon principles have consistently been part of discussions with RPs and will be investigated and acted upon on a site by site basis where viability allows.



## **7.0 Contributing to the Our Manchester Strategy**

### **(a) A thriving and sustainable city**

- 7.1 The proposed developments will create high quality, low carbon, affordable homes available to Manchester residents contributing to a diverse and distinctive economy. The developments will bring new people to the development locations helping to sustain economic activity within the city's neighbourhoods.

### **(b) A highly skilled city**

- 7.2 The development of these sites will create a number of associated jobs, especially in construction. The proposed developments will provide quality homes on sites close to public transport and jobs. This will enable good mobility for future residents who work elsewhere in the city and chance for others to access opportunities for work and skills/ education outside of their immediate neighbourhood.

### **(c) A progressive and equitable city**

- 7.3 The delivery of Project 500 will provide much needed affordable housing – across a range of tenures including 89% which are set to be available for Social Rent or at the Manchester Living Rent alongside a proportion of home ownership products such as Rent to Buy and Shared Ownership.

### **(d) A liveable and low carbon city**

- 7.4 RP partners have committed to work towards zero carbon initiatives as part of Project 500. This will be embedded in the design of all new homes and includes a range of measures to explore (see Appendix 4).

### **(e) A connected city**

- 7.5 The schemes are being developed on well-connected sites close to existing transport links, communities, local amenities and jobs, designed to support a growing workforce.

## **8.0 Key Policies and Considerations**

### **(a) Equal Opportunities**

- 8.1 The properties developed as a result of disposal will be available to all people regardless of their age, race, religion, gender or other characteristics. The Council's Allocations Policy will be used and properties allocated via Manchester Move for affordable properties with which the city Council nominate tenants i.e social rented tenures.

### **(b) Risk Management**

8.2 The extensive due diligence and scheme analysis undertaken to date provides a high level of certainty in relation to the viability of the proposals. The use of a wide range of partners across the MHPP to deliver the homes, along with support from HE at a strategic level to the proposition mitigates the risk associated with delivery. By simplifying the land sale and delivery arrangements, barriers to promoting the scheme are removed.

**(c) Legal Considerations**

8.3 Legal Considerations – Legal contained in Part B of this report