

MIDDLESBROUGH COUNCIL
OVERVIEW AND SCRUTINY BOARD

**FINAL REPORT OF THE ECONOMIC
DEVELOPMENT, ENVIRONMENT AND
INFRASTRUCTRE SCRUTINY PANEL –
HOUSING DELIVERY VEHICLES (HDVs)**

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AIM OF THE INVESTIGATION

1. The aim of the investigation was to investigate Housing Delivery Vehicles (HDVs) to ascertain their effectiveness in addressing local housing market needs.

MAYOR'S VISION

2. The scrutiny of this topic fits within the following priorities of the Mayor's Vision 2025¹:
 - Fairer – Fair access to high quality homes.
 - Safer – Safer environment ensuring our town is cleaner and more resilient to a changing climate.
 - Stronger – Strengthening our town through bold and innovative regeneration.

COUNCIL'S THREE CORE OBJECTIVES

3. The scrutiny of this topic also aligns with the Council's three core objectives as detailed in the Strategic Plan 2017-2021²:
 - Business Imperatives – Ensuring that the Council operates efficiently and effectively so that physical and social regeneration outcomes are maximised.
 - Physical Regeneration – Investing in Middlesbrough to provide and improve facilities which act to increase the town's reputation, create social opportunity and improve the Council's finances.
 - Social Regeneration – Working with our communities and other public service organisations to improve the lives of Middlesbrough's residents.

TERMS OF REFERENCE

4. The terms of reference for the scrutiny panel's investigation were as follows:
 - A) To investigate different models of Housing Delivery Vehicles (HDVs) and the benefits and challenges they can provide to Local Authorities including evidence of best practice models in operation.
 - B) To identify the initial resources needed to set up a HDV as well as the potential financial returns.
 - C) To examine Middlesbrough's Local Plan to understand what sites are currently available for housing throughout the town and how the projected increase in population and need for a further 5,500 dwellings by 2029 can be met.

¹ Middlesbrough 2025 – The Mayor's Vision

² Middlesbrough Council's Strategic Plan 2017-2021

- D) To investigate how Middlesbrough Council can ensure that the requisite associated infrastructure for new housing development including roads, schools, services and green spaces can be delivered in conjunction with a HDV.

BACKGROUND INFORMATION

5. In terms of housing numbers, Middlesbrough has an ambitious target and housing building rates are currently higher than they have been for some time. Sites are being brought onto the market that are located where Developers want to build and where people want to buy. However, if this continues the market alone will not provide the broad mix of properties that the Council wants to see provided.
- Since 2004, when the Council transferred its housing stock to Erimus, the Council has worked with registered providers with regard to social housing and also with Developers to examine the plots of land available. There is confidence that whilst the house building rates required can be met, the housing mix required might not necessarily be built without the Council taking a more proactive role in the housing market.
 - In order to address the local housing market need, the Council is trying to increase the delivery rate of new housing developments by utilising Middlesbrough's land assets. Land to the south of the town is a key driver in this. Maximising Council income streams in terms of capital receipts, Council Tax, New Homes Bonus, rental income and house sales are all key benefits of delivering new housing. In addition, the local housing market can be re-shaped by enabling and increasing home ownership and reversing the current high proportion of private sector renting.
 - Following the Localism Act 2011 and the Housing Revenue Account (HRA) self-financing reforms in 2012, Councils are seeking new ways to unlock their financial strength using delivery models that enable the retention of asset value in the long term and also present significant opportunities for greater involvement in the pace and nature of delivery, the product itself and the share of the financial returns. It has been identified that on average, housebuilders make a 25% profit on delivery.
 - On 12 June 2018, Middlesbrough Council's Executive endorsed the need for the Council to intervene in the housing market in order to exert greater control over the pace and quality of development. The Executive approved the establishment of a Shadow Board comprising three members, to consider a detailed option appraisal of housing delivery models.³
 - Options available to Middlesbrough Council which are currently being appraised include: building housing through HRA, creating a wholly owned company or establishing a joint venture. A wholly owned company could be a Limited Liability Partnership (LLP), a Company Limited by Guarantee (CLG) or a Company Limited by Shares (CLS). The CLS is the most common commercial form of company and the option typically pursued by Local Authorities.

