EXECUTIVE REPORT COVER SHEET PART B as it includes commercially sensitive information

***This Sheet Is* Not *to be Included In the published report***

**It is to help you plan the drafting of the report and who needs to approve it.**

|  |  |  |
| --- | --- | --- |
| Report Title: Housing Investment Fund | | |
| Lead author contact information: Richard Paver Treasurer and Paul Beardmore Director of Strategic Housing | | |
|  | | |
| **Key dates are…** | | |
| Date of Scrutiny Meeting (if relevant) |  | |
| Report Deadline for Scrutiny Paper |  | |
| Date of Executive Meeting | Wednesday | 18 December 2013 |
| Date of Agenda Setting Meeting | Wednesday | **4 December 2013** |
| Report Deadline is | Monday | **9 December 2013** |
|  | | |
| Key Decision? | Yes | |
| Forward Plan Reference: |  | |
|  | | |
| Corporate Services contact for Financial Implications is:  Ceri Taylor | | |
| City Solicitor’s contact for Legal Implications is:  Linda Comstive Coar | | |

|  |  |
| --- | --- |
| Approvals |  |
| **Approved by…** |  |
| **Strategic Director** |  |
| **Chief Executive** |  |
| **Treasurer** |  |
| **City Solicitor** |  |
| **Executive Member(s)** |  |
| **Leader** |  |

**Manchester City Council**

**Report for Resolution**

**Report To: Executive – 18th December 2013**

**Subject:** Housing Investment Fund

Report of: The City Treasurer and

The Director of Housing

**Summary**

This report provides an update on progress made in advancing the Housing Investment Fund and outlines the key commercial differences from the last report to Executive, January 2012.

**Recommendations**

The Executive is recommended to;

1. Note the progress made to date in developing the Housing Investment Fund, with GMPF and HCA.
2. Approve the investment of loan finance into the Limited Partnership to the market value of the 5 sites in return for an equity stake in the Limited Partnership on the basis outlined in this report and delegate authority to the City Treasurer to finalise the terms.
3. Approve the disposal of the 5 sites to the Limited Partnership at Market Value and delegate authority to the City Treasurer to finalise the terms.
4. Authorise the City Solicitor to execute all contractual documentation required to give affect to the above recommendations.
5. Approve the capital budget increase of £1.388M to finance the project until the Limited Partnership is established, when the funds will be reimbursed in full to the Council.

**Wards Affected: Ardwick, Gorton North, Chorlton Park and Brooklands wards**

|  |  |
| --- | --- |
| **Community Strategy Spine** | **Summary of the contribution to the strategy** |
| Performance of the economy of the region and sub region | Delivery of the project will contribute to meeting the new build housing targets for the City and the city region and thereby play a key role in the City’s economic development. |
| Reaching full potential in education and employment | Working families are a key target market of the new homes to be provided and this initiative will therefore help to attract and retain economically active individuals. |
| Individual and collective self esteem – mutual respect | The well designed homes and estates to be provided will improve the quality of life for local people. |
| Neighbourhoods of Choice | The provision of these homes will increase housing choice within the city and contribute to the availability of neighbourhoods of choice. |

**Full details are in the body of the report, along with any implications for:**

* Equal Opportunities Policy
* Risk Management
* Legal Considerations

Financial Consequences – Revenue

If the Limited Partnership is not established the City Council will be liable to 50% of costs incurred as we will be able to reclaim 50% of the cost from the Pension Fund

Any implications for VAT and other tax issues are being considered to ensure tax efficient structure.

Financial Consequences – Capital

Until such time as the formal partnership between the City Council and GMPF is established, costs associated with project development including planning will be met by the parties on an equal basis but funded by the City Council up until the establishment of the Limited Partnership. The estimated costs of £1.338m will be recovered from the Limited Partnership when it is established in March 2014 as a priority repayment.

The City Council will contribute loan finance into the Limited Partnership. This finance will be equivalent to the market value of the 5 sites. The land will simultaneously be disposed of into the Limited Partnership at Market Value, with the capital receipt payable in full on completion of the lease.

