



## **Resources and Governance Scrutiny Committee**

Date: Tuesday, 5 November 2019

Time: 10.00 am

Venue: Council Antechamber, Level 2, Town Hall Extension

This is a **Supplementary Agenda** containing additional information about the business of the meeting that was not available when the agenda was published

### **Access to the Council Antechamber**

Public access to the Council Antechamber is on Level 2 of the Town Hall Extension, using the lift or stairs in the lobby of the Mount Street entrance to the Extension. That lobby can also be reached from the St. Peter's Square entrance and from Library Walk. **There is no public access from the Lloyd Street entrances of the Extension.**

### **Filming and broadcast of the meeting**

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## **Membership of the Resources and Governance Scrutiny Committee**

**Councillors** - Russell (Chair), Ahmed Ali, Andrews, Battle, Clay, Davies, Lanchbury, Moore, B Priest, Rowles, A Simcock, Stanton, Wheeler and Wright

## Supplementary Agenda

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- 5. Annual Property Report 2018/19** 3 - 30  
Report of the Strategic Director (Growth and Development)
- This report provides an update on property activity since the last Annual Property Report to Resources and Governance Scrutiny Committee in November 2018. It reviews activity across the Development Team, including the Investment Estate; the Operational Estate; and the Heritage Estate. The report includes an update on the specific areas requested in the Scrutiny Committee's work programme, including the Council's Asset Management Strategy (whole lifecycle cost and maintenance, including public realm); and governance of land transfers and Community Asset Transfers.
- 7. The Factory, St John's** 31 - 40  
Report of the Strategic Director (Growth and Development)
- The purpose of this report is to update Members on the construction progress for The Factory project, its significance in terms of cultural impact within the neighbourhood; the evaluation of Manchester International Festival 2019; and the projected social value outcomes identified to be delivered collaboratively through the design team, contractors and the operator.
- 8. Progress of Expenditure - Northern and Eastern Gateway Programmes** 41 - 50  
Report of the Strategic Director (Growth and Development)
- This report provides a progress update in relation to investment being made by the City Council in delivering the Northern and Eastern Gateway programmes, which in total are anticipated to deliver in excess of 21,000 new homes over a 15 – 20 year period and 2,200 jobs created or safeguarded.

## Further Information

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For help, advice and information about this meeting please contact the Committee Officer:

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This supplementary agenda was issued on **Friday, 1 November 2019** by the Governance and Scrutiny Support Unit, Manchester City Council, Level 3, Town Hall Extension (Lloyd Street), Manchester M60 2LA

## Manchester City Council Report for Information

**Report to:** Resources and Governance Scrutiny Committee – 5 November 2019

**Subject:** Annual Property Report 2018/19

**Report of:** Strategic Director, Growth and Development

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### Summary

This report provides an update on property activity since the last Annual Property Report to Resources and Governance Scrutiny Committee in November 2018. It reviews activity across the Development Team, including the Investment Estate; the Operational Estate; and the Heritage Estate. The report includes an update on the specific areas requested in the Scrutiny Committee's work programme, including the Council's Asset Management Strategy (whole lifecycle cost and maintenance, including public realm); and governance of land transfers and Community Asset Transfers.

### Recommendations

That Committee note and comment on progress to date as set out in the report.

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### Wards Affected: All

<p><b>Environmental Impact Assessment</b> - the impact of the issues addressed in this report on achieving the zero-carbon target for the city</p>
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<p>The Council's property and land assets are a significant area of focus in efforts to achieve the zero-carbon target for the city. In terms of the Council's direct carbon emissions, in 2018/19 the Council's buildings accounted for around 69% of the total emissions. As reported to the Neighbourhoods and Environment Scrutiny Committee in July this year, carbon emissions from our buildings have reduced by 46.0% from the 2009/10 baseline. In this same period, the total energy used in our buildings (kilowatt hours of gas, electricity and oil) has reduced by 26.9%. This demonstrates that while UK emission factor reductions (from a greener grid generally) have undoubtedly had a positive influence on our total emissions, the amount of energy that we have consumed has also decreased. This report includes an update on the Carbon Reduction Programme, a specific investment programme focussing on building retrofit and energy generation to increase the scale and pace of carbon reduction activity on the estate.</p>
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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	The property teams in the Directorate provide professional services and leadership to drive effective place making and facilitate the economic growth of the City, by creating the necessary conditions needed to promote strong growth in commercial, residential, retail and leisure related development, stimulating new employment, new homes and broadening the City Council's tax base.
A highly skilled city: world class and home grown talent sustaining the city's economic success	The property teams in the Directorate play a key role in leveraging economic growth from the Council's land and property assets, including enabling commercial developments that drive growth in high-skill sectors such as the digital, cyber, creative content, cultural, advanced manufacturing and professional service sectors.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	The property teams in the Directorate work proactively with businesses, residents and partners to ensure developments contribute positively to place making and meet local needs to deliver neighbourhoods people want to live in. This includes supporting developments that promote the right mix of good quality and affordable housing for Manchester residents.
A liveable and low carbon city: a destination of choice to live, visit, work	The property teams in the Directorate play a key role in supporting Manchester's commitment to be a zero carbon City by 2038 by reducing the Council's direct CO <sub>2</sub> emissions through continued rationalisation of the operational building estate and improving energy efficiency in council owned buildings.
A connected city: world class infrastructure and connectivity to drive growth	The property teams work across the Directorate and with partners to ensure that development activity both drive and reflect the connectivity and infrastructure that underpin sustainable economic growth.

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**Background documents (available for public inspection):**

None

## **1.0 Introduction**

- 1.1 This report covers the work of the development and operational property teams in the Growth and Development Directorate since the last Annual Property Report in November 2018. It is broken down into three main sections to reflect the broad areas of property activity as follows:
- Development Team and Investment Estate (Section 2)
  - Operational Estate (Section 3)
  - Heritage Estate (Section 4)
- 1.2 The report includes an update on the specific areas requested in the Scrutiny Committee's work programme, including the Council's Asset Management Strategy (Section 3.7); and governance of land transfers (Section 2.16) and Community Asset Transfers (Section 3.9).

## **2.0 Development Team and Investment Estate Update**

- 2.1 The period between April 2018 and March 2019 has seen the Development Team continue to support significant growth and development activity throughout the City as the ongoing buoyant market conditions have resulted in a maintained and prolonged demand for all types of space, particularly for residential, employment and commercial uses. We have continued to support the Council's objectives for residential and employment growth as well as supporting sporting, cultural and leisure initiatives, redevelopment and regeneration of district centres and working with colleagues in other Directorates on safeguarding and developing the Council's heritage assets, developing schools and rationalisation of Council property.
- 2.2 The Development Team is also responsible for generating income for the Council, both revenue in respect of rental income from the Investment Estate and from the sale of land assets through capital receipts. Council funding through Government grants and its ability to borrow remains likely to be constrained over the next few years and the money generated by capital receipts will continue to have an important role to play in helping to fund the capital programme. The rental income produced from the Investment Estate, particularly from the Airport leases, will help to support services in other areas of the Council. Sound commercial judgement, together with a wider understanding of the Council's corporate plan objectives is required to ensure that decisions on land and property achieve the best outcomes and deliver best value for the Council. We are well placed to provide this role, particularly where we are involved in the outset of negotiations or policy formulation.
- 2.3 The Development Team continues to provide viability advice for the Council on planning applications and also on the feasibility of development generally. We have input into the new checklist for planning applications to ensure the viability process outlined in policy H8 of the LDF is fully transparent. This work area has grown as a result of the number of developers promoting schemes which are not fully compliant and due to the complexity of development appraisals that are being presented. The level of requests for viability

assessments has remained high, and the introduction of reconciliation provisions within s106 agreements has created an added responsibility for the team. Whilst it is too early to determine the amount of additional contributions to be secured through this process, the presence of these types of arrangements helps to mitigate the incentive for the developer to value engineer schemes and materials used.

- 2.4 The following paragraphs summarise the main achievements and areas of activity over the 12 month period April 2018 to March 2019.

## 2.5 **Manchester Creative Digital Assets Ltd**

- 2.5.1 The Development Team has been instrumental in the delivery and operation of the Digital Assets which include The Sharp Project, Space Studios Manchester and Arbeta (previously One Central Park). Manchester Creative Digital Assets Ltd (MCDA) was set up as a company in 2017, a wholly owned company by MCC, tasked with managing, operating and setting the strategic direction of the digital assets and creative property. Our role is primarily one of supporting MCDA in providing development advice, supporting on lettings and tenancies, providing property management advice and providing support on the delivery of new developments and the continued growth of the Digital Assets.
- 2.5.2 The £10m refurbishment of the internal areas of Arbeta was well advanced at the end of March 2019 with marketing due to commence after practical completion (July 2019) in the autumn period. The external improvements works to the building are due to complete slightly later, in December 2019. Alongside MCDA we have overseen the development of the plans and business case for the refurbishment and led on procurement of the professional team and main contractor, overseeing the delivery of the project and managing the budget. The refurbishment provides 83,000 ft<sup>2</sup> of high quality office space in an alternative, but accessible and lower cost location to the city centre, complementing the Sharp Project with space for digital and creative content sector companies to grow up into. The Development Team is working with The Sharp Project and our legal team to create a suite of occupational agreements that will embed the flexibility required to operate in this sector of the market. This is a move away from the traditional leasehold agreements and will involve aligning ourselves with market leaders in this field to ensure our estate remains a location of choice for new and existing businesses in this key growth sector.
- 2.5.3 The success of The Sharp Project helped to establish the case for the Space Studios Manchester in West Gorton, the first phase of which has been operational since October 2014. Following completion of the second phase in December 2017 Space Studios was awarded the Regeneration award at the RICS North West Awards 2018, has recently been announced as the new production base for the internationally successful BBC Drama Series *Peaky Blinders* and has housed several multi million pound productions who have chosen Manchester as their production base over competing regional locations.

- 2.5.4 We are currently supporting MCDA in the development of appraisals and a business case to obtain initial funding to undertake feasibility work for a potential third phase, continuing with the growth of the site to develop on its ongoing success and to capture the increasing demand for TV and Film production in Manchester.
- 2.5.5 The Development Team continue to support Screen Manchester in their work to support productions looking to film on location in Manchester, often utilising Manchester City Council owned land and property where filming licences are required.
- 2.5.6 MCDA assets continue to perform extremely well, with firm bookings now confirmed at Space Studios Manchester until the end of calendar year and pencilled bookings until May 2021. The Sharp Project now remains in a long term surplus position as a result of Footasylum taking 15,000 sq ft of accommodation.
- 2.5.7 Arbeta income will decrease slightly as a result of E-on Reality's move to a smaller floorplate. However, there are revenue upsides from actively managing the rates costs and reduction in FM costs, which are contributing to a better than anticipated budgetary position. Screen Manchester now benefits from ERF funding which eliminates the prior budgeted deficit position.

## 2.6 **Manchester Airport & Enterprise Zone**

- 2.6.1 Manchester Airport continues to develop internationally and is a major economic driver to the Region. The Manchester Transformation Project (MTP) is well underway with the enlargement of Terminal 2 on site. MTP will see a significant remodelling of the Airport to accommodate ever increasing passenger numbers. The first new pier became operational in April 2019. It is anticipated that the transformation project will create around 1,500 jobs.
- 2.6.2 The performance of the Airport links directly to the annual rent income MCC receives, which has this year passed the £10m mark. The development team also coordinates the landowner's approvals process on behalf of the GM Districts, ensuring the works and associated construction methodologies are in accordance with the project objectives.
- 2.6.3 In addition to the transformation programme detailed above, the Airport has been undertaking a major restructuring of its non-operational/investment portfolio with a view to increasing investment and improving returns. The portfolio previously sat within the main airport leases. This hindered investment, due to existing lease terms that are restrictive in nature and would not normally be appropriate for an investment portfolio. MCC and the Airport agreed that the portfolio could be extracted from the existing leases and be put into a new, investor friendly, 275 year lease subject to a new additional ground rent geared to market values. The new lease will not in any way affect the existing main Airport rent MCC receives. The proposal is to dispose of the assets to a new Prop Co by way of an underlease. By way of an update a process to select the Prop Co has been underway since May 2019 and is



expected to complete October/November. On completion the new lease will provide a Gross Rent of £603k per annum, subject to 5 yearly rent reviews, of which MCC will retain c£350K per annum under the income share arrangements.

