Manchester City Council
Report for Information

Report to:	Resources and Governance Scrutiny Committee – 7 September 2021
Subject:	Capital Support for Regeneration
Report of:	Deputy Chief Executive and City Treasurer

Summary

This report is to inform members of the approaches the Council may use to support regeneration across the city, alongside case studies of how such approaches have been used. It also provides details of the recent and expected changes to the local