**Contact Officers:**

Name: Richard Paver Name: Paul Beardmore

Position: City Treasurer Position: Director of Housing

Telephone: 0161 234 3564 Telephone: 0161 234 4811

E-mail: r.paver@manchester.gov.uk E-mail: [p.beardmore@manchester.gov.uk](mailto:p.beardmore@manchester.gov.uk)

Name: Steve Thorncroft

Position: Head of Corporate Property

Telephone: 0161 234 -1202

E-mail: s.thorncroft@manchester.gov.uk

**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.

1. Equity investment Funds – a framework for investment – Report to Executive July 2010.
2. Housing investment and mortgage support within Manchester – Executive report 18 January 2012.

**1.0 Introduction**

1.1 The Council’s Executive approved a Residential Growth Strategy as a response to the challenging market conditions facing the residential development sector in the city. Finding ways of increasing the pace of new housing delivery is an important component of our overall strategy to encourage economic growth. The scale of the city’s ambition for growth is set out in the Strategy, including houses for open market sale and rent, alongside a package of measures to help to stimulate housing development and deliver attractive and successful neighbourhoods where increasing numbers of people would choose to live. Among the core principles of the Residential Growth Strategy is the important role of good quality, well managed accommodation to rent and the need to introduce new mechanisms to finance and build new housing. The Housing Investment Fund is, therefore, a key component in delivering this Strategy.

1.2 Demand for housing in Manchester and Greater Manchester continues to increase due to household and population growth. Along with the forecast economic and employment growth in the city these factors will continue to generate further need for additional homes, and extended choice of housing type and tenure. Ensuring that the supply of housing meets the demands of a growing, mobile workforce and population is a fundamental requirement if the supply side of the economy is to function effectively. Lack of market access for first time buyers, and lack of finance for development continue to affect the house building industry. It is because of these financial constraints that we have had to look at alternative methods of residential delivery, which reflect the increased demand for high quality private rented accommodation as part of a true mixed tenure development.

**2.0 Background**

2.1 Previous models of encouraging home ownership were based on borrow, build and sell and, without gap funding, are no longer delivering residential growth to the volume required. In Greater Manchester as elsewhere, many neighbourhoods are not yet at the tipping point at which the private sector alone can be relied on to drive their transformation forward. The withdrawal of public funding from these areas means that new models are needed which aim to deliver the right type of housing in the right places.

2.2 The proposition to combine publicly owned land assets with development finance from an institutional investor to provide new homes has been developed over the last two years with the Greater Manchester Pension Fund. A report was considered by the Council’s Executive in January 2012 and approval was given for Manchester City Council and the Greater Manchester Pension Fund to enter into a partnership to bring forward a new and innovative delivery model for residential development. This Housing Investment Fund model will be delivered as a pilot project across 5 sites in the City which will see 241 new homes delivered for sale and high quality market rent.

**3.0 Project Update**

3.1 A significant amount of detailed work has progressed over the last two years. Competitive procurement of all delivery partners has now been jointly completed with the Pension Fund and the following companies have been appointed:

* GVA - Technical Adviser for the construction and development work
* Plumlife - Sales and Marketing Company for the new homes
* Wates Living Space - Contractor for building the new homes
* Places for People - Management Company/Head Tenant for managing the rental properties throughout the life of the development

3.2 The 5 sites below were identified and approved by Executive in January 2012. Work on detailed site investigations and house building proposals have concluded with Planning Applications being submitted with the following numbers and mixes of sale and rents across the sites, The Planning Applications will be determined by Febuary 2014 with planned starts on all sites in March 2014, with the exception of Darley Avenue which is expected to start in Summer 2014.