- 2.6.4 Airport City North comprises 44 hectares of land to the north of the Airport terminals that will deliver a mixed use development of offices, hotels and other ancillary uses. There has been significant activity over the last 2 years to secure development of 4 hotels on sites closest to the terminals known as the Blue Land. In addition to the hotel development, ACML are progressing a speculative office and MSCP scheme on the North side of the M56 link road adjacent to the landing point of the proposed new footbridge, linking Airport City North to the main Airport campus. Grant funding agreements for the new bridge have been agreed and installation of the bridge scheduled to commence no later than November 2019.
- 2.6.5 Offices are a key part of Airport City North and bringing forward the first phase of office development has been focused on a combination of occupier led and speculative office development. Securing a significant office occupier such as The Hut Group would be catalytic for any scheme, and is expected to generate significant momentum for the scheme, establishing it as a major office location. An anchor scheme of this nature also demonstrates to the market occupier confidence in the location and scheme. The Hut Group campus will deliver c.1,500,000 ft<sup>2</sup> of Grade A office space plus associated car parking when all planned phases are completed. The scale of the development will be the largest ever completed in South Manchester. In addition to the office campus, The Hut Group are proposing to develop a new leisure facility with associated retail uses. The facility will be open, through membership, to the general public. Negotiations of terms for the development are currently on-going.
- 2.6.6 Global Logistics, previously known as Airport City South, is a logistics hub on a 34 hectare parcel of land adjacent to Junction 6 of the M56 motorway to the south of the airport terminals and apron. The scheme will significantly enhance the Airport's existing freight business through enhanced cargo handling areas and additional airside access. Global Logistics is continuing to expand following the arrival of the Amazon fulfilment centre and a speculative logistics facility that is attracting significant interest from Airport related occupiers. In 2017 Airport City Ltd sold a 45 acre site at Global Logistics to SoulPlane, who with Stoford Developments have commenced further development of large logistics units, one of which will be occupied by The Hut Group. Planning applications have recently been submitted for additional development with the prospect of several thousand new jobs being created. Currently over 800,000 sq ft of accommodation has been built out, with a further 1m sq ft with outline planning consent.

## **2.7 City Centre Development**

- 2.7.1 Demand from investors and occupiers, particularly in the residential, office and leisure sectors continues to be very strong has seen a number of major City

Centre schemes involving Council assets progress significantly. These are set out below.

- 2.7.2 Spinningfields: Development activity is now complete and major assets sold into the investment market. The latest phases of development have been fully let and demand for offices remains exceptionally strong within the estate. The Team is now progressing close down of the development agreement and development accounts with Allied London, this is a key piece of work for the year ahead to ensure the Council recoups the returns from it's long term investment in this project.
- 2.7.3 First Street: Following the completion of Building 8, which is now nearly fully let, activity has focused on the remaining plots at First Street Central and First Street South. Patrizia who are exiting First Street disposed of plots 9 and 10 to Ask/Richardson who are promoting speculative office development building on the success of Building 8. In addition to the above the whole of First Street South land has been sold to Downing Developments, who are intending to bring forward residential development across the site. The capital receipt of £3m accruing to the Council will be secured on draw down of development leases on the First Street south development.
- 2.7.4 Jacksons Row/Bootle Street - St Michaels: The Development Team worked alongside planning colleagues to ensure that the challenge against the planning consent granted by the local authority was not upheld. The result of this work is that a Unilateral Undertaking to support affordable housing from this development was negotiated by the team, with support from external consultants. This, coupled with the Council's land receipt which will be secured on draw down of the development lease, has been assessed to comprise a policy compliant off site contribution. Work to comply with the remaining conditions in the contractual agreement is progressing with a view to commencing development in 2020.
- 2.7.5 St. John's: The redevelopment of the former Granada studios complex as a major mixed use scheme that will transform this area and spatially connect Spinningfields, Castlefield and the Museum of Science and Industry is well underway. A key aspect of the scheme is the Factory – an iconic arts and cultural centre. This is now on site and the team supported the complex land and property arrangements to deliver the development site and necessary access and licence arrangements to the Council's contractor to facilitate the build.
- 2.7.6 Heron House: The refurbishment of the building was well advanced in April 2019, with an anticipated completion date of late summer 2019. The majority of the office space now let or on terms agreed. The scheme included the relocation and refurbishment of the Registrar's accommodation. The office lettings will result in a significant number of new highly skilled jobs coming into Manchester. Bruntwood have been appointed as property managers for the building, bringing their skills and innovative approach to ensure that revenue streams are maximised and void costs are minimised over the remaining term of the Council's headlease.

- 2.7.7 Mayfield Regeneration Area: The Development Team have been supporting the public sector JV company to review the viability and returns relating to the development phasing and delivery of the scheme, which includes a proposal for a seven acre City Park on land to the south east of Piccadilly train station. Development masterplans were completed in the year to March 2019, and discussions in relation to the funding of the first phase have been initiated.
- 2.7.8 Circle Square: Development is well underway on the initial phases of both residential (serviced apartment buildings) and commercial development (office, multi-storey car park and hotel). The Development Team have continued to support the process through landlord approvals, and oversight of development timescales and compensation relating to Rights to Light is being monitored. The Team are actively engaged with the developer to support the Hatch concept and have worked to facilitate this through the short term variations to long leasehold arrangements, which has allowed a previously dark, back corner of the site to be opened up and become an attraction in its own right. Ongoing dialogue with the developer and University relating to a second phase of development is being pursued.
- 2.7.9 Portugal Street East: The team has provided commercial input in to a Collaboration Agreement between landowners that underpins the emerging Strategic Regeneration Framework. It is anticipated that this will unlock the potential to deliver 8.7m ft<sup>2</sup> of commercial floorspace and 13,000 new apartments. The team is in detailed negotiations with Capital and Centric to release land needed to deliver the first plot within the SRF area which will be a 275 bedroom hotel operated under the Leonardo brand.
- 2.7.10 Bridge Street and Kendals: Following House of Fraser entering into administration the Development Team have been working closely with the owners of the Kendals building to consider long term options relating to the potential future positioning of the asset. The Council has no interest in the Kendals building, however the King Street car park and retail units are in the Council's leasehold ownership and provide an important revenue stream for the Council. It is critical any future development provides for the Council receiving value for money for its assets.
- 2.7.11 Car Park Portfolio: The Development Team has been an integral part of the project team bringing forward the re-provision of the City Centre car parking service. We have carried out detailed due diligence on the property asset portfolio to support the emerging plan for the future provision of off-street parking across the City.

## 2.8 Other Commercial and Employment Development

- 2.8.1 Central Retail Park: Following acquisition of the 10 acre site, vacant possession has been secured and demolition completed. Master-planning work was commissioned to support the future use and development strategy for the site. It is anticipated that this will position the former Central Retail Park as a commercially led redevelopment scheme to provide office accommodation to support the pipeline of development in a sector that is key

to driving the City's growth ambitions and is fundamental in building the tax base of the City. The draft GM Spatial Framework identifies the need for c1.25M m<sup>2</sup> of new employment space over the plan period and this site will be a key contributor to delivering on this ambition. Viability proof of concept work to support the masterplan is being developed alongside the design piece to ensure buildability is designed into the process. This process is aligned fully with the Council's zero carbon agenda to ensure that the best possible outcomes are achieved and the issue of reducing embedded carbon is captured and designed into the process from the earliest opportunity.

- 2.8.2 Didsbury Technology Park: The team has been monitoring the outputs of the development in line with the milestones set out in the Council's land agreement with its development partners: Bruntwood, PJ Livesey and Siemens. Good progress has been made on site during 2019 with Siemens recently committing to locate their national HQ within the development creating at least 70 additional jobs and unlocking a further phase of commercial development.
- 2.8.3 Central Park: The future positioning of the site is being considered in line with the growth sectors within the city, and how the site can be best developed to support these growth sectors. Terms have been agreed with the owner of the Holiday Inn on Oldham Road to develop a hotel and ancillary uses on what is known as the Gateway site because of its location fronting Oldham Road, close to the entrance of the Park.
- 2.8.4 New Smithfield Market: The market is a major economic asset to the City and provides over 600 jobs and accommodates over 30 separate businesses on its 35 acre site in Openshaw. Over the years it has however suffered from a lack of investment partly due to uncertainty over its future role. The Development team are supporting Markets on all property issues relating to the market, which is now overseen by a Board. Significant progress has been made in regularising the property management of occupiers on the site and a clear protocol established in terms of dealing with new tenants, demands for space and future development. A major options study was commissioned this year to consider options for the future redevelopment of the wholesale market and the potential release of development land for food related commercial uses. This study is due to report at the end of this calendar year.

## 2.9 **Housing Development**

- 2.9.1 The Development team play a crucial role in working with Strategic Housing, Planning and other partners to deliver the Council's objectives for Housing and this will continue as the need to deliver more quality homes in the City becomes more important. Revised policy in delivering numbers and tenure mix brought through in 2018/19 have realigned the need to support increased activity in the affordable housing sector. Disposal of land assets to support housing delivery with Registered Provider partners has been a key output of the teams activity.

- 2.9.2 Over the past year the team has continued to lead or support the development of family homes throughout the City and facilitated several apartment-led schemes within the City Centre and edge of City locations, The Development Team has negotiated and promoted a number of other housing schemes, often working with Registered Housing Providers and colleagues in Strategic Housing to deliver sites which are entirely affordable housing. During 2018/19 development took place on the following sites supported or led by the development team
- 2.9.3 Former Stagecoach Site – Construction of 258 new homes will commence shortly over three phases of development. Phase 1 will comprise of 54 family houses for market sale and shared ownership. Phase 2 will provide 72 affordable Extra Care units to be delivered in partnership with Mosscafe St.Vincent's Housing Trust (a Registered Provider). Phase 3 will be a combination of apartments for rent, for which detailed planning consent has been obtained and a form of health facility / affordable provision for which details are currently being worked up.
- 2.9.4 Infill Sites, Phase 1 – We have been providing property and development support on the disposal and development of a number of infill sites to facilitate family housing across the City. Phase 1 involves the disposal of six sites near to Queen's Road, Cheetham Hill to Rowlinson Construction Ltd to develop out 48 homes including 28 affordable homes. Construction commenced in March 2018 with affordable delivery almost completed by April 2019, and practical completion of the scheme scheduled for end of 2019.
- 2.9.5 Northern Gateway – The Development team worked closely with colleagues across the Council and FEC to develop and submit a funding bid for Homes England Housing Infrastructure Fund monies. This is currently being evaluated, but it is critical to support the development of new homes and supporting infrastructure associated with this project. The team has also worked closely with the developer to assemble sites for future development.
- 2.9.6 Princess Road / Barnhill Street – the site of the former Repsol filling Station and the Barnhill Nursery is being developed by Galliford Try on behalf of One Manchester to provide 104 apartments in a block fronting Princess Road known as The Clockworks.
- 2.9.7 St Georges, Hulme – Phased development of the Chester Road frontage adjacent to St Georges Church. The team has continued to work with the developer and their contractors to promote high quality high density development in this area. A number of land deals were concluded within the year, delivering significant capital receipts to the Council. A number of schemes are on site, or in planning with in excess of 650 apartments on land where the Council has an interest in the development pipeline.
- 2.9.8 Ben Street - The Ben Street project comprised the acquisition and substantial refurbishment of 62 vacant and some case seriously dilapidated properties, in the Clayton area. One Manchester were selected as the partner to lease, market and manage these new homes for Market Rent. The first two phases of

45 homes have already been successfully handed over. They have been very popular with the community and are already substantially let to new families. The face-lifts and streetscape scheme have dramatically improved the aesthetics of the area and there has been an overwhelming positive response to the work undertaken. The last phase of properties will see the remaining 17 houses handed over to One Manchester around the beginning of December. This will then shift the focus to bringing forward the Ilk & Alpine Street development site forward for circa 66 new affordable homes for sale.