³ Housing Delivery – Report of the Executive Director Growth and Place to Middlesbrough Council's Executive – 12 June 2018

- The most important feature with regard to governance, is that the Council will hold 100% of the shares in the housing company and as such will have full ownership and manage the direction of travel of the company
- A research project by Professor Janice Morphet, Bartlett School of Planning, University College London, on Local Authority Direct Provision of Housing,⁴ evidenced that 91% of Local Authorities are engaging in providing housing again. Twenty-seven different methods are being used to provide housing by authorities of all political parties, sizes and locations.
- According to the survey carried out as part of the research, in 2017, 65% of local authorities are engaged in direct delivery of housing. 22% of the overall sample are actively considering engaging in direct delivery and 13% are not engaging and not considering doing so. A November 2017 desk survey of all wider means of engagement in housing provision that local authorities might use, including not just direct delivery through the HRA, building under the general fund, and a wholly owned housing company, but also support for partner organisations; found that 91% of local authorities in England were engaged in such support for housing provision in one way or another.
- Nationally, 44% of the 353 Local Authorities have already established their own local housing offer. In 2017 alone, 30 local housing companies were established. The majority of local authorities are establishing wholly owned companies.
- The research⁴ notes several ways for Local Authorities to provide housing including:
 - Use their Housing Revenue Account (HRA) to build or acquire. (Note: Middlesbrough Council does not have a HRA).
 - Local Authorities with retained stock can use Right-To-Buy (RTB) receipts and develop hidden homes projects, for example re-developing garages or adding additional floors in existing housing estates.
 - Open market purchasing of existing stock, including former RTBs.
 - Establish land banks and estate agency as long-term investors.
 - Use of development funds from Homes England (formerly Homes and Community Agency).
 - Commercial loans, loans from other authorities, joint venture partner finance, devolution and city deals.
- Benefits of establishing an HDV include:
 - The pace of delivery of housing can be accelerated to ensure that the Council maintains a high level of housing growth that supports the population and economic growth, increases home ownership and contributes to growing the Council Tax base and New Homes Bonus in support of the Medium Term Financial Plan (MFTP).

⁴ Local Authority direct provision of housing – Professor Janice Morphet & Dr Ben Clifford – December 2017

- A financial return to the Council, which can include capital receipt from any land sold, profit margin on lending, revenue from services provided, cash held within the company and ownership and control of the assets.
- Job creation and a positive effect on the local economy and social regeneration. Seven sites with 700 new homes can support 3000 jobs and generate economic activity of £220m.
- Opportunity to provide training and engage local labour.
- Opportunity to invest more in sites in terms of the facilities, open spaces, and scale and size of the properties. New houses are generally about 30% smaller now than those built in the 1970s. Larger units could be more marketable.
- Drive forward housing developments in areas that Developers are not interested in, and promote regeneration. Maximise the delivery of homes on brownfield land and unlock unused sites. Developers generally work on the principle of paying 20% land owner costs and making 20% profits. Those land owner and profit costs will not necessarily apply to the Council.
- Provide direct competition in the market to stimulate and encourage investment.
- Provide housing that meets the needs of the wider population including the provision of a greater percentage of affordable housing than currently required by legislation. The requirement for affordable housing across the Borough has been identified as 45% but in reality, sites can only support a 15% contribution and remain viable. However, 45% affordable housing could be a figure to aspire to.
- Provide social housing.
- Provide housing tailored to specific needs such as for the elderly or people with disabilities.
- Tackle homelessness.
- Retain control over rents and customer service standards.
- Build houses that address issues of sustainability and environmental impact and provide models of good practice and good design, using high quality materials, which in turn engenders a culture to improve standards and act as a catalyst for further development.
- Ensure that the housing numbers identified for a site in the Local Plan are not exceeded. Developers generally try to maximise their profits by building as many houses as possible on a piece of land. Whilst this can be controlled in part through the planning process, the Council can specify exactly what to build.

HOUSING DELIVERY VEHICLE (HDV) MODELS IN PRACTICE

- As part of its investigations, the Panel received presentations from North Kesteven District Council, South Tyneside Council and Croydon Council in relation to their experiences of establishing different models of housing delivery vehicles and the benefits and challenges they can provide. The information presented is summarised at paragraphs 13 to 43 of this report. The Panel also received written evidence from Birmingham City Council and Stockport Council.
 - North Kesteven District Council

