

Manchester City Council Report for Information

Report to: Executive – 25 March 2020

Subject: Delivery of new affordable homes in Manchester

Report of: Strategic Director (Growth & Development)

Summary

In 2015 the City Council adopted a residential growth target of a minimum of 25,000 homes between April 2015 and March 2025. The September 2019 meeting of the Executive was informed that the forecast residential growth delivery target for new homes in Manchester should be 32,000, an addition of 7,000 homes. The Executive was also informed that at least 20% or a minimum of 6,400 of the projected 32,000 homes would be affordable homes.

This report builds on the previous report on the delivery of affordable homes which was considered by the Executive in September 2019 and outlines a proposed approach to develop a new delivery mechanism, led by the City Council, that will seek to ensure that the affordable homes target of a minimum of 6,400 affordable homes is not only met but is exceeded.

The report proposes that there will be two main streams of delivery for new affordable homes in the city. The first is to ensure that the existing delivery platform that we have established with Registered Providers (RP's) is continued whereby the Council uses its land asset in conjunction with land the RP's have acquired in the open market along with RPs continuing to access a range of Homes England investment programmes. This existing arrangement remains key to the delivery of new affordable homes in the city.

The second delivery platform will be a new approach involving the creation of a Local Housing Development and Management company that will provide direct delivery options utilising City Council land assets. This report sets out the broad approach to the establishment of a Local Housing Development and Management Company with a view to bringing back to the Executive a more detailed paper later in the year if the Executive supports this approach.

Recommendations

Executive is asked to note the contents of the report request that a further report is submitted to a future meeting of the Executive that sets out in detail the approach to develop a housing delivery model along with a strategic business case.

Wards Affected: All

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city

Homes developed in the future will need to meet the Zero carbon target requirements of the City. The affordable housing delivery options referred to within this report are all models where we can influence the provision and ensure carbon targets are met. There will be a financial consideration for the zero carbon components that will affect volumes. These will be factored into financial viability assessments.

| Manchester Strategy outcomes | Summary of how this report aligns to the OMS |
|---|---|
| A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities | A successful economy has to be supported by a vibrant and diverse housing market. The provision of a multi-tenure, high quality, low carbon range of housing options will assist the City to attract investment. |
| A highly skilled city: world class and home grown talent sustaining the city's economic success | A successful jobs and skills market has to be supported by a vibrant and diverse housing market. The provision of a multi-tenure, high quality, zero carbon range of housing options will assist the City to attract and retain high quality local and imported talent. |
| A progressive and equitable city: making a positive contribution by unlocking the potential of our communities | The scale of development programmes envisaged will provide much needed affordable accommodation in the city. |
| A liveable and low carbon city: a destination of choice to live, visit, work | All homes being developed will be expected to contribute to our zero carbon targets. We will expect all housing offers developed through the workstreams in this report to be net zero carbon. |
| A connected city: world class infrastructure and connectivity to drive growth | Housing development makes a direct and influential impact on infrastructure and growth. By ensuring an accelerated delivery programme there will be a stimulus to investment and development. |

Financial Consequences:

None at this stage

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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, 4th November 2015
- Housing Affordability in Manchester, Executive, 1st June 2016
- Housing Affordability in Manchester, Executive, 14th December 2016
- Housing Affordability Plan, Executive, 18th October 2017
- Housing Affordability Plan New Products, Executive, 7th March 2018
- Delivering Manchester's Affordable Housing Strategy, Executive, 12th December 2018
- Delivering Manchester's Affordable Homes to 2025, Executive, 11th September 2019