- 2.9.9 Following the approval of the Eastlands Regeneration Framework in December 2017 the Development Team have supported One Manchester as part of its masterplanning exercise for the proposed housing renewal scheme in Beswick which will seek to regenerate Beswick and provide an increased number and better quality development of affordable housing, including the re-provision of all existing social housing tenants. The development would also include high quality public realm and community facilities. The scheme will be funded and delivered by One Manchester.

## **2.10 District and Town Centre Development**

- 2.10.1 District centres play a vital role for local communities. They are often central to the identity, character and appeal of a neighbourhood, surrounded by housing and accessible to all forms of transport. They can provide the focus for retail, leisure, public services, employment and education as well as housing. We have been actively involved in a range of initiatives to improve the quality and offer in district centres which includes the delivery of new development.
- 2.10.2 Harpurhey District Centre: The team are continuing to work with Habro, the long leaseholder, to improve and diversify the range and quality of uses within the Centre. Agreement has been reached to transfer the market from the Council to Habro who are intending to appoint an experienced market operator to run the facility and invest in a number of improvements to its physical fabric and improve the offer. The team are also working with Habro to ensure that any development on adjoining sites is appropriate, of high quality and supports the sustainability of the district centre.
- 2.10.3 Wythenshawe Town Centre: The regeneration and redevelopment of Wythenshawe Town Centre will be a major project for the Council over the next few years. With a 70,000 population catchment, the current Centre will not meet the needs or aspirations of the existing and growing population as it stands. The Centre's proximity to the Airport and the employment opportunities that will be generated by its continued expansion, provide an important economic driver that will help to secure investment in the Centre and support the development of residential uses as well as improved retail, leisure and commercial uses. Initial discussions have been held with both St. Modwen and Wythenshawe Community Housing Group and a process will be established to guide development in the Centre, with full engagement of local members, businesses and residents in the process.

## **2.11 Leisure, Sport and Education Development**

2.11.1 The Development Team provides property input to the completion of new schools which includes the acquisition of land to accommodate new schools or school expansions, and negotiating the leases for both Academies and Free Schools. This has included the Communications Academy in Harpurhey, the Creative and Media Academy in Charlestown, the East Manchester Academy in Beswick, Newall Green High School, Wythenshawe and Chorlton High School at Hough End, Chorlton Park. A lease has recently been granted to The Secretary of State for land at Rayburn Way, Cheetham Hill to facilitate the development of an Edens Girls Academy and Edens Boys Academy which will accommodate up to 1600 pupils.

2.11.2 As part of the ongoing Education Basic Needs Projects, assistance will be provided to facilitate the extension to the Cheetham CE Community Academy at Cheetham Hill and the proposed Academy at Daisy Mill in Longsight.

2.11.3 Extensive support has been provided to colleagues in Leisure on a number of sports related projects. In December 2017, Manchester Metropolitan University announced its intention to relocate its academic sports provision to the Etihad Campus from Crewe and Alsager, bringing approximately 3,100 students and 160 staff to the Campus in time for the 2021-22 Academic Year. The Development Team has led on discussions with them to identify the preferred location for the academic building and will negotiate disposal terms. The department will work closely with other internal departments including Leisure Services as well as City Football Group as Joint Venture partners on the Campus to deliver a high quality sport and education offer, in accordance with the Eastlands Regeneration Framework – approved by Executive in December 2017.

2.11.4 In February 2018, Rugby Football League (RFL) agreed to move its 150 office staff to the Campus from Leeds and Salford Quays by Autumn 2021, in line with the Rugby World Cup, to be staged in England. The Development Team was heavily involved with the submission of the bid to RFL along with Leisure Services and City Football Group. The department will lead on the delivery of a new facility for RFL along with other National and Regional Governing Bodies already located in Manchester. It is also expected that the development will attract additional organisations either to relocate in full or to use for agile working.

2.11.5 The two schemes will be delivered together with all parties identifying the importance of a world class sports Higher Education Institution located close to sporting organisations who may benefit both from research and development opportunities as well as having a high class graduate pool to attract future talent from.

## **2.12 Capital Receipts and Strategic Acquisitions**

2.12.1 Capital receipts will be an important element of the Council's capital programme over the next few years as borrowing becomes more restrictive.

Market conditions are currently buoyant and it is important that sales are progressed if the Council is to receive the best value for its assets that can be used to support other spending commitments, in addition to driving growth and support the place making agenda.

2.12.2 A total of £11.38m of capital receipts were received in the year 2018/19 from the disposal of Council land and property. Over the next few years capital receipts are likely to be more difficult to achieve as land values are constrained because of the need to provide sites for affordable housing and satisfy climate change policies. The loss of sites at nil value for educational purposes will also impact on the level of receipts.

2.12.3 Responsibility for managing a programme of strategic acquisitions also rests with the Development Team and a number of important acquisitions have been completed this year in support of major regeneration and development schemes. These include the continued acquisition of land and buildings immediately adjacent to the Etihad Campus to support longer term proposals for mixed use development in this part of the City, including Commsec and Datesand sites to support the proposed sports innovation campus.

2.12.4 The team also successfully concluded the acquisition of the Ancoats Freehold and commercial estate from the HCA, providing the Council with a stewardship position on the estate management along with commercial accommodation to support the Council's investment estate.

2.12.5 Simon House in Wythenshawe Town Centre was acquired this year. This building is located close to the Gala Bingo property that was acquired by the Council in 2016. Simon House sits on just under an acre of land and will eventually be redeveloped for housing as part of proposals for the wider District Centre. The building is in very good condition and in the interim it is capable of providing short term accommodation for office or storage uses.

## 2.13 Investment Estate

2.13.1 The Investment estate generates income for the Council through the sale or lease of land and property to generate capital receipts and secondly in maintaining the Council's investment estate to generate income. Income from the Council's investment estate continues to provide a valuable source of revenue for the Council, particularly from its property interests in the Airport. Requests from lessees to acquire freeholds or peppercorn leaseholds in exchange for capital receipts are generally resisted with income producing ground leases being the preferred option.

2.13.2 The introduction of a new rent accounting system for investment income was reported in last year's report to scrutiny and it can now be reported that the new system went live in August. The project has involved extensive work over the last 18 months with Finance, ICT and the CPAD team to ensure that the £20million pa that is collected from these assets is secure. The previous system (NSC) was an externally supported system (at a cost of circa £20k pa), which was limited and unreliable. Furthermore our own ICT service confirmed



that they would not be able to support NSC from September this year and so the introduction of a new system was a priority. The new system has utilised capabilities within CPAD, SAP and PARIS, rather than purchase a new system so there will be an ongoing revenue saving.

2.13.3 The investment estate generated a total gross income of £21.4m in 2018/19, which is an increase from £19M in 2017/18 and is largely a result of the £2.5m additional income received from the Airport this year. Although gross income has increased, costs incurred in running the estate, including rents, empty rates and the costs of managing surplus and regeneration assets has also increased meaning that net annual income for the year is circa £16m. The new addition of the Heron House liabilities within the Development & Investment budget is one of the main reasons for this increase resulting in a negative impact of over £2.1m primarily due to the head rent payments. This deficit should however start to reduce sharply as the benefit of the lettings secured on the building begin to flow through the budget. The other notable impact on the budget is the reduction of over £700k in advertising revenues, from £1.65m in 2017/18 to £960k this year. This was a short term in-year reduction created through ongoing pressures to the contract from loss of advert sites to redevelopment. This reduction has been turned around through the identification of alternative sites and a digitisation programme to drive incomes from retained sites. It is now anticipated that income from advertising will increase for 2018/19 with a forecast of circa £2.36m. Income from other investments has held up well, although there is a slight decrease in income from shops, which reflects a more depressed market conditions for retail investments. The cost incurred in managing surplus assets continues to increase and is now around £500k pa, excluding Central Retail Park and Bootle Street.

2.13.4 Income from the Arndale Centre continues to fluctuate partly because of the reduced demand for retail space, as the head-lease requires the City Council to absorb vacant business rates liability. There are currently a number of vacant units within the Arndale including the former BHS building and in Halle Square, where the Arndale Centre's owners scheme to create a food and drink hub has struggled to let. There is also an increased level of vacancies in the Arndale Tower. The empty rates liability from this vacant space will have a significant effect on the Council's income over the next few years but because the vacant space within Halle Square has not yet been rated by the Valuation Office, the impact has not yet been fully crystallised and income for 2018/19 is estimated to be £554k. Whilst Intu and M & G are committed to a strategy to refresh this prime asset it is unlikely that the Council's income from this asset will return to the levels received 10 years ago, circa £1.7m pa, when the Centre was almost fully let and accordingly any rates liability associated with vacant space was minimal.

2.13.5 Voids from the investment estate remain at a very low level and management costs are also low as most of the assets comprise of ground leases.

## 2.14 **Jacobs Contract**

2.14.1 The management of the Council's non-operational (investment) estate and transactional work such as rent-reviews, lease renewals and some disposals are dealt with by Jacobs who are the Council's outsourced property management contractor. The new contract has been in place since April 2018 and contains a number of KPIs in respect of performance on property transactions, rent reviews and management of the estate. Under the terms of the new contract Jacobs have, as their contract requires, supplied a statement of social value to set out how they have gone about meeting the social value provisions of their tender.

## 2.15 **Asset Valuations**

2.15.1 The investment assets are valued on an investment basis by way of a largely desk based review by reference to the class of asset and changes in investment yields. Surplus properties should ideally be valued on an annual basis with operational properties are generally valued on a 5 year rolling programme with the valuations carried on a Discounted Replacement Cost basis. Over the past few years CIPFA rules have required a greater proportion of the estate than the 20% that was normally required and there is a cost implication to the Council of this requirement.

## 2.16 **Governance of Land Transfers**

2.16.1 The Head of Development is responsible for approving, or otherwise, that a land transaction, be it an acquisition, disposal, lease, easement or right is at market value and represents best value for the Council. Any such transaction, save for simple letter licenses, is captured through the Council's CPAD system by way of a transaction sheet and instruction to the City Solicitor to complete the documentation.

2.16.2 Under the constitution there are distinct delegations for acquisitions of land (where there is a budget) – which are signed off for approval by the Strategic Director, Growth and Development, with a final Checkpoint Approval process to release the funding to complete the acquisition. Where any such acquisitions are in excess of £500K, the Checkpoint Approval is the Key Decision.

2.16.3 In respect of disposals, including disposal of short term leases, the delegated approval rests with the Head of Development, where the premium or aggregated rent is below £500K, and with the Chief Executive where it is a Key Decision and above £500K.

2.16.4 There are broadly 2 portfolios of work that can be captured by existing governance arrangements, and over the last 6 months the Development Team has been working to align the governance arrangements in relation to land acquisitions/sales for residential purposes with the Housing Board, and where acquisitions or disposals are for non-residential purposes the Commercial Board will have oversight of the activities and recommendations.