|  |  |  |  |
| --- | --- | --- | --- |
| Address | Sale Properties | Market Rental Properties | Total number of properties |
| Darley Avenue, Chorlton Park | 60 | 37 | 97 |
| Former Ossington Court, Hawkswick Drive, Brooklands | 14 | 16 | 30 |
| Site of Woodwise Nursery, Woodwise Lane, Brookands | 18 | 0 | 18 |
| Clowes Street, West Gorton, Ardwick | 10 | 19 | 29 |
| Gorton Monastery, Gorton Lane, Gorton North (HCA site) | 21 | 46 | 67 |

**4.0 Partnership Structure**

4.1 The Executive approval on 18th January 2012 delegated authority to examine the best option for establishing a Joint Vehicle. The conclusion of that work with extensive advice from our external legal and financial advisors was the recommendation to establish a Limited Partnership between the Council and The GM Pension Fund. Subsequently the Pension Fund and the City Council have jointly appointed specialist legal advice to set up the Limited Partnership. This work will conclude in March 2014 when the partnership will be formally established.

4.2 The most efficient mechanism for the City Council to invest it’s land into the partnership is to provide a loan which will be used to acquire long leases of the 5 sites at a premium equivalent to Market Value. This will set the Council’s contribution to the limited partnership and the returns it receives. The Market Value is currently being reappraised to take account of the latest data in respect of costs, values and tenure mix.

4.3 The returns from the limited partnership are structured with GMPF receiving a priority return on its capital investment. The City Council takes a second priority return based on its debt investment, with surplus split pro rata to initial investments.

4.4 Through a focussed period of negotiation with the development contractor, sales and marketing team and headlessee both costs and revenue streams have been refined. A robust process of sensitivity analysis has been undertaken to determine that variations to key variables such as market demand, pace of sales, pace of lettings etc within anticipated tolerances will not threaten overall project viability.

4.5 The maximum cost of progressing through design development and planning stages will be £1.338m. The limited partnership will be established within this phase, however to ensure that there is sufficient finance available to secure planning the Council will have to make provision for this sum in full. The costs will be fully reimbursed from the limited partnership as a priority payment on it’s establishment. If the Limited Partnership is not established the City Council will be liable to 50% of costs incurred.

**5.0 Contributing to the Community Strategy**

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

Delivery of the project will contribute to meeting the new build housing targets

for the City and city region and thereby play a key role in the City’s economic

development

**(b) Reaching full potential in education and employment**

Working families are a key target market of the new homes to be provided and

this initiative will therefore help to attract and retain economically active individuals.

**(c) Individual and collective self esteem – mutual respect**

The well-designed homes and estates to be provided will improve the quality

of life for local people.

**(d) Neighbourhoods of Choice**

The provision of these homes will increase housing choice within the city and

contribute to the availability of neighbourhoods of choice.

**6.0 Key Policies and Considerations**

**(a) Equal Opportunities**

6.1 The partnership between the City Council and the Greater Manchester Pension Fund will bring a substantial amount of construction activity and supply chain management across Manchester, which in turn will create and retain a number of employment, skills and training opportunities for the City’s residents. We will seek to maximise the accessibility and environmental sustainability through the design of the buildings and the surrounding environment.

**(b) Risk Management**

6.2 The pilot project will comply with the standards set out in the Manchester

Method and thereby have robust risk management processes in place

**(c) Legal Considerations**

6.3 The City Council and the Greater Manchester Pension Fund have considered the most flexible, tax efficient options for a joint venture to deliver this new housing model. A Limited and general Partnership will be set up to facilitate the joint Venture. A limited partnership is governed by the Limited Partnerships Act 1907. Investors hold limited partnership interest i.e. economic interest and shares are held by the general partner. The general partner controls the assets.

Using powers under Section 2 of the Local Government Act 2000, the Council has well being powers to support the social, environmental and economic well being of the area. The joint venture between MCC and the Pension Fund operating, as an authorised body of Tameside MBC will support the social, environmental and economic benefits outlined detailed in paragraph 10 of this report.

The City Council will obtain best consideration for the sites and fulfil its duty under Section 123 of the Local Government Act 2000.