1.0 Introduction

- 1.1 The 'Our Manchester' strategy has established a series of high level aims to secure the 2025 vision for the city, in particular the need to build well designed, energy efficient, sustainable and affordable homes to rent and buy. Creating more homes to meet the needs of a growing population and economy is a significant priority.
- 1.2 The Residential Growth Strategy (2015-2025) sets out the city's approach to providing the right mix of housing for all residents. The Strategy now commits to building 32,000 new homes in Manchester between 2015 and 2025 - including a minimum of 6,400 new affordable homes.
- 1.3 Manchester's residential pipeline is in a significant period of delivery, providing thousands of new homes each year for our residents. In 2019/20, there were 3,173 new homes built (2,266 in the city centre and 907 in the rest of the city). This is an increase on the 2,897 built in 2018/19, meaning a total of 13,625 new homes have been built in the period from 2015/16. On top of this, a further 10,000 homes are currently under construction across the city including c.8,000 in the city centre.
- 1.4 As part of the Residential Growth Strategy, the city is committed to delivering a minimum of 6,400 new affordable homes in the period between 2015 - 2025. So far in 2019/20 (Q1 - Q3), 283 new affordable homes have been built, bringing the total delivered in the period from 2015/16 to 1,327. In addition to this a further 765 new affordable homes are currently on site and expected to be delivered by 2021/22.
- 1.5 Previous reports to the Executive have set out the role that Homes England have now taken nationally on the delivery of new affordable homes with the additional resources that the Government has provided along with the introduction of new delivery arrangements, such as the creation of strategic partnerships with ambitious Registered Providers to deliver more affordable homes across the country. More recently the March 2020 Budget provided the Homes England Affordable Homes Programme with an additional £9.5bn, creating a new £12.2bn five-year programme from 2021/22. The Budget also announced a new £400 million Brownfield Housing Fund to support regional mayors in building more homes on brownfield sites.
- 1.6 To achieve our target of a minimum of 6,400 affordable homes by March 2025 it is proposed that the Council has to take a more proactive role in the delivery of new affordable homes in the city to ensure that this target is met and indeed exceeded. This is not to be at the expense of the well established arrangements with our Registered Providers in the city who have a key role to play in helping to deliver new affordable homes in the city. As such this paper sets out an approach for the City Council to establish a Local Housing Development and Management Company that will deliver new affordable homes in the city.

2.0 Increasing the delivery of affordable homes

2.1 In determining what role a Local Housing Development and Management Company could play, work has been undertaken to evaluate how a proposed delivery model might sit within a future pipeline with our Registered Providers that is capable of meeting and exceeding the 6,400 affordable homes target. Broadly speaking there are three categories within which future affordable housing development proposals could sit:

1. Land already identified for RPs including sites identified as part of Project 500.

2.2 This includes all sites currently identified in conjunction with Registered Providers as part of the Project 500 work. These development opportunities mainly consist of smaller infill sites (under 25 homes) in the North and East of the city. There are currently 579 homes in the Project 500 pipeline expected to be delivered by 2024/25.

2. Land identified by Registered Providers (RP) or which requires support from Homes England to be delivered.

2.3 This includes continued work with Registered Providers to aid the delivery of affordable housing including through the use of City Council owned land. This is likely to include sites identified within the current Affordable Homes Programme funding cycle, future sites likely to be delivered by RPs partners and a number of sites (including former landfills) which would represent viable development opportunities provided Homes England funding could be secured for the necessary remediation. There are currently c.2,800 homes identified in this part of the pipeline that can be reasonably expected to be delivered by 2024/25.

3. Portfolio of sites delivered via a new Local Development Vehicle (LDV)

a) Capable of delivering a significant increase in affordable housing supply.

2.4 This includes sites which have the potential to significantly upscale the delivery of new affordable homes (within and beyond the current 6,400 target by 2025). This is likely to be a mix of sites across the city with relatively small scale remediation challenges including sites in the city centre and elsewhere. Current estimates indicate a potential for the LDV to deliver c.1,800 new affordable homes.

b) Capable of delivering new homes for market sale and rent.