- 2.16.5 There will inevitably be overlap as there are a number of governance arrangements that work on a geographical basis, but it is considered appropriate that the Housing and Commercial Board structures can provide an overarching portfolio level rigour to decision making for major property and development decisions. This will ensure transparency, adherence to best practice and application of appropriate levels of due diligence when undertaking land transactions.
- 2.16.6 Increased clarity in relation to the form of valuation of land to be acquired, or to be disposed of has been instigated with more transparency relating to the assumptions underpinning any valuation advice and where this may result in any departure from normal RICS 'Red Book' guidelines.
- 2.16.7 Scale and impact of the transaction has to be considered in the governance arrangements as there are numerous day to day decisions relating to landlord consents, assignments to the investment estate and property holding that need to be dealt with quickly and efficiently through a delegation to the Head of Development.

### **3.0 Operational Estate Update**

- 3.1 The Corporate Estate and Facilities Service is responsible for the organisation's operational estate strategy, property advice to operational services, and acts as the Council's corporate landlord. The service is responsible for the management, repair and maintenance of the Council's operational estate and the delivery of Facilities Management services including maintaining statutory compliance, cleaning, catering, security, and both planned and reactive maintenance.
- 3.2 The Council's operational estate portfolio consists of approximately 350 buildings across the city, with a total gross internal area of upwards of 344,000 square metres. These range from small pavilions in parks, through to large offices, national sporting venues such as the Velodrome, and key heritage sites such as Wythenshawe Hall. The Estates Team responsibilities include all operational buildings (excluding schools), unlet land and buildings and certain properties of a public nature which are owned by the Council but occupied by other bodies (e.g. the Bridgewater Hall). The Facilities Management Team responsibilities cover all of the Estates Team portfolio. Additionally, they deliver services to schools and other facilities that are not part of the Corporate Landlord model.
- 3.3 The service area is governed by the Estates Board, which is a sub-group of SMT and is chaired by the Strategic Director, Growth & Development. The role of the Estates Board is to ensure:
- Effective asset management for corporate estates assets
  - Adherence to financial regulations and the corporate constitution
  - Timely delivery of estates transformation activities to support operational service delivery
  - A cohesive approach to estates and facilities activities within MCC

- Effective communications with the wider organisation in respect of estates utilisation and rationalisation

3.4 The Estates Board reports into the Executive Member Estates Board which is comprised of the Executive Member portfolio holders for Property and Finance. This Board is the decision maker in respect of operational estates and facilities matters.

### **3.5 Operational Estate Activity**

3.5.1 Following the successful rationalisation of Wenlock Way and the Chorlton District Office in 2017/18, the 2018/19 year has seen significant progress with the second phase of the Estates Transformation programme, which includes the refurbishment of both the former Hulme Library building and Alexandra House.

3.5.2 The refurbishment of the former library building into the new Hulme District Office has been completed, giving new life to a key building in the centre of Hulme, and improving facilities for local residents. The building reopened in May 2019. The building provides modern, open plan office space for approximately 200 staff from the Directorate of Children and Families. Teams have been brought together from the Westwood Street offices, Claremont Resource Centre and the Early Help team from Alexandra House. The building also includes a Job Centre Plus, and features the largest array of solar panels installed so far in the operational estate. In addition, the much loved Hulme Mural has been cleaned, retained and reframed as part of the scheme.

3.5.3 The refurbishment of Alexandra House will provide modern, open-plan office space. The mechanical and electrical services together with the lifts, external elevations and windows, will be upgraded. Improved facilities including the reception area, toilets staff break-out areas, cycling facilities and showers will be created.

3.5.4 The adjacent car park serving Hulme High Street will be upgraded to address the current water ingress issues, along with the replacement of the mechanical & electrical systems. A new passenger lift will be installed in order to reinstate level access between the car park, Hulme High Street and the Library and Leisure Centre. The improvements to both Alexandra House and the adjacent car park, including LED lighting, new windows and plant, will significantly reduce energy consumption and carbon emissions, by an estimated 70%.

3.5.5 The project is progressing well. Design work has been developed to RIBA stage 4, the building has been vacated, and strip-out work has started on-site. The refurbishment will be completed in 2021. When complete, the building will be re-occupied by the Revenues and Benefits Service, and the Shared Service Centre. In addition, a central Learning and Development facility will be created, including dedicated rooms for ICT training.

3.5.6 To support this project, the Estates Team have leased temporary 'decant' accommodation at City Road East. The team have overseen the acquisition

and fit-out of the space, and the relocation of c400 staff to the building, from the Revenues and Benefits Service, and the Shared Service Centre.

- 3.5.7 The move of Shared Service Centre created an opportunity to use the estate more efficiently and to save money, as it allowed - after a series of enabling moves – the relocation of Legal Services, out of their rented accommodation in Peter House, and into the Town Hall Extension. To make that relocation happen, the Estates and Facilities Service had to plan, manage and deliver 11 separate moves, across four different buildings, over 16 weeks, moving over 500 people, completing the move of Legal services into the Extension in June 2019.
- 3.5.8 The Estates Team have continued to support the development of the new Gorton Hub. This scheme is a new build proposal in Gorton that will see Primary Care, Integrated Health and Care Neighbourhood Teams, Mental Health Services, MCC Libraries, the Manchester Adult Education Service and One Manchester co-locate in a new integrated public service building.
- 3.5.9 The scheme is overseen by a Partnership Board, which includes all the public services that will occupy the building. A professional design team has been procured through the North West Construction Hub. The scheme has been developed to RIBA stage 3, and significant effort has been invested in developing the business case, which is now going through the various approval routes required by each of the public services. Should the business case be approved, construction work is expected to commence in early 2020, and the hub will be operational in Autumn 2021.
- 3.5.10 The Estates Team are leading the client team developing plans for the refurbishment of Hammerstone Road Depot, which will ensure that Hammerstone Road becomes the Council's primary depot. The refurbishment of the site includes replacement of the roof, new mechanical and electrical installations, and the creation of new accommodation in the main shed. The scheme will also remove all the life-expired portakabins on site, involve demolition of the poor quality Coca-Cola building, as well as ensuring that the hard standing across the site is fit for purpose. The scheme will enable the rationalisation of the depot estate, with teams moving over from Hooper Street to the newly refurbished Hammerstone Road facility. The professional design team has been appointed, and design work is at RIBA stage 3. The estimated completion of this scheme is in Winter 2021.
- 3.5.11 The Estates and Facilities service have continued to support the Our Town Hall Project. Having successfully relocated the majority of services from the building last year, the team have completed the task and relocated the Coroner's Office from the Town Hall into newly created accommodation at the Royal Exchange. The elections store has also moved out of the Town Hall, leaving only the project team in the building. The Estates team carried out a systematic review and disposal of all non-heritage furniture within the building in line with the furniture retention and disposal policy. Much of this furniture was reused across a number of rooms repurposed on the ground floor for working, meeting and break out facilities for the expanding project team.

3.5.12 The Estates Team have delivered a number of smaller projects to support the Council's service delivery directorates. For example, with ICT and Children's Services the team created additional training capacity at Hooper Street Depot to enable the business critical roll out of the new Liquid Logic system. The team also supported the review of the Children's Multi Agency Safeguarding Hub (MASH) arrangements, ultimately supporting the relocation of Children's MASH staff into the existing Early Help Hubs to create a new Advice and Guidance service, now based in localities instead of a central base.

3.5.13 In June 2018 the team carried out the relocation of the Registrar's Office in Heron House, including a temporary relocation of the service within the building. This work delivered improved accommodation for this important service, including a much improved record storage facility. The new accommodation is more efficient, delivering the requirements of the service in a smaller footprint. The scheme was part of the wider refurbishment of Heron House.

### **3.6 Facilities Management Update**

3.6.1 The Facilities Management (FM) team have continued to further develop the efficiency of the MCC online FM helpdesk, and contractor usage of this system is now fully embedded, reducing customer wait times and further enhancing the levels of positive feedback received by the service. Increased volumes of over 32,000 service requests (of all types) have been received through the FM helpdesk during 2018/19, with an improved success rate on previous year of 98.1% against a target of 90% for request completion within the appropriate timeframe.

3.6.2 Throughout the year the service has lead the re-procurement of two high value MCC contracts. The procurement for Citywide Repairs and Maintenance Services has been concluded. In May 2019 the maintenance provider changed from Manchester Working Ltd (Mears) to Engie, and considerable work has been undertaken by the FM team to ensure that the significantly complex operational, financial and contractual challenges have remained largely unseen by the FM customers. The procurement for Security Services is ongoing and is due to be completed in November 2019.

3.6.3 Both procurement exercises have seen bidders provide contractual assurances of significant social value delivery for MCC. This is embedded within the philosophy of the successful bidders and includes areas such as reducing carbon emissions, proving positive employment opportunities, apprenticeships and ongoing work within local communities. Whilst the maintenance contractor has historically paid over the Manchester Living Wage due to the technical requirement of its operatives, the new Security contract has been tendered to ensure that all security staff are paid a minimum of the Manchester Living Wage from the commencement of the contract.

3.6.4 The large volume of legacy 'high risk' remedial works, identified when the planned and preventative maintenance programme was centralised and transferred into FM, and reported in last year's Annual Property Report, have

now been fully resolved and removed, along with the residual 'medium risk' requests. The FM service have now delivered a significant reduction in the area of building management risk for MCC across the operational estate.

- 3.6.5 Supporting efforts to reduce carbon emissions and improve air quality, 75% of the FM vehicle fleet has been migrated from diesel vehicles to electric powered vehicles.
- 3.6.6 The Town Hall Complex continues to provide a considerable security workload for the FM team. Issues have been dealt with through a partnership approach led by FM staff along with local GMP counter terrorism officers and the MCC security provider in a highly professional manner under extremely difficult circumstances.
- 3.6.7 FM have continued to provide considerable ongoing support and guidance to the Town Hall project team and the cross departmental group created 12 months ago is working successfully. This enables the wider Estates and FM teams to advise and guide the design teams on a range of FM outputs that are critical to the ongoing success of this scheme.

### **3.7 Asset Management Programme Update**

- 3.7.1 The Asset Management Programme (AMP) is the Council's planned investment programme to maintain the operational estate and ensure that it remains fit for purpose. Investment decisions are informed by data from stock condition surveys, as well as feedback from building occupants and service business plans. Investment decisions are considered in the context of the whole-life cost of an asset, as well as the wider operational property strategy. As well as maintaining properties that are owned and occupied by Council services, the AMP supports a number of properties which are managed and run by a third party. This arises where there is a contract in place and the third party has certain repair and maintenance liabilities, but the Council is responsible for 'end of life' replacements for all aspects of the plant, equipment and fabric of the buildings.
- 3.7.2 An Asset Management Steering Group oversees the day to day progress, spend and reporting for the annual Asset Management Programme, with programme approval via the Estates Board.
- 3.7.3 In 2016, the Estates Team embarked on an ambitious condition survey project across the operational estate. As well as providing the essential outputs to develop a more strategic, longer term investment programme, the scheme provided an opportunity to form a more structured and accurate Asset Information Model (AIM) within CPAD, the Council's property system. Our AIM combines spatial data, asset data and condition data to create an integrated digital approach to managing our estate, and has been created using up to date industry standards, and aligns to the government's initiative for digital cities (Digital Built Britain).