North Kesteven District Council set up Lafford Homes, a wholly owned company, with the main aim of generating income through the receipt of market housing rent, and a secondary focus on filling gaps in the market. The Council loans Lafford Homes capital funds and also transfers land to the company at an affordable level. Interest is charged on the loan, which Lafford Homes pays back. Any profit that Lafford Homes makes is repaid to the Council as a dividend, as well as all support costs. The loan repayments and any dividends are paid into the Council's General Fund as revenue.
 - It took eighteen months to establish Lafford Homes, including twelve months to have the Business Case approved and six months to have the company incorporated. The mission and vision for Lafford Homes is to be a profitable, sustainable and flexible housing company, which meets the demands of local people. The Company aims to improve the quality and supply of housing and be a major provider of properties for private rent, as well as being an exemplar landlord. Where new sites are being built, a number of affordable houses are included but these are mainly for rent as the Council also has a Housing Revenue Account (HRA).
 - Lafford Homes is a private limited company which is 100% owned by North Kesteven District Council. There are three directors, two of whom are Council Officers and the third, a Non-Executive employee, employed by Lafford Homes. The Council's Housing Property Department acts as Agent and carries out all the work on behalf of the Company. In addition, a lettings agency is employed to let the properties on the Council's behalf.
 - Since Lafford Home's incorporation in August 2016, 33 new properties have been built, including 6 affordable homes, and 15 properties have been purchased on the open market. In the short term, Lafford Homes will continue to buy properties on the open market, look at options for stalled sites and buy land. Longer term, the Company is looking to supply more new build homes and affordable housing. Consideration will also be given to a possible joint venture and new build market sales as the Company develops.
23. One of the biggest lessons learnt to date by North Kesteven District Council is to control costs. When dealing with a small amount of properties and money, the slightest change in building costs can impact very quickly on the profitability of a scheme. The Council anticipated letting its first 33 properties immediately, however the reality was that it took 10 months before they were all let, which affects the predicted cash flow. The private rented market is quite buoyant and tenants usually want a property within two to four weeks. In future, the Council will look at developing in phases on larger sites rather than waiting until the whole site is complete before marketing.

24. Kesteven has a lot of rural areas and borders with Lincoln. Renting levels are a lot higher in the city, which is only 20 miles away, and this can also have a dramatic effect on profitability.
25. There has been further investment to publicise Lafford Homes so that it is more readily recognised in the market. This approach is proving successful and people are now starting to contact the Company independently when seeking property.
26. One of the benefits of having a housing company is that where a site stalled there is an opportunity for a joint venture with a Developer. The housing company does not require the same level of profit as a Developer and can look at sites flexibly. There are also opportunities to provide different types of housing architecturally which in North Kesteven has already included passive and straw houses. Lafford Homes is also currently investigating the use of modular building.
27. One of Lafford Home's stated aims is to be an exemplar landlord. The Council already has its own housing stock and the intention is to bring the same values to the private rented market. Repairs to both private and council owned stock are carried out by the same company, which provides a 24-hour emergency service. Lafford Homes aims to become trusted buyer on the private market and be able to pick and choose those properties that produce maximum rent. Two and three bedroomed semi-detached houses generally produce the best rent, whereas the rental return on larger four bedroomed homes does not usually justify the capital investment.
28. South Tyneside Council
- South Tyneside Council initially identified challenges in relation to the supply of older persons' and specialist housing. Housing is key to achieving the Council's economic and social objectives and there is a strong political commitment to investment in housing. The Council has an up-to-date Local Plan with a long-term supply of deliverable housing land. The Council also has an HRA but is at the operating limit and unable to build more houses.
29. Geographically, South Tyneside is quite distinct and self-contained with large areas of social housing, private rented and private owned. However, there are more people on the housing waiting list than there are houses available. Through its intervention in the housing market South Tyneside Council hopes to achieve:
- A rebalanced market with more executive housing in great locations.
 - A stock of affordable homes better reflecting local housing needs and more resilient to Right-To-Buy.
 - A step change in the quality and diversity of the private rented sector.
 - Older people with care needs being better supported in modern, connected and adaptable homes.
 - Towns and villages being a great place to live and making a major contribution to long- term economic prosperity.
30. The Council has a robust process in relation to governance, risk, reward and taxation issues. There is an intensive process around evaluation of sites that are available and surplus to requirements, and consideration of their worth in terms of capital returns,

profitability, risk, marketing opportunities, build costs, and housing needs. A decision is then made as to the best outcome for individual sites.