2.5 The intention of this element of the programme would be to deliver a revenue stream through either rental income or a financial receipt to reinvest into the development vehicle - for example to be used to buy additional land or help support remediation alongside the wider pot of monies drawn from recent market housing development to support new affordable housing supply across the city. Current indications suggest these sites could deliver in excess of

1,000 units bringing the total number of new homes potentially delivered by the Local Development Vehicle to over 2,800 (see table below)

- 2.6 Against this backdrop the following table summarises the current estimates of the affordable pipeline including how many new homes may be able to be delivered against these emerging categories and the amount of market housing potentially delivered by the Local Development Vehicle

Table 1 - Affordable Pipeline (2015 - 2025) & LDV Delivered Market Pipeline

| | Total Homes |
|--|--------------------|
| Affordable Pipeline – 2015-16 – 2019-20 Completions | 1327 |
| Affordable Pipeline – Sites Under Construction | 765 |
| (1) Project 500 Sites | 579 |
| (2) Potential RP Delivered Sites | 2816 |
| (3a) Potential LDV Delivered Sites | 1786 |
| Total Affordable Pipeline | 7273 |
| (3b) Potential LDV Delivered Housing Market Sites | 1050 |
| Total Market Pipeline | 1050 |

3.0 A Local Housing Development and Management Company: Background

3.1 Local Authorities have been seeking alternative models to deliver sustainable housing development, and sometimes management, for the last two decades. The drivers have varied over time. The lack of Housing Revenue Account (HRA) capacity was an early motivator, however following the HRA self-financing exercise many Authorities realised that they had the financial capacity but not the delivery resources.

3.2 The growth of new models of housing delivery, often generically referred to as Local Housing Companies (LHC's) , has increased significantly in the last 10 years. An Association of Public Service Excellence (**APSE**) study in 2017 identified over 40 models including:

- A subsidiary company of an ALMO.
- A District Housing Trust
- A joint venture with a registered provider.

3.3 The Town and Country Planning Association (**TPSA**) produced a Research report in May 2017 entitled “Building Homes, creating communities: Ensuring councils provide innovative solutions to meeting housing needs.” This reported that 62% of 126 councils had already, or were considering, establishing setting up an LHC

3.4 Any housing delivery model would strive to ensure that the following, inter alia, objectives can reasonably be met:

- (i) letting to be in line with Council priorities;
- (ii) rents to be at or below LHA levels; and
- (iii) tenants to enjoy certainty of rents and tenure.

4.0 A Local Housing Development and Management Company: Delivery Model principles

- 4.1 In recent years a number of local authorities have set up housing delivery vehicles often with the objectives of increasing housing supply, site specific regeneration and the provision of temporary housing.
- 4.2 The principal rationale for the establishment of a housing development delivery model for the Council is to facilitate the increase in the supply of new homes which:
- (a) Maximises the number of ways in which homes are developed and provided in order to enhance house building in Manchester; and
 - (b) Enables the Council to have greater control over how sites for new homes and tenure types are developed and provided.
- 4.3 As noted there are a number of alternative models which the Council will consider in order to inform the strategic business case to determine an optimum model for delivery aligned to needs of residents in Manchester. For example, a Local Asset Backed Vehicle, a Joint arrangement with Registered Provider(s), a wholly owned and controlled vehicle and direct delivery by the Council.
- 4.4 The key objectives for any model, however, will be the ability to deliver genuinely affordable homes, enable cross subsidisation, address Government policies, and be at least revenue neutral, whilst seeking to deliver a refundable surplus.
- 4.5 In any model the governance arrangements will need to be clearly set out in order to, for example, provide common resources and facilitate cross subsidisation of a mixed tenure offer to facilitate the delivery of housing. Such mixed tenure offers could involve the following:
- Private Rentals: to deliver and manage homes to be let at a market rent. This would undertake commercial activity to generate capital and revenue with any profit flowing up to the holding Company.
 - Affordable Rentals: to deliver and manage the affordable rent tenancies.
 - Development Arm: to develop housing on land for rent or sale and to purchase and develop sites. This could act in a commercial capacity.
- 4.6 Any model must provide the necessary flexibility to, for example, seek external funding and or enter into arrangements with registered providers or other entities to facilitate the delivery of mixed tenure solutions.
- 4.7 In addition the Council will need to consider whether the model would enable the use of capital receipts, and specifically the receipts received from the sale of properties purchased under RTB, to fund the building of new affordable rent homes.