- 3.7.4 Since 2016, Estates, working with the Capital Programme team, have utilised the condition survey and asset data to invest c£10m over approximately 80 projects across 55 properties. By the end of 2019, we will have surveyed and created Asset Information Models for approximately 200 sites.
- 3.7.5 Due to the nature of investments commissioned through the AMP, works can often take place over two or more financial years. In 2018/19, the programme saw 24 schemes completed, with a further 24 schemes starting on site. Examples of projects delivered or started in 2018/19 include: refurbishment and roof replacement works at Didsbury and Withington libraries; replacement glazing panels in both Central Library and the Manchester Art Gallery; roof and air handling unit upgrades the National Football Museum; window, door and electrical improvements at Heathfield resource centre; repairs to markets including Gorton, Longsight, the Arndale and New Smithfield; completing demolition work of the former Wenlock Way offices; and repairs at Manchester Aquatics Centre, the National Cycling Centre, National Squash Centre and Regional Tennis Centre. AMP schemes also support our valuable heritage assets, with examples of schemes in 2018/19 including work to refurbish Wythenshawe Hall after the devastating fire, and the 4th phase of improvement works at Heaton Hall, which focused on the external fabric and window and roof repairs.
- 3.7.6 The AMP also funds activity to the Council's public realm assets. Since its establishment in 2016, the Public Realm Team in the Highways Service has focused on cataloguing the Council's public realm assets and their condition. The investment priorities for public realm assets, previously governed by the Estates Board, was transferred to the Highways Client Board in June 2017.
- 3.7.7 The Public Realm Improvement Programme priorities are health and safety focused to ensure the Council is statutorily compliant. This commenced with the Water Feature Improvement Plan, including condition surveys of all the electrical installations and associated repairs to bring all the plant rooms up to standard. This was followed by the Castlefield Arena Lighting Improvement Project. Current projects are the Exchange Square Water Feature Refurbishment, due to complete in November, the Automated Bollards Replacement programme currently out to tender, and lighting improvements to the Rochdale Canal to bring the lighting apparatus up to standard for inclusion in the Manchester Public Lighting Contract.

### **3.8 Carbon Reduction Programme**

- 3.8.1 The Carbon Reduction Programme is a programme of energy efficiency investment and on-site generation works. The first phase of the programme involves the delivery of £8m of works in 13 of the Council's highest energy consuming buildings. This investment will pay for itself with reduced energy bills within 10-12 years and save in the region of 1,600 tonnes of carbon per year.



- 3.8.2 During 2018/19 the programme has made good progress in achieving a number of key milestones. In August 2018 an Energy Services Company (Ameresco) was appointed to design and deliver a range of energy conservation measures across the operational estate. Ameresco have been procured via a specialist framework called Re:fit. This route was chosen as it provides an approach to protect the Council's capital investment, with the programme being funded on a spend to save basis. The approach involves a longer relationship between the supplier and the Council than a traditional design and build approach, with the energy savings proposed in the detailed design phase being guaranteed for the length of the capital payback period.
- 3.8.3 In January 2019, the project team completed initial site surveys and proposed energy conservation and generation measures and collected the key information needed to assess the business case for investment, i.e. capital investment, forecast revenue savings, and energy and carbon savings. This was followed in June 2019 with the detailed design of the proposed interventions, and the detailed calculations that form the basis of a 'savings guarantee' providing added assurances to protect the Council's capital investment.
- 3.8.4 The financial savings used to repay the borrowing will be generated in buildings with various different management and occupation arrangements in place. As a result a significant amount of business engagement has taken place with building management and users. Building by building agreements have been reached to ensure we are able to recoup financial savings from reduced utility consumption to repay the capital investment.
- 3.8.5 Ameresco are now preparing to deliver the energy saving and energy generation measures. The delivery phase of the project is forecast to complete in the second quarter of 2019/20.
- 3.8.6 In March 2018 the programme established a steering group consisting of colleagues from Estates, Capital Programmes, Capital Finance and the Energy Management Team. This group performed an important quality assurance and advisory role during the initial procurement and development of the investment proposals. This group has now been re-purposed as a Project Board to support the programme through the delivery phase. The board will continue to report in to the Estates Board but take day to day responsibility for delivery of the works, including approval of project variation requests. A critical part of the programme is learning lessons at each stage, to ensure that the experience gained can be reinvested into the Council's commitment to be net zero carbon by 2038.

### **3.9 Community Asset Transfers and Voluntary Sector Support**

- 3.9.1 Taking responsibility for community properties presents local communities with the opportunity to breathe new life into public buildings, to preserve valuable community resources or develop exciting new services for local communities. However, managing and maintaining a community facility can be complicated and expensive, and community organisations may need time and support to

build their own capacity and expertise. The Council is committed to working with third sector organisations who are developing the use of our operational and heritage assets.

- 3.9.2 Where MCC properties are identified as surplus to operational requirements, Ward Members are consulted about advertising the property for a community asset transfer through our partnership with Manchester Community Central, who provide third sector groups with infrastructure support. We work with interested community groups to develop a business case, which demonstrates that they have the capacity and capability to deliver their services within one of our buildings. This process involves further consultation with Ward Members. Where business cases are considered robust, the granting of a lease is agreed by the Development Team under delegated approvals. Some examples are set out in the paragraphs below.
- 3.9.3 Victoria Baths is a Grade 2\* listed former Edwardian swimming baths. The Council entered a Trust Ownership agreement with the Victoria Baths Trust in 2000. The long term vision is to fully restore the building, bringing public leisure facilities back into use. Their aims are to repair the Females Pool, restore and re-open the Turkish Baths Suite, and restore further stained glass windows. Fusion Lifestyle were appointed as an operating partner for the restoration of the Turkish Baths Suite and Heads of Terms are being agreed with them.
- 3.9.4 The building is being operated as a heritage visitor attraction and events venue with almost 40,000 visitors each year. The Trust continues to fund-raise and following a successful Expression of Interest to NLHF, they are preparing a new bid around the restoration and re-opening of the Turkish Baths. The bid will focus strongly on local community benefits & inclusion. The Council has provided a letter of comfort regarding their aim of a Community Asset Transfer, based on investment by Fusion Lifestyle, to support the NLHF application.
- 3.9.5 Varna Street is a Grade 2 listed former primary school, and one of the few remaining Manchester Board schools. It is now occupied by Rogue, an artist run community interest company providing accessible studio space to over 85 artists, working in the 57,000 square feet. Rogue secured funding from Arts Council England (ACE) to carry out repair works to make the space fit for purpose, and they are developing a sustainable business plan and will explore further funding options to improve and develop the building, while preserving its architectural integrity. The re-use of Varna Street by Rogue has removed a significant financial liability from the Council and provided a real foothold for creative industries in East Manchester.
- 3.9.5 The Estates Team have completed two asset transfers this year, including: Didsbury Park Sure Start Centre, let to Didsbury Good Neighbours, delivering a range of community services from choir to mums and toddler groups, whilst still supporting some health visitor services; and Chorlton Park Sure Start Centre, let to Emmeline's Pantry, delivering community activities including a

foodbank. Four other community asset transfers are currently being developed with community groups.

- 3.9.6 In addition, working the Proud Trust, officers have recently completed a lease for the Sidney Street property, which will enable the Proud Trust to deliver a new build scheme on the site. The Trust have sourced funding from the National Lottery, GMCA and MCC. The new building will be on the existing footprint but will add a storey, providing more space and improved facilities from which services will be delivered.
- 3.9.7 2018/2019 has seen the Council provide continued support for “meanwhile” projects, where sites are currently surplus to requirements, but are earmarked for future potential transfers. This year we have supported a project at Broadhurst Park Sure Start Centre which has enabled the continuation of a walking group and mums and toddler groups. A number of additional services have also been provided to local residents including holiday clubs.

### **3.10 Systems and Records Update**

- 3.10.1 CPAD, the Council’s Property Asset Delivery system, is now in its seventh year of use. The system has continued to grow and provide tangible benefits to the authority in the area of property management and information management.
- 3.10.2 The CPAD Team have worked with the new maintenance contractor, Engie, to transform the way the contractor interacts with the CPAD system. This work has supported the contractor to view, allocate and process repairs and maintenance work in ‘real time’ within the CPAD system, whilst providing the in-house FM Team with total visibility of a job’s status and progress through the system. Efficiencies have been realised end to end throughout the process, as job progress and updates are now managed centrally. There has also been a focus on improving reporting within the system, to ensure that KPIs are met, and a clear audit trail is accessible where they are not.
- 3.10.3 A second major project undertaken by the team during the last 12 months has been replacing the former rent accounting system, which was longer supported and was a risk of failure. As of August 2019, invoices for leases where the Council collect an income are generated within CPAD and then sent to and processed through SAP. The successful implementation of the first phase of this project has moved us away from reliance on an outdated rent accounting system, towards management of this data through the Council’s corporate finance system.
- 3.10.4 The Records Team are undertaking a project to identify residual parcels of land across the City. These are usually small scale areas of land which have been left over following redevelopments and large scale voluntary transfers to Housing Associations. Previously known as ‘orphaned’ parcels of land, these residual land parcels can cause issues for the Council, for example, through fly tipping, illegal encampments and occupations, as well as litigation from personal accidents. The project is being undertaken on a ward by ward basis

and aims to identify and analyse the Council's residual land interests over the next 30 months, and will result in proposals to hold or dispose of these assets in a way minimises costs and best supports the Council's objectives.

- 3.10.5 The work above has been undertaken alongside the business as usual activity of providing information to the organisation in respect of property ownership, transfers and other property transactions. In 18/19 to date, the Records Team have added 744 additional transactions to CPAD, 1181 additional sites; completed 474 site histories; and answered 1044 enquiries. The team continue to provide services to other departments and members of the public with a range of enquiries.

#### **4.0 Heritage Estate Update**

- 4.1 Manchester City Council and its partners hold a substantial stock of heritage assets which help to create the distinctive character of our neighbourhoods, increasing the attractiveness of our urban areas through an energised cultural and leisure offer, and supporting the vision of Manchester as a world class city with a culturally rich offer, where residents of all backgrounds can live well.
- 4.2 Officers from both the Development and Operational Estate teams provide advice and support around the management and future use of our historic assets, including identifying investment for their upkeep and restoration. This includes those assets managed directly by the Council and those controlled or managed by our partners, including voluntary bodies and charities.
- 4.3 This has involved working closely with Historic England (HE) and the National Lottery Heritage Fund (NLHF) to raise awareness of the Council's Heritage assets and strategic priorities. A Heritage Assets Priorities (HAP) Board, chaired by the Head of Corporate Estate meets bi-annually to review activity across the Heritage Estate. The group reports to the Estates Board. The detail below sets out some highlights in relation to work that has taken place on a selection of our heritage assets.
- 4.4 Manchester Town Hall: Manchester Town Hall is Grade 1 listed and is undergoing a 5 year renovation project costing £328m. The project is now in week 25 of RIBA Stage 4 and Lendlease, the management contractor, are currently in week 33 of their 48 week Pre Construction period with start on site in early 2020. A strategy for events during the construction period has been determined and approved by the OTH Strategic Board. This will allow for a full Christmas market presence in 2019, no market offering between 2020-2022, and a full presence back in the Square for Christmas 2023. Officers from the Markets team will ensure that in the interim periods there will be alternative locations provided for a market offering. Pre Planning Public engagement events took place at the end of June in Central Library with a pre-briefing session held in the Sculpture Hall for landowners, tenants and footpath societies. Full Listed Building and Planning applications for both the Town Hall and Albert Square. Full Listed Building and Planning applications for both the Town Hall and Albert Square are being finalised for submission.