31. South Tyneside currently has 5 housing companies to deliver its priorities:
- South Tyneside Homes is the Council's housing management company or ALMO (Arm's-length management organisation) which manages 17,500 homes and provides a broad range of services including area management, anti-social behaviour and homelessness prevention. The Council provides the back office function. The Company also provides management and project management to Housing Ventures and Centaurea Homes Limited.
 - Housing Ventures (HV) is an independent registered provider of social housing. The Company is independent of the Council but a quarter of its Board membership is Elected Members. Housing Ventures has a funding agreement with the Council and its focus is on increasing the supply of affordable homes and bringing empty homes back into use, as well as providing high quality new build homes for older people. Since its inception 4 years ago, 400 homes of exceptional quality have been built and plans are in place for the next 5 years.
 - Centaurea Homes Limited (CHL) is a Council owned Company established to build homes for sale and potentially market rent. This Company is still at proof of concept stage with a test site in Jarrow. CHL works in partnership with Ventures and South Tyneside Homes provides professional services. South Tyneside Council is sole shareholder and receives net profits as a dividend. The focus of CHL is on quality of place as well as broader economic benefits.
 - Joint Ventures (JV) are public/private sector partnerships that deliver mixed tenure communities. Some major regeneration projects have been delivered through JV arrangements in South Shields. JV can access private sector skills and development experience. In addition to borrowing money from the Council JV can borrow privately and opportunities to access some private equity are also being explored. The Council can share the risk but also the rewards, however the legal structures can be complex.
 - New Co is a working name for a new company the Council is setting up as a response to issues in the private rented sector. New Co intends to provide homes for market rent but also improve standards across the private rented sector. Selective licensing is being introduced and private landlords invited to join the Council's accreditation scheme and meet the required standards.
32. Establishing a range of delivery vehicles to meet local needs requires a corporate approach and a strong commercial mind-set is needed to engage in the private housing market. The impact can be significant but there has to be a balance of risk and reward against control and independence as well as strong governance.
33. Housing vehicles can also become a catalyst for corporate values, for example specialist housing for people with disabilities or the older persons' housing, areas where an unsustainable amount of money is spent on care needs. Indirectly, whilst the housing may not make a profit for the Council, it may save the Council money. The South

Tyneside Council has built two large developments of 42 and 60 apartments and is also building some bungalows. The private sector are not keen to build bungalows as they generally cost more, use more land and do not return a high enough profit. On average, every bungalow advertised for rent in South Tyneside attracts approximately 300 applications.

34. Governance is very important since Councils are naturally risk averse and sometimes quick decisions are needed. Joint Ventures is a private company with two local authority members on the Board of nine. The only real control the South Tyneside has is through the Funding Agreement. However, South Tyneside Council has also established a Housing Performance Scrutiny Panel, which monitors all their housing delivery vehicles and holds them to account.
35. Training and apprenticeships are important and also help in terms of community cohesion. One of the first schemes to be built by South Tyneside is next to a primary school and pupils were engaged at a basic level about construction and safety on the building site. In another scheme, Housing Ventures set up an alliance with Galliford Try, a private company. A key part of the alliance is about developing apprenticeships and also new models of modular type construction.
36. Croydon Council

Brick by Brick (BxB) is a private and independent development company which provides mixed tenure housing all for sale, with Croydon Council as the sole shareholder.
37. Croydon Council is a significant landowner of sites with potential and considers it critical to lock-in the value of its land, while delivering much needed housing. Many sites that have development potential are not straightforward or easy to make viable and meeting housing targets involves looking at small sites as well as large.
38. In London, one solution to the housing crisis is making use of in-fill sites - such as derelict buildings and garages. Whilst such sites are a lot harder to deliver, they allow for innovation. A single site might only deliver nine or ten units but several sites add up to a significant level of housing delivered. BxB have considered joint ventures but consider that the value of the land is lost with transfer.
39. Balanced tenures contribute to healthy place making and it is vital to unlock the value of private units in order to subsidise affordable housing. Councils face significant challenges to deliver schemes at pace due to procurement rules and the availability of development expertise. Delivering affordable housing is quite hard to do in London because building costs are high. BBB use some of the profit from private units to cross-subsidise affordable housing from private sales.
40. BxB is an investment vehicle to deliver housing and the Council fund it through providing equity, loans and land. Council services benefit from any dividends as the sole shareholder, interest on any loans and the value of land when it is sold. The Council can re-invest with BxB or use the returns to offset its General Fund.
41. In respect of the Council providing land to the housing delivery vehicle the aim was to build infrastructure, provide high quality housing and community assets, for example

libraries or community centres. Several arrangements have been made where BxB have substituted land by moving a community asset elsewhere to obtain land that can be developed.