4.8 In order to fund the new homes, both affordable and market rent, it is likely that the Council would need to provide funding. As noted above, the model should also provide the flexibility for a third party funder to step in.

5.0 Issues and risks

5.1 There are a wide and diverse range of Housing Delivery Models available, all of which are primarily predicated on the same principles of accelerating the delivery of new homes with clear governance arrangements.

5.2 Any model will need to be flexible to ensure adjustments/amendments can be made to the model. For example, in Croydon (Brick by Brick) is transforming to become a Registered provider in order to feasibly offer a shared ownership product which is compatible with the market and enables prospective owners to secure mortgages.

5.3 The legal and financial structure will need to be carefully structured and in order to do so it is proposed that partner agencies are identified to work with the Council through the lifetime of the delivery model, not just the establishment thereof.

6.0 Affordable Housing for Manchester Residents

6.1 There is often confusion about the definition of affordable housing. Social rented development, low cost home ownership products, grant conditions and a range of sub market rent offers are often packaged generically as “affordable” housing.

6.2 It is probable that the Registered Provider delivered part of the approach outlined in this report will continue to be captured in this terminology and approach.

6.3 For the Local Housing Development and Management Company option the application of affordable would be practical and literal. We would have the ability to run specific market appraisals and set rent levels at or around the Local Housing Allowance in each development project area. Our aim would be to develop homes that are affordable to Manchester residents. This would make each scheme accessible financially to residents in the area a development was delivered. This would be assessed on a scheme by scheme basis and would form part of the specific financial appraisals.

7.0 Conclusion

7.1 A legal and financial model which allows the Council to invest in affordable housing in a sustainable way, aligned with and supported by a detailed business plan, is vital to achieving the Council’s strategic aims for ensuring the delivery of new affordable homes in the city.

7.2 In doing this, the Council is ensuring the delivery of new homes for residents on a range of incomes is sustained by providing a framework to fully utilise the

city's land assets. It is of particular importance that the city considers ways to maintain supply in light of the challenging economic conditions expected to be experienced in the forthcoming financial year. There are a wide and diverse range of Housing Delivery Models available.

8.0 Contributing to a Zero-Carbon City

- 8.1 Homes developed in the future will need to meet the Zero carbon target requirements of the City. The affordable housing delivery options referred to within this report are all models where we can influence the provision and ensure carbon targets are met. There will be a financial consideration for the zero carbon components that will affect volumes. These will be factored into financial viability assessments.

9.0 Contributing to the Our Manchester Strategy

(a) A thriving and sustainable city

- 9.1 A successful economy has to be supported by a vibrant and diverse housing market. The provision of a multi-tenure, high quality, low carbon range of housing options will assist the City to attract investment.

(b) A highly skilled city

- 9.2 A successful jobs and skills market has to be supported by a vibrant and diverse housing market. The provision of a multi-tenure, high quality, zero carbon range of housing options will assist the City to attract and retain high quality local and imported talent.

(c) A progressive and equitable city

- 9.3 The scale of development programmes envisaged will provide much needed affordable accommodation in the city.

(d) A liveable and low carbon city

- 9.4 All homes being developed will be expected to contribute to our zero carbon targets. We will expect all housing offers developed through the workstreams in this report to be net zero carbon.

(e) A connected city

- 9.5 Housing development makes a direct and influential impact on infrastructure and growth. By ensuring an accelerated delivery programme there will be a stimulus to investment and development.

10.0 Key Policies and Considerations

(a) Equal Opportunities

10.1 None at this stage

(b) Risk Management

10.2 Not applicable

(c) Legal Considerations

10.3 The City Solicitor will provide the necessary support and advice to the working group to ensure that any proposed model is developed in accordance with the legislative and regulatory framework.