- 4.4 Heaton Park & Hall: Heaton Hall and Orangery is a Grade 1 listed Georgian manor house, and has been the subject of a comprehensive programme of ongoing repair works over the past 7 years, supported by significant partnership funding from Historic England. Following on from the completion of the phase 4 repair programme last year, phase 5 is now underway. Current works are the replacement of the end-of-life fire alarm system. Specialist advice has been sought on internal decorative finish choices, and beech hedges have been planted to the side of the Orangery providing additional security. Plans are underway to secure an operation/investment partner for the Orangery. This is an initial step towards developing the use of the site more widely. The Hall continues to be used for tours and performances on an occasional basis and the Friends run tours of the building at a weekend on a monthly basis.
- 4.5 Wythenshawe Hall and Park: Wythenshawe Hall is a Grade 2\* listed half-timbered manor house. Following an arson attack in March 2016, a programme of phased work was carried out, which completed on 5 September 2019. Following the fire, HE added the Hall to their Buildings At Risk register. HE has provided £70K towards the repair works. Both HE and NLHF are interested in supporting the Council to develop the use of the building. A strategic framework for the park is in place. A project manager has been appointed to drive forward plans, and who will work with the Friends group to align plans that develop the use of the building. This partnership approach will strengthen a future bid to the NLHF.
- 4.6 Clayton Hall and Park: Clayton Hall is a Grade 2\* listed Tudor building, and is one of the few remaining timber-framed hall-houses sitting within a 'moated' site within the north-west region, and has important local, regional and national social, economic and cultural links. Working with the Trustees of Clayton Hall Living History Museum, their supporters and Friends, as well as the Park staff, a programme of works has now been completed bringing the oldest part of the building into use, enhancing visitor facilities, the offer and accessibility.
- 4.7 Platt Hall: Platt Hall is a Grade 2\* listed Georgian house situated within Platt Fields Park. It operated as the Gallery of Costume but is currently closed for repair work to the roof following damage caused by repeated lead thefts. As well as re-roofing, security will be improved through fencing off the rear of building and installing an upgraded CCTV system. Feasibility work is taking place to advice on future use plans.
- 4.8 Upper and Lower Campfield Markets are former covered market buildings and are Grade 2 listed. Plans are approved to extend the St John's SRF to include them. Proposals have been received and are being considered from Allied London who have set out their vision for their redevelopment and refurbishment. Discussions are progressing but no formal agreement is in place as of yet. Jacobs who manage Upper Campfield Market, under the property management framework with the Council, are considering suitable temporary uses in the interim period.

## **5.0 Conclusions and Recommendations**

- 5.1 This report sets out an update on property activity since the last Annual Property Report in November 2018. The work of the property teams makes a critical contribution to delivering the Our Manchester Strategy by driving growth, and directly supports the Corporate Plan by enabling service Directorates to achieve their priorities, as well as ensuring the effective management of the estate to support a well-run Council.
- 5.2 The Committee is recommended note and comment on progress to date as set out in the report.

## Manchester City Council Report for Information

**Report to:** Resources and Governance Scrutiny Committee – 5 November 2019

**Subject:** The Factory, St John's

**Report of:** Strategic Director, Growth and Development

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### Summary

The purpose of this report is to update Members on the construction progress for The Factory project, its significance in terms of cultural impact within the neighbourhood; the evaluation of Manchester International Festival 2019; and the projected social value outcomes identified to be delivered collaboratively through the design team, contractors and the operator.

### Recommendations

1. Note progress with the construction phase of The Factory;
  2. Note progress in the construction elements of social value commitments.
- 

**Wards Affected:** Deansgate

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

Whilst it is acknowledged that large performance spaces necessitate significant energy draw, the Factory has the flexibility and ability to section off or close down areas of the building together with the ability to flex the conditioning and cooling systems to suit lower occupancy or use.

Through a range of measures, it is predicted a 15% carbon emissions reduction compared with Part L Building Regulations 2010 corresponding to 6% CO<sub>2</sub> reductions over Part L Building Regulations 2013. BREEAM Very Good environmental rating is targeted.

Passive design options have been prioritised in order to reduce the heating and cooling demand in the building by including: -

- A well thermally insulated envelope with a low thermal transmittance for solid and glazed elements.
- Uncontrolled infiltrations will be reduced and air tightness improved beyond the minimum required for Building Regulations.
- High performance glazing with low solar transmittance values are specified to reduce the solar gain and therefore the cooling loads.
- Thermal mass from exposed soffits will reduce the peak temperatures and demand on the services.

Active measures will ensure the services will be highly energy efficient:-

- The services are zoned and designed to respond to need and occupancy.
- The air handling units (AHU) will be able to provide outdoor fresh air (free cooling) when environmental conditions are suitable in order to save energy.
- Thermal wheel heat recovery will be provided in the AHU's to recover heat from the building.
- Variable speed drives are provided to all fans and pumps to optimise energy use.
- Energy efficient heat and cooling generators.
- Where appropriate highly efficient light fittings are provided throughout the building.
- Automatic lighting controls are included where appropriate to ensure artificial lighting is used only when needed.
- Building Management System (BMS) with automatic monitoring and targeting software which communicates meaningful energy information from all building energy meters to allow for building energy optimisation

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	<p>The Factory will accelerate economic growth in the region by playing an integral part in helping Manchester and the North of England enhance and diversify its cultural infrastructure by attracting clusters of related creative industry activities and enhance the visitor economy.</p> <p>Enterprise City and the creation of a Tech Hub is an integral element of St. John's creating a new cluster of innovative city centre workspaces that support the growth of the City's economy.</p>



<p>A highly skilled city: world class and home grown talent sustaining the city's economic success</p>	<p>The Factory will make a direct contribution to the growth of creative industries, improve talent retention in the North, and reduce the dependency on London as the provider of creative industries training and employment. New direct jobs to run and operate the venue will also be created. Factory is expected to support up to 1,541 FTE jobs after year 10 and a present value of GVA over the assessment period of £867 million. Once deadweight, displacement and multipliers have been considered the combined net additional employment impacts are expected to increase to 1,996 FTE and GVA is expected to increase to £1,179 million over the assessment period.</p> <p>The Factory has levered £85.05M of Exchequer and Lottery investment into Manchester.</p> <p>The Factory is leading on a consortium approach to training and skills, developing partnerships with the city's Cultural, Further and Higher Education (FE/HE) Institutions and will further support the city's drive for high calibre graduate talent retention through job creation programmes. It will act as a UK leader in the creative sector/FE/HE led training to expand access for Manchester's young people into creative jobs.</p>
<p>A progressive and equitable city: making a positive contribution by unlocking the potential of our communities</p>	<p>The Factory and wider St. John's development will create a vibrant new business neighbourhood. The intention is to encourage independent, niche and creative uses and businesses with new office, cultural, workspace and leisure development with residential units.</p> <p>The presence of The Factory as a 'cultural anchor' has already had a catalytic effect in terms of supporting the creative redevelopment of the Science and Industry Museum, and the growth of the Studio business as part of Enterprise City.</p> <p>The Factory will build new, diverse, younger audiences from within Manchester and beyond, combined with expanded, more mature established arts audiences.</p>

<p>A liveable and low carbon city: a destination of choice to live, visit, work</p>	<p>The Factory will benefit from excellent public transport connectivity, ensuring the site can be easily accessed by visitors. The Factory will attract 850,000 visitors per annum with 650,000 drawn from within the Greater Manchester area.</p> <p>Sustainable design and development principles are embedded into the scheme.</p> <p>The benefits of cultural investment are much broader than the direct impact of expenditure by visitors, with cultural activities making an important contribution to community engagement and initiatives targeted at young people, older people, under-represented and disadvantaged groups.</p>
<p>A connected city: world class infrastructure and connectivity to drive growth</p>	<p>The Factory will benefit from strong public transport links with both rail and Metrolink stations, and with access to the Metroshuttle free bus service.</p> <p>The development will be well served by new pedestrian walkways and cycle routes. This will include the recently completed replacement Prince's Bridge scheme, improved pedestrian connectivity as part of the St. John's developments, and proposals by the Science and Industry Museum. New public spaces and connections are proposed, which will significantly improve the environment of this part of the city centre.</p>

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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.

### **The Factory**

1. Report to The Executive 29 July 2015 – The Factory Manchester
2. Factory Manchester Project Overview 31<sup>st</sup> May 2016
3. Report to The Executive 26 July 2016 – Updated Draft St. John’s Strategic Regeneration Framework and Factory Manchester
4. Report to The Executive 11 January 2017 – Updated Draft St. John’s Strategic Regeneration Framework and Factory Manchester
5. Report to The Executive 26 July 2017 – Factory Manchester
6. Report to The Executive 21 March 2018 – St. John’s Proposals including Factory Manchester
7. Report to The Executive 30 May 2018 – Capital Programme – Proposed Increases
8. Report to The Executive 14 November 2018 – The Factory

### **St John’s**

1. Draft Quay Street and Water Street Development Framework February 2012
2. Report to the Executive 14 March 2012 – ITV/Quay Street Regeneration Framework
3. Report to the Executive 29 October 2014 – ITV/Quay Street Regeneration Framework
4. Draft St Johns, Manchester Strategic Regeneration Framework October 2014
5. Report to The Executive 13 February 2015 – ITV/Quay Street (St. John’s) Regeneration Framework Consultation
6. St Johns Strategic Regeneration Framework February 2015
7. St. John’s Strategic Regeneration Framework Update November 2016

## 1.0 Introduction

- 1.1 The purpose of the report is to update on progress with construction of the Factory, the benefits to the St John's neighbourhood of this development, the social and economic benefits, legacy impacts and opportunities for Manchester residents generated by the project.
- 1.2 The Factory is a unique building that has no direct precedents and its uniqueness and ambition to be a world-class performance space involves a complex design and delivery process encompassing world firsts in terms of elements of the building.
- 1.3 The Factory provides significant flexibility of differing types and sizes of spaces, allowing for many different configurations and performance possibilities. There will be no other comparable venue in the UK, and such spaces are rare in the world, making Factory a very significant addition to the international cultural landscape.
- 1.4 The Factory programme will include major exhibitions and concerts, intimate performances and immersive experiences, encompassing dance, theatre, music, opera, visual arts, popular culture and innovative contemporary work incorporating the latest digital technologies. Manchester International Festival (MIF) will have The Factory as a permanent home for the first time, enabling the organisation to present a year-round programme, but will also continue to present the Festival every other year in conjunction with venues and other spaces across the city.
- 1.5 In terms of MIF19 evaluation a detailed report will be presented to Economy Scrutiny Committee and the Executive.
- 1.6 This year's Festival equalled or in most cases exceeded its key targets. In particular MIF: -
  - 1.6.1 Grew the international reputation of the Festival and the City with 45 hrs of national and international media coverage and print and online editorial activity across the Festival programme increased within the UK and around the world, with coverage from 41 countries.
  - 1.6.2 A significant uplift in total attendance with audience numbers increasing by 21% with a total of 302,161 visitors, a record number.
  - 1.6.3 The evaluation carried out indicates 30% of attendees to MIF 2019 came from Manchester with a further 35% from other Greater Manchester boroughs.
  - 1.6.4 With targeted activity to increase involvement from areas of Manchester with lower previous engagement with MIF saw particular increases in a number of priority wards including Harpurhey, Moston and Moss Side.
  - 1.6.5 Over 5,900 people got involved in MIF's volunteering and engagement programmes benefitting from nearly 33,000 person engagement hours and

contributing a further 15,793 hours in volunteer time. A further 2,531 community members and groups were given free access to MIF and pre-Factory events with a supported follow up via Cultural Connector.

- 1.6.6 There were 7 major participatory commissions during MIF19 putting Manchester residents centre stage in internationally significant new artworks.
- 1.6.7 With increased participation across the City and increased levels of participation and volunteering from BAME (27%), disabled (21%) and youth communities (43%).
- 1.6.8 More community-led projects giving greater opportunity to Manchester residents to plan and deliver events and develop their own creative skills.
- 1.6.9 Greater visibility of the city's talent during the 18-day Festival through new community slots programmed every day on Festival Square and a daily programme of discussion and debate hosted by residents from North Manchester.
- 1.6.10 School partnerships engaging 27 schools and 1,152 pupils in active education programmes and a further 1,500 pupils and teachers to experience new artwork as audiences.
- 1.6.11 The Factory will be the catalyst for a major cultural, creative and technological hub and make a significant contribution to the success of the ongoing regeneration of this part of the city.