42. There are several benefits of this independent commercial model, the biggest one being the procurement freedoms. The Council can build the framework but the Company can move quickly and lock in commercial benefits. Where a particular need, or different expertise for design is needed for example, different contractors can be engaged. The Company can decide whether to procure the right skills and expertise locally or nationally. BxB is not an employer but can contract architects and development managers. It is also easier to sell private units as a private company.
43. The key risks to the Council in establishing BxB are the level of control, State Aid and Council decision-making. Although BxB is an independent company, the Council can exert influence in less traditional ways such as Board representation, and conditions built into land and funding agreements. Strong legal advice and robust structuring of all land and finance deals between the Council and the Company are vital.
44. BxB has to ensure that it does not become a public funded body, by the Council effectively controlling the Company too much. At Croydon, decisions are made by the Cabinet, usually in large tranches and delegated approval is given to officers. One of the accusations that housing vehicles such as BxB face is that there is bias, because the Council obviously wants it to succeed. All the decision-making has to be clear at the outset. Council Departments need to work effectively with BxB and although it is an independent organisation there is lots of cross-over and good relationships exist.
45. Critical to the success of this model is ensuring that the structures and governance arrangements are fully compliant. It is important to decide what the company will do in-house and what services will be purchased - for example, architecture practice and key corporate services. An in-house team can also do external work.
46. This model will only work if there is a strong pipeline of development sites as well as the appetite to develop them. In Croydon, there are 450 sites across the Borough although some were too challenging. Buy-in from key Council Departments is also important and it is critical to have a good partnership from the start, otherwise Officers might view the housing delivery company as extra work.
47. Croydon is the second most populated Borough in the London, with the north of Borough being quite urban and the south more of a green belt. This is challenging in terms of the political differences between north and south and the types of houses. The north is much denser and it is harder to identify areas to build on. As young families are priced out of London, there is an appetite for people to move to the outer area. For years Croydon has been an unfashionable part of London but it is now becoming more popular.
48. A total of 2,000 new homes are already in development, with 1200 in planning or with consent and the remaining 800 going through planning this year. There are 40 schemes in total and 45% are affordable housing. The aim is for 50% affordable housing. Fifteen schemes are coming out of the tendering phase and fifteen are in development. The first scheme is due for completion in January 2019.

49. The challenge for Croydon is celebrating what is good about the suburbs and making it a place where people want to live. Housing has to fit in the context and consultation with residents is critical. Croydon's biggest challenge from the population point of view is migration and people moving to the outskirts of London. Initially, the priority was to provide for first time buyers and people who do not have housing. Now, schemes more specifically for older people and those with disabilities are being developed.
50. Before BxB can apply to the Council for a loan they have to demonstrate that they have a viable investment and prove it will make a return. The Council also has an option around refusing to sell land. Conditions are generally applied on a development-by-development basis. BxB's Business Plan is presented to Croydon Council's Cabinet on an annual basis and officers also attend Council audit meetings.

RISKS

51. The evidence presented to Panel with regard to various models of HDVs highlighted that good governance and decision-making are essential. Councils need to engender a good working relationship with their HDVs.
52. Some of the risks to the Council of establishing an HDV are:
- Financial exposure:
 - the HDV is unable to meet interest payments on loans from the Council, which in turn can lead to the Council not meeting its own costs.
 - running costs too high.
 - unable to secure the anticipated returns from investments.
 - a downturn in the housing market and drop in house prices.
 - Lack of confidence by Developers in identified sites and failure to progress schemes.
 - Failure to engage a partner for a joint venture.
 - Change in government policy, which may affect the viability or legality of proposed strategy, for example constraints on the PWLB.
 - With a wholly-owned Company, possible conflict dealing with planning applications.

RESOURCES

53. Currently there is no dedicated capital funding from Central Government for HDVs. Most HDVs are initially funded by the Council, either from the General Fund, the PWLB and equity investment. Commercial borrowing, land sales and developer contributions play a smaller part.⁵
54. Local Authorities can use a variety of sources of funding to support housing delivery including, but not exclusively:

⁵ Delivering the Renaissance in Council-Built Homes by Paul Hackett – The Smith Institute

- The Council's own resources – finance, land and buildings.
- Loans from the Public Works Loans Board (PWLB), Homes England, other Local Authorities, commercial borrowing.
- Joint Venture partners.
- Section 106 Agreements.
- New Homes Bonus money.
- Right-To-Buy Receipts.
- Pension Funds.

55. Most HDVs are established with a modest amount of funding from the Council and then further loans are drawn down. Initially, North Kesteven District Council invested £2 million as equity from its Capital Programme to establish Lafford Homes. Lafford Homes has borrowed £6 million from the Council to date and approvals are in place to borrow another £14 million over the next 3 to 4 years. The interest rate on the Company loans is 4.5% above the interest rate the Council pays on its loans from the Public Works Loans Board (PWLB). Lafford Homes anticipates making a small profit in the second year (2018/2019). By 2022/2023 it is calculated that the return to the Council will be £500,000 per annum, with the intention of having 180 properties by 2023.
56. Housing Ventures has borrowed £30 million from South Tyneside Council. The interest rate it borrows at is at current PWLB rates plus a small premium on its on-lending for administration. Housing Ventures now has a stock of over 400 homes for affordable/social rent. South Tyneside Council will shortly be considering proposals to extend financial support to Housing Ventures so that it can build up to another 500 homes over the next five years.
57. In 2017/2018, Croydon Council loaned BxB £292m, with an expected return of 4% a year once each development site is complete.
58. Other examples include:
- Nuneaton and Bedworth Council – a capital budget of £1m which secured seven properties. Forecast income £50,000 per annum.
- Borough of Broxbourne – a loan of £5 million from the capital budget over 4 years charging a rate of 5% interest on the loan.⁶

MIDDLESBROUGH'S LOCAL PLAN

59. With regard to Middlesbrough's projected population, the Council's Local Plan is currently being renewed and has indicated the need for a further 5,500 dwellings by 2029. Whilst that number is probably achievable from the current market, having an HDV will provide more scope and control over available land.
60. The Local Plan is a statutory document which is prepared in accordance with the legislation in the National Planning Policy Framework (NPPF). Middlesbrough is one of the

⁶ Housing Delivery Vehicle Case Studies – Lambert Smith Hampton

first Authorities to publish its Local Plan and have it adopted. The current NPPF is in the process of being reviewed by the Government, with a strong focus on housing delivery for sustainable development, as well as supporting economic growth.

61. The Local Plan is a technical document rather than a promotional one, to support the Council's housing aims. The Local Plan has to be based on a robust evidence base and passed by an Inspector. Key to the evidence base is an assessed need for housing and identifying a range of sites. The Council has to maintain a 5 year deliverable land supply and identify specific, developable sites for at least a 10 year period, preferably 15 years. Middlesbrough's current Local Plan looks forward from 2012 to 2029.
62. If the Council is unable to demonstrate a 5 year land supply, Developers can potentially dictate where new housing is built and the Council can lose control over applications. Not only where new developments are built, but also the quality of new developments and any Section 106 Agreements.
63. The Local Plan sets out type, size and mix of housing as well as the design and layout. In Middlesbrough there is a 15% Affordable Housing Requirement, meaning that 15% of housing on all sites has to be classed as affordable. The Government is in the process of changing the definition of 'affordable' to make it much wider and include private rented properties and lower value properties in that definition. Given the current state of the market in Middlesbrough, there will be more potential for affordable housing going forward than under the previous definition.
64. In terms of how housing need is identified within the current Local Plan, there is a solid evidence base which covers space, design, housing, employment and education, among other factors. The Strategic Housing Market Assessment looks at the overall number of houses needed in the Borough. Middlesbrough identified itself as a self-contained housing market area, and did not include neighbouring authorities in its Assessment. Ministry of Housing, Communities and Local Government (MHCLG) household growth projections, based on Office for National Statistics (ONS) population projects are used as the starting point for the Assessment. Adjustments based on known local factors affecting the projections, future jobs forecasts and market signals are factored into the calculations. The Objectively Assessed Need (OAN) in Middlesbrough's current Local Plan is 410 dwellings per annum (net minimum).
65. In 2012 Middlesbrough's Local Plan was based on a scenario of a static population to meet its own population needs in terms of growth. Two elements make up population growth: natural change, for example, births and deaths; and migration both inwards and outwards. The strategy of the Local Plan is based on zero migration. Whilst Middlesbrough has a steady natural increase, it has a greater outward migration than inward. The inward migration tends to be international migrants, whereas the outward migration tends to be economically active people. People have migrated out because the housing product they require is not readily available. To date, this strategy has been successful in retaining that population.
66. The Local Plan Proposals Map shows where the sites are available to support the growth figure in terms of housing requirements from 2012 to 2029, which is 6,970 dwellings. This figure is based on 410 dwellings per annum. 850 houses have already been built or are in the planning system. A significant contribution of housing requirements has been identified

to the south of the town in areas such as Stainton and Nunthorpe. At the same time, regeneration in the north of the town, in areas such as Acklam Green, Gresham and Middlehaven, needs to be supported. It is a balancing act to achieve both, by looking at ways of using the housing development in the south to support regeneration in the north of the town.

67. The Local Plan identifies the sites and the minimum number of units that should be delivered. Masterplans show site relationships in more detail for example, where the houses are positioned, design, quality, access points and road widths. Areas for open space are also allocated, and policies within the Local Plan can specify areas that need to be protected, for example for education provision in the future.
68. From 2012 to 2029 Middlesbrough has identified an allocation of 7538 dwellings. (The 5500 figure in the Investment Prospectus⁷ does not include 2038 houses which will be built between 2017 and 2029). In order to allow for delays in sites coming forward, or the projected house numbers not being built, there is an additional 10% allocation to allow flexibility.

IMPACT OF NEW HOUSING ON INFRASTRUCTURE

69. Infrastructure and green spaces are key elements in the consideration of future developments. As part of the Local Plan an Infrastructure Delivery Plan is produced which considers the requirements to support the Local Plan proposals including: open space, affordable housing, transport, highways, education, utilities and community facilities. Consideration is given as to how critical these requirements are to the development, the likelihood of the development, funding sources and the impact if it is not delivered.
70. Infrastructure tends to be delivered and funded in numerous different ways. New roads which are essential to the planning application can be funded by a Developer. Section 106 Agreements or financial contributions can be required from the Developer for off-site infrastructure works, as part of the planning application. This tends to be highways improvements and education contributions. Other funding sources may include the Council, Government and Homes England.
71. It is also difficult to project the education requirements for new developments. Planning work is undertaken with Children's Services and the Department for Education (DfE) to ensure that any new school provision is built in the appropriate location, with housing requirements, road infrastructure and services factored in to the plans.
72. Children's Services make assessments on their education requirements but due to parental choice, it is very difficult to predict over the long term. Within the Local Plan, provision is made for where such facilities can be provided. Where a Section 106 Agreement is required on a large development, the fees are usually phased, and the money has to be spent within 5 to 7 years from receipt of payment. Since the Section 106 Agreement is for the life of the development, it increases by the rate of inflation. Developers therefore sometimes prefer to pay the contribution early. Children's Services

⁷ Middlesbrough Investment Prospectus 2017 – Middlesbrough Council

decide whether a new school is required or improvements to existing facilities should be made.

73. All planning applications assess the impacts on the existing transport system. If it is established that a new housing development will have an unbearable impact on the highway network, the site may not be allocated for housing. If it is possible to mitigate the impacts by introducing new infrastructure, the cost of such mitigation can be required to be met by the Developer. Each planning application requires an assessment to show the impact.
74. When the Local Plan is reviewed every 5 years, infrastructure requirements are taken into account based on best assessments and the individual sites coming forward. If those impacts change, even though a site has been allocated, planning permission will not necessarily be granted.

CONCLUSIONS

The scrutiny panel reached the following conclusions in respect of its investigation:

75. **TERM OF REFERENCE A** – To investigate different models of Housing Delivery Vehicles (HDVs) and the benefits and challenges they can provide to Local Authorities including evidence of best practice models in operation.
 - From the information provided by North Kesteven District, South Tyneside, Croydon, Birmingham City and Stockport Councils the Panel considered various wholly-owned companies and joint ventures in detail. Whilst the main focus for the majority of HDVs is to generate income, other benefits such as meeting the needs of the wider population, job creation, and quality are also extremely important and can be tackled through the establishment of an HDV.
 - HDVs also provide an opportunity to re-shape the local housing market; enable and increase home ownership and reverse the current high proportion of private sector renting.
 - Councils taking a more pro-active role in housing the market enables staff to develop new skills and in-house services. However, tensions can occur and establishing good working relationships is vital. Good governance and a clear business plan at the outset are essential to the success of a HDV.
76. **TERM OF REFERENCE B** – To identify the initial resources needed to set up a HDV as well as the potential financial returns.
 - The Panel found that most HDVs are established with capital funding from the Council and further lending as required. In addition to Council lending, there are various funding sources available. The potential financial returns to the Council are received through loan repayments, generally with an interest rate of 4-5% and any dividends from company profit.

- As well as income generation, it is noted that other issues which can be addressed by HDVs such as homelessness, providing specialist housing for people with disabilities or older persons' housing, can also contribute indirect savings to Council resources.
77. **TERM OF REFERENCE C** – To examine Middlesbrough's Local Plan to understand what sites are currently available for housing throughout the town and how the projected increase in population and need for a further 5,500 dwellings by 2029 can be met.
- Middlesbrough's Local Plan is currently being renewed and indicates the need for a further 5,500 dwellings by 2029. Whilst that number can most likely be achieved from the current market, having an HDV will provide more scope and control over available land.
 - Other Local Authorities are now getting their Local Plans adopted and Middlesbrough will be competing with sites which, in marketing terms, are more desirable.
78. **TERM OF REFERENCE D** - To investigate how Middlesbrough Council can ensure that the requisite associated infrastructure for new housing development including roads, schools, services and green spaces can be delivered in conjunction with a HDV.
- The Local Plan is reviewed every 5 years and infrastructure requirements are taken into account based on best assessments and development sites. An Infrastructure Delivery Plan is produced alongside the Local Plan outlining the requirements to support the Plan's proposals. With an HDV in place, the Council has greater control over the timescales for delivery and design of sites. Whilst sites can be controlled by planning conditions, Developers can apply to vary conditions to increase the number of houses from the original plan, in order to maximise profit, which impacts on infrastructure requirements.

RECOMMENDATIONS

79. Following the submitted evidence, and based on the conclusions above, the Economic Development, Environment and Infrastructure Scrutiny Panel's recommendations for consideration by the Executive are as follows:
- a) In order for Middlesbrough Council to take pro-active role in re-shaping the local housing market, as well as Middlesbrough's landscape, the Council should establish its own Housing Delivery Vehicle (HDV) in the form of a wholly owned Company Limited by Shares (CLS).
 - b) The Council will provide the initial capital required to establish the Company with a loan from the Public Works Loan Board (PWLB). The Company will repay the loan to the Council at a higher interest rate, and the profit should be re-invested into housing provision.
 - c) Council-owned land will be transferred to the Company for housing development. Efforts should be made to unlock unused sites which are not attractive to Developers and maximise the delivery of houses on brownfield sites.

