

**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)

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.

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

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

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.

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, 7th September 2017 and Executive, 13th September 2017 – Central Retail Park
- Report to Executive, 13th March 2019 – Eastlands Regeneration Framework Update
- Resources and Governance Scrutiny Committee, 18th June 2019 Executive, 26th June 2019 – Strategic Acquisitions in the Northern Gateway
- Report to Executive, 11th 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 26th 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 18th 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 19th century, but fell into long term decline in the second half of the 20th 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 28th 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 31st 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.