## **2.0 Background**

- 2.1 The Factory will host the world's greatest artists, attract up to 850,000 visitors a year and bring job and training opportunities, strengthening Manchester's position as a dynamic international city for culture and creativity, which stands alongside other great cultural destinations, such as Barcelona, Berlin and New York.
- 2.2 Of the 850,000 visitors per annum, 650,000 will be drawn from within the Greater Manchester area and 200,000 visitors from elsewhere. These external visitors will bring an additional £10.8m GVA per annum to the city.
- 2.3 The Factory project analysis shows that over a ten-year period, the net inward investment will support 1,439 full-time equivalent jobs and the total net GVA impact is estimated to be over £1.1bn from Factory employment and expenditure, additional visitors to the City and the clustering of creative industries. These projections have been thoroughly tested with the project's funding partners The Treasury and DCMS.
- 2.4 In terms of funding, The Factory has attracted significant government investment to Manchester of £78.05m of central government funding, £7m Arts Lottery Grant alongside £9m per annum of Arts Council England revenue funding to ensure the success of the facility.

- 2.5 The Factory project will create a world-class performance space in the heart of Manchester and provide the anchor to the St John's development.
- 2.6 The project takes forward a number of strategic objectives, including putting culture at the heart of wider ambitions for the city's future success, such as strengthening Manchester reputation as a visitor destination; creating jobs, training and skills development opportunities for local people; and rebalancing the country's cultural offer, positioning Manchester as a global leader.
- 2.7 The Factory sits at the heart of the new St John's neighbourhood, which Allied London, in partnership with the Council, is developing as a centre for the creative industries, digital innovation and enterprise, building on the city's strengths and long history as a centre for culture, creativity, producing cutting edge artistic endeavour.
- 2.8 St John's, through Allied London, has announced a long-term partnership with Aviva Investors to create Enterprise City. The funding partnership, which values the project in excess of £500M, will secure the long-term future for this neighbourhood.
- 2.9 Allied London have made significant progress to attract businesses to the development, with tech company Booking.com taking 222,000 sq. ft. at the Manchester Goods Yard, committing £100m investment to the site over 10 years and home to more than 1,500 employees.
- 2.10 Enterprise City has the capacity to accommodate over 5,000 jobs and the wider St. John's will also provide up to 1,000 jobs in retail, leisure and hotel developments, together with new homes and new public realm, adjacent to the business district of Spinningfields.
- 2.11 The Factory will be at the heart of St. John's, which will specifically cater for creative and media businesses, staffed by a core team of approximately 150 staff, its operation relies upon supplementing this team with expertise to deliver as each production or performance demands.

### **3.0 Social Value Outcomes**

- 3.1 The Factory also has an important role in developing the skilled practitioners for the future. MIF has established a training and development programme, The Factory Academy, with a draft partnership agreement and the first two Factory Academy programmes agreed. A campaign to recruit new trainees to fill 26 placements is underway and two open days are planned to recruit the trainees. MIF have also launched the traineeship and Creative Venue Technician programmes to provide pathways to employment and provide transformational opportunities for Manchester residents to gain skills, qualifications and ultimately a career in the creative industries.
- 3.2 Centre for Local Economic Strategies (CLES) has been commissioned to review impacts and outcomes of social value on the project. To date, social value commitments include: -

- 3.2.1 Of project expenditure to date, the local spend in Manchester is currently at 25.8% and spend within Greater Manchester to date 73.2%.
- 3.2.2 An apprenticeship target of 50 construction and professional apprentices secured through the design team and contractor partners, of which 20 apprentices to have started and a further 34 identified.
- 3.2.3 Employability skills support targeting long term unemployed targeted 50 activities and is currently reporting 64 activities to date.
- 3.2.4 Pre-employment schemes or placements with project partners focusing on long term unemployed groups. the target is 100 with 42 achieved to date and a further 30 currently planned with organisations such as The Works and Manchester Homelessness Partnership.
- 3.2.5 Work experience for local people or schools with project delivery teams or end users targeted 50 placements with 31 achieved to date and a further 21 committed.

#### **4.0 Construction Update**

- 4.1 The Factory is a £130.62m construction project. Laing O'Rourke (LOR) act as the management contractor and have signed up to the Unite Charter as part of this work. They are responsible for letting the individual work packages.
- 4.2 To date progress has been good and the 11 work packages of 32 have been let, the most visible of which are the steelworks. Progress has been good and key successes include the substantial completion of the towers steelwork, the installation of the concrete stairs and the lift shaft erection. The truck lift enclosure and orchestra pit are also 'topped out' and structurally complete.
- 4.3 A key part of the critical path for delivery of the project in 2021 is the completion of the steelworks. The warehouse east wall has progressed with the south wall being installed and the south wall box truss being constructed on site and weighing c125 tonnes.
- 4.4 The most important part of the steelwork is the installation of the proscenium truss which is the core piece of steelwork linking the warehouse to the theatre. This is also being constructed on site and the oversized lifting of the truss is taking place week beginning 4 November.
- 4.5 The project team are working to achieve the earliest, most cost effective completion date with the Factory due to play a significant role in MIF 2021. The most significant challenge remains its complexity. Additional issues have been discovered on site including drainage issues due to incomplete data which have put some pressure on the project.
- 4.6 The project team are very focussed on ensuring the design is robust for each work package as the project develops and is able to react to the willingness

and ability of the supply chain to undertake this complex project within an overheated Manchester construction market.

- 4.7 The project is currently going through the next Quarterly review with Arts Council England. A cost and design review have also been commissioned to underpin the next phase of delivery with the Mechanical, Electrical and Plumbing (MEP) being the next major work package to be let.
- 4.8 A broader piece of work is also being undertaken into the construction market and inflationary pressures within Manchester as this is a concern across the capital programme. Whilst at this stage the project is reported as delivering to budget the situation is being kept under careful review.
- 4.9 Key legal agreements for land transfers with Network Rail have been completed to provide the required security which will allow the next tranche of grant from DCMS and Arts Council to be drawn down.

## **5.0 Recommendations**

- 5.1.1 The Committee are asked to note progress with the construction phase of The Factory; and
- 5.1.2 To note progress in the construction elements of social value commitments.



**Manchester City Council  
Report for Information**

**Report to:** Resources and Governance Scrutiny Committee - 5 November 2019

**Subject:** Progress of Expenditure – Northern and Eastern Gateway Programmes

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

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### Summary

This report provides a progress update in relation to investment being made by the City Council in delivering the Northern and Eastern Gateway programmes, which in total are anticipated to deliver in excess of 21,000 new homes over a 15 – 20 year period and 2,200 jobs created or safeguarded.

### Recommendations

Scrutiny Committee Members are recommended to:

Note the contents of this report.

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**Wards Affected:** Ancoats and Beswick, Piccadilly, Cheetham, Harpurhey and Miles Platting and Newton Heath

<b>Environmental Impact Assessment</b> - the impact of the issues addressed in this report on achieving the zero-carbon target for the city
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The Northern and Eastern Gateway areas provide significant commercial and residential led development opportunities, which will seek to utilise state of the art technologies and low / zero carbon construction methods. They will seek to locate new jobs and homes in sustainable locations well served by public transport and active travel routes, reducing commuting and private vehicle movements.
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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	The Northern and Eastern Gateway initiatives will expand the city centre establishing sustainable mixed-use neighbourhoods including new jobs and employment opportunities.

A highly skilled city: world class and home grown talent sustaining the city's economic success	Investment in the Northern and Eastern Gateway areas will lead to the delivery of mixed use neighbourhoods offering new homes in a range of tenures and new employment opportunities in a range of sectors that will help attract and retain economically active residents and sustain the city's economic success.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	Redevelopment of the Northern and Eastern Gateway areas offers opportunities of scale in terms of commercial and residential development through which local employment and training initiatives and local supply chains can be created.
A liveable and low carbon city: a destination of choice to live, visit, work	Investment in these neighbourhoods will create liveable and sustainable neighbourhoods close to major employment opportunities, reducing commuting distances.
A connected city: world class infrastructure and connectivity to drive growth	Proposals in both Northern and Eastern Gateways include the creation of new active travel and public transport routes connecting residents to employment and leisure opportunities.

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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.

- Report to Resources & Governance Scrutiny Committee, 7<sup>th</sup> September 2017 and Executive, 13<sup>th</sup> September 2017 – Central Retail Park
- Report to Executive, 13<sup>th</sup> March 2019 – Eastlands Regeneration Framework Update
- Resources and Governance Scrutiny Committee, 18<sup>th</sup> June 2019 Executive, 26<sup>th</sup> June 2019 – Strategic Acquisitions in the Northern Gateway
- Report to Executive, 11<sup>th</sup> September 2019 – Capital Programmes Update

## **1.0 Introduction**

- 1.1 The Northern and Eastern Gateway areas of Manchester provide significant opportunities for redevelopment and the delivery of new jobs and new homes in sustainable locations close to the core of the Greater Manchester conurbation.
- 1.2 As such, the City Council has made budgetary allocations of £25m (Northern Gateway) and £47m (Eastern Gateway) available from the Capital Programme 2017 – 2022 to help unlock and maximise the potential that these areas provide.

## **2.0 Background - Northern Gateway**

- 2.1 The Northern Gateway comprises a 155 Hectare land area made up of the adjacent neighbourhoods of New Cross, the Lower Irk Valley and Collyhurst. Extending from NOMA, on the northern edge of the City Centre, the area is bisected by the main arterial route of Rochdale Road and is bounded by Oldham Road and the trans-pennine rail line to the east, and the Redbank area to the west.
- 2.2 In March 2017 the Executive granted Delegated Authority to senior officers to conclude the appointment of a major investor / delivery partner to work alongside the City Council in delivering the residential led regeneration of this part of the City. This appointment was the conclusion of an international marketing process that the City Council had commenced in April 2016.
- 2.3 The identified partner was the Far Eastern Consortium International Limited (FEC) a Hong Kong Stock Exchange listed international development company, who had submitted the most advantageous financial offer for a number of initial land interests being made available for development, and had demonstrated through the bidding process the expertise and financial capacity required for the nature of this initiative. Accordingly, Northern Gateway Operations Limited, a Joint Venture partnership between Manchester City Council and FECIL, was formally entered into on 26 April 2017.

### Scale of the Northern Gateway Opportunity

- 2.4 The Northern Gateway area contains significant amounts of vacant and underutilised land and provides the opportunity to deliver approximately 15,000 new homes over a ten to fifteen year period. If this is successfully exploited will make the single largest contribution to the City's Residential Growth Strategy. As such it has the potential to be one of the biggest regeneration initiatives in the UK and will be the most ambitious project that the City Council has undertaken since the regeneration of East Manchester, kick-started by the Commonwealth Games in 2002.
- 2.5 The initiative will seek to bring about the comprehensive regeneration of the area – providing much needed new homes within the City, supported by ancillary commercial development and with the relevant investment required in

social and community infrastructure, including education, health and retail facilities, transport improvements and new green spaces.

### Challenges and Opportunities

- 2.6 The Northern Gateway area provides significant challenges as well as great opportunities. The New Cross and Lower Irk Valley neighbourhoods are characterised by a fractured post-industrial urban form and underutilised and brownfield land and the latter dominated by a poorly laid out Council Housing Estate requiring extensive improvement and remodelling.
- 2.7 The area does, however, include the Irk River Valley and great proximity to the Regional Centre, providing a unique opportunity to create new neighbourhoods linked to the City Centre through a City River Park and other green routes – connecting NOMA, Angel Meadow, Sandhills, Collyhurst Village Park and Queens Park.
- 2.8 Scrutiny Committee Members will recall that the City Council approved a Strategic Regeneration Framework (SRF) for the Northern Gateway area in February 2019, to guide future development activity and to act as a material consideration for all future planning applications submitted within the area; and that the initial phases of development for the initiative will be focused on the Lower Irk Valley area and Collyhurst.