- d) The Company will provide mixed tenure housing for sale and rent, in the first instance, ensuring affordable, innovative, sustainable and excellent quality provision, which contributes to the social and physical regeneration of Middlesbrough in line with the Council's Strategic Plan 2017-2021² .
- e) Through its HDV, Middlesbrough Council will strive to be an exemplar landlord, retain control over rents, and provide high customer service standards that other landlords will aspire to achieve. Tenancy agreements will include requirements in relation to the standards expected of tenants in respect of their accommodation.
- f) The Council will use its HDV to expand training opportunities for local people, provide apprenticeships and, where possible, employ local people.
- g) The Council should consider utilising its own in-house architectural services to provide greater control over the quality, size and design of builds. Having modern, innovative and attractive designs is crucial to developing a housing offer that appeals across different demographics and encourages inward migration to Middlesbrough. An in-house service can also trade in the private sector and realise additional revenue for the HDV.
- h) The Council should also consider providing an in-house property maintenance service to ensure that all properties remain in good condition and tenants receive high quality and reliable provision.
- i) All new development by the HDV should be demand-led with an effective marketing strategy in place, to ensure that accommodation is not unoccupied for any length of time once completed, since this will impact on a scheme's profitability.
- j) When planning new housing developments, the Company should engage with Middlesbrough residents and/or potential tenants to ensure that the accommodation provided meets local needs.
- k) The Council will ensure that the Infrastructure Delivery Plan supports Middlesbrough's Local Plan's proposals so that the requisite open spaces, transport, highways, education, utilities and community facilities associated with providing a further 5,500 dwellings by 2029 are provided.
- l) Once the wholly owned Company is settled, consideration should be given to expanding into building and managing social housing stock, possibly through a separate Housing Delivery Vehicle.

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George Mansbridge, Head of Development Services, South Tyneside Council
Luke Chiverton, Head of Operations, Croydon Council
Clive Skidmore, Birmingham City Council
Andy Kippax, Stockport Council

BACKGROUND PAPERS

81. The following sources were consulted or referred to in preparing this report:
- Minutes of meetings of the Economic Development and Infrastructure Scrutiny Panel held on 8 February, 14 March, 11 April and 4 July 2018.
 - Middlesbrough Investment Prospectus 2017 – Middlesbrough Council
 - Housing Delivery – Report of the Executive Director Growth and Place to Executive – 12 June 2018
 - Local Authority direct provision of housing – Professor Janice Morphet & Dr Ben Clifford – December 2017
 - Middlesbrough 2025 – The Mayor’s Vision – Middlesbrough Council
 - Strategic Plan 2017-2021 – Middlesbrough Council
 - Delivering new homes for rent, sale and the private rented sector - Presentation – Birmingham City Council
 - Stockport Housing Development Company and Increase and Extension of Affordable Homes Development – Report - Stockport Council
 - Delivering the Renaissance in Council-Built Homes by Paul Hackett – The Smith Institute
 - Housing Delivery Vehicle Case Studies – Lambert Smith Hampton

ACRONYMS

ALMO - Arm’s-Length Management Organisation
BxB – Brick By Brick
CHL - Centaurea Homes Limited
CLG – Company Limited by Guarantee
CLS – Company Limited by Shares
DfE – Department for Education
HDV – Housing Delivery Vehicle
HE – Homes England
HRA – Housing Revenue Account
HV – Housing Ventures
JV – Joint Ventures
LLP – Limited Liability Partnership
MHCLG - Ministry of Housing, Communities and Local Government
MTFP – Medium Term Financial Plan
NPPF – National Planning Policy Framework
PWLB – Public Works Loans Board
OAN - Objectively Assessed Need
ONS – Office for National Statistics

COUNCILLOR M STOREY
- CHAIR OF ECONOMIC DEVELOPMENT, ENVIRONMENT AND INFRASTRUCTURE
SCRUTINY PANEL

The membership of the scrutiny panel is as follows:

Economic Development and Infrastructure Scrutiny Panel 2017-2018

Councillors M Storey, (Chair), T Higgins, (Vice-Chair), R Arundale, D J Branson, N Hussain, L Lewis, L McGloin, M Saunders and M Walters.

Economic Development, Environment and Infrastructure Scrutiny Panel 2018-2019

Councillors M Storey, (Chair), T Higgins, (Vice-Chair), R Arundale, D J Branson, B Hubbard, N Hussain, L Lewis, L McGloin, and V Walkington.

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