### **3.0 Investment to Support the Northern Gateway Initiative**

- 3.1 The City Council has allocated £25m in the 5 year Capital Budget 2017 – 22 for investment to assist in the delivery of the Northern Gateway initiative. There are some areas within the Northern Gateway area, most notably within the Lower Irk Valley, where the Joint Venture partners will be seeking to make strategic land acquisitions to facilitate comprehensive development activity.
- 3.2 Given the potential upfront costs associated with acquiring sites for future development, the parties have explored opportunities for a co-investment arrangement and the City Council has agreed that co-investment in land assembly will be in the form of a commercial loan from the City Council to FEC set at a rate of interest acceptable to both parties and which would be State Aid compliant. The Executive meeting of 26<sup>th</sup> June 2019 agreed to provide a loan up to a value of £11m for these purposes (following a consideration of this matter by this Scrutiny Committee on 18<sup>th</sup> June 2019). The final details of the loan agreement are currently being put into place, after which the loan will be drawn down on a phased basis over the financial years of 2019/20 – 2021/22.
- 3.3 Co-investment via a fully recoverable commercial loan provides the following benefits:
  - Significant land assembly can be acquired in the Lower Irk Valley and New Cross in order to fully realise the Northern Gateway opportunity and deliver the level of housing growth anticipated;

- Co-investment will provide confidence to our JV partner, especially given the long term approach that they will need to take to generating commercial returns;
- Co-investment will allow FEC to stretch their own capital outlay further, supporting a range of other activities associated with delivering the Northern Gateway vision;
- The outlay secures developable sites which stands to benefit the Council financially in accordance with the “waterfall” terms of the JV Agreement;
- The alternative approach to land assembly is that the Council buys sites itself and passes them into the JV at a time when FEC are able to develop them. This will be a more expensive and riskier option, as land values could fall in the interim, plus we would have to bear holding costs.
- The loan enables the Council’s capital commitment to be ‘go further’ as it will be recovered (with interest) and can be recycled back into other Northern Gateway workstreams;

- 3.4 The loan terms set a maximum loan-to-value rate of 50% with the Council having first charge on the land in order to protect its position and with a parent company guarantee provided by FEC. The loan will be capped at £11m and will be funded through the £25m allocated to Northern Gateway activity as part of the 2017-2022 Capital Strategy. The loan approach has the potential to facilitate delivery of the same, if not greater, quantity of new homes at considerably lower risk, than if the Council were to acquire the land directly.
- 3.5 Based on land acquired to date and anticipated to follow in phases the loan facility will lead to expended investment by MCC ranging from a minimum of £4.85m in financial year 2019/20 to a maximum of £6.16m. This relates to land acquisitions undertaken by FEC in the Lower Irk Valley. The balance of the loan facility of £11m will be drawn down in subsequent years in arrears based on the completion of land acquisition processes undertaken by FEC. It should be noted that FEC has completed acquisitions or is in contract with third parties for land acquisition activity with phased draw down and payments to a maximum value of £22m.
- 3.6 Scrutiny Committee Members will also recall that, working with FEC, the City Council has submitted a bid for the Government’s Housing Infrastructure Fund, seeking £51.6m of support to tackle constraints to development in the Lower Irk Valley neighbourhood, namely; flood mitigation measures, new highways access to land-locked brownfield sites, remediation of brownfield land, new power and potable water networks, drainage and the establishment of new amenity space to create the initial phases of the new riverside park. Subject to the outcome of this bid, the Joint Venture partners will be required to make further investment decisions relating to their own resources, and the City Council will bring back detailed proposals through the standard Capital Programme Gateway / Executive approval process. Over the period 2017 – 22, the City Council currently has a balance of £14m to allocate as it sees fit. It should be noted that in future years, the £11m of loan will be repaid in full, plus interest, and that this will be available for re-investment.

#### **4.0 Background - Eastern Gateway**

- 4.1 The Eastern Gateway area comprises the adjoining neighbourhoods of Ancoats/New Islington, Ashton Canal Corridor, Holt, Town and Lower Medlock Valley. These neighbourhoods acted as the cradle of Manchester's Industrial Revolution in the 19<sup>th</sup> century, but fell into long term decline in the second half of the 20<sup>th</sup> century, with major losses of employment and population.
- 4.2 Over the past 30 years, the City Council, working in partnership with a range of public and private sector partners have stabilised and then reversed the socio-economic fortunes of the Eastern Gateway area, with significant redevelopment having taken place, and the platform created for increased growth over the next few years.

#### **5.0 Investment to Support the Eastern Gateway Initiative**

- 5.1 A Capital Budget allocation of £47m was established for the Eastern Gateway initiative over the period 2017 – 22, with the intention being that investment would help stimulate the delivery of up to 6,000 new homes and up to 1,500 new jobs. Investment has been targeted at the following projects: -
- Acquisition of Central Retail Park - £37m
  - Demolition and operational holding costs at Central Retail Park - £0.62m
  - Acquisition of Royal Mill Business Units – “The Courtyard” - £1.85m
  - Remedial Work at new Islington Marina - £5.2m
- 5.2 The following sections of this report set out current progress in terms of expenditure.

#### **5.3 Acquisition of Central Retail Park**

- 5.3.1 Reports to this Committee (7th September 2017) and to The Executive (13th September 2017) set out the rationale for the Council to acquire the long leasehold interest of Central Retail Park from TH Real Estate and merge this with the Council's freehold reversionary interest to create an unencumbered 10.5 acre development site.
- 5.3.2 At the time, the Ancoats and New Islington Neighbourhood Development Framework identified an opportunity for the site to promote a mixed use retail and residential development. The site is a key gateway from the City Centre towards East Manchester and the acquisition of the site by the Council presented a unique opportunity to promote a single site development of significant scale to support the Council's inclusive growth aspirations.
- 5.3.3 In the 2017 report, the Council identified an opportunity to work with its JV partner for residential development in the Eastern Gateway, the Abu Dhabi United Group ('ADUG') to undertake a joint masterplanning exercise in relation to the site. This work is well advanced and as set out in the Eastlands

Regeneration Framework (March 2019), there is an opportunity to bring forward a commercial office led scheme across the former retail park.

- 5.3.4 The masterplanning exercise is now being finalised still ongoing and the Council is undertaking a commercial viability and feasibility analysis as a proof of concept of the design-led proposals. This will be reported to Executive in due course. As part of the ongoing analysis, the professional team is embedding the principles of Zero Carbon within the design agenda to respond to the Council's declaration of a climate emergency.

#### Meanwhile Use

- 5.3.5 The Council acquired the site with the vacant retail units in situ and completed the demolition of the units earlier this year. To support the Great Ancoats Street highways improvement works and the nearby Lampwick residential development scheme in New Islington, the Council has facilitated the use of a section of the site for use by contractors for site compounds. In addition, planning permission has recently been obtained to lease the existing Retail Park car parking for up to two years.
- 5.3.6 The capital spend to date has included the acquisition of the site (c. £37m), demolition of the former retail units (c. £450k) and ancillary holding costs including site security and utilities (c. £170k). The current level of expenditure made is £37.67m.

### **5.4 Acquisition of The Courtyard, Royal Mills**

- 5.4.1 The 'Capital Programme Update' Report to Executive on 11th September 2019, reported the acquisition of 'The Courtyard' at Royal Mills, Ancoats for £1.75m (plus additional costs associated with the acquisition of £100k).
- 5.4.2 The completion of the acquisition is due to occur before Christmas and will provide the Council with legal title of all of the commercial units at Royal Mills. This will enable the Council to maximise opportunities to support the existing portfolio of assets (both within Royal Mills and across the Ancoats estate). Being in close proximity to the former Central Retail Park and given its other interests in the area, the business units will deliver a long term revenue strategy in their own right providing an initial annual rental income of £124,000 to the Council.
- 5.4.3 In addition, it would strengthen the Council's position should it want to create a greater focus on promoting the neighbourhood as a catalyst for economic regeneration or sectoral growth. The City Council has worked over a long period with public sector agencies such as the former North West Development Agency (NWDA) and Homes England to successfully regenerate the Ancoats neighbourhood. This strategy has delivered a thriving mixed use neighbourhood with new homes and commercial developments.

## 5.5 Remedial Work - New Islington Marina

- 5.5.1 Members will be aware that the Executive meeting of 28 June 2017 approved a capital budget of £5.2m for the City Council to undertake remedial works to the New Islington Marina.
- 5.5.2 New Islington was designated as an English Partnerships “Millennium Communities Initiative” project in 2002. English Partnerships (EP) was the national regeneration agency, now renamed by Government as Homes England (HE). The project involved the clearance of the Cardroom council estate, and the creation of a new neighbourhood comprising up to 1,400 mixed tenure houses and apartments; a new canal marina and park; a new Health Centre and Primary School; and associated public realm. Urban Splash was appointed as Master Developer for New Islington following a procurement process led by HE and Great Places Housing Association were appointed to deliver the affordable housing component of the scheme. To facilitate the delivery of the New Islington project the City Council transferred its land interests to the HE by way of a 250 year lease, with this agency funding the cost of resident relocations, land assembly and the delivery of key infrastructure works. The Marina and associated public realm was constructed in phases by the public sector, with initial contracts for the Marina let and managed by the HE; and the final elements of the public realm works being delivered by the City Council.
- 5.5.3 The residential component of the New Islington scheme was significantly impacted upon by the economic recession that started in 2008 with the result that the scheme was effectively stalled for a number of years. In 2013 the City Council acquired a number of vacant development plots from HE and subsequently disposed of these sites to Manchester Life.
- 5.5.4 As the Council’s acquisition of vacant development plots left HE with no remaining land interests in New Islington they surrendered their 250 year head lease in 2013 and the City Council as freeholder assumed full public sector custodianship of New Islington including Cotton Fields Park and the Marina, with responsibility for overseeing the management and maintenance of estate infrastructure.

### Remedial Works Required

- 5.5.5 In 2015/16 a number of problems with the public realm in and around the Marina were identified (for example sink holes on the public promenade; and water ingress onto surrounding development sites). In response to this the City Council commissioned survey works to understand the extent of the problem and to identify a range of solutions to address matters; which ultimately led to the identification of a remedial package of works.
- 5.5.6 The Council’s Executive meeting of 28<sup>th</sup> June 2017 approved expenditure of £5.2m in 2017 to undertake the remedial works in programme. BAM/Mott Macdonald were procured to undertake the works under a design and build contract and works are currently coming towards a conclusion on site, with anticipated practical completion scheduled for early December 2019. It is currently anticipated that out-turn costs will be c£1m less than the budget



allocated. Due to the nature of the works a significant risk/contingency allowance was established at the outset of the scheme and this will not need to be fully utilised.

- 5.5.7 Undertaking these works has allowed new residential developments to proceed on development plots immediately facing onto the Rochdale and Ashton Canal Basins. In total 907 new homes have been built or are under construction and 3 commercial units have been completed and are occupied and trading.

## **5.6 Eastern Gateway – Expenditure to Date**

- 5.6.1 Against the capital budget of £47m allocated, £44.67m has been committed to projects – leaving a further balance of £2.33m available for investment prior to the end of the 2022 timeframe. As plans for Central Retail Park are formalised, an element of this budget may be required to facilitate development.
- 5.6.2 It is anticipated that of the £44.67m committed, cumulative expenditure by 31<sup>st</sup> March 2020 will amount to £43.67m.

## **6.0 Conclusion**

- 6.1 The Council's commitment in providing significant financial investment to both the Northern and Eastern Gateways is required to support the ongoing and necessary growth that the City requires. However, following nine years of budget cuts, it is important that the bulk of the investment is recovered over time. Any future development will need to balance the benefits of regeneration along with the financial impact on the Council's investment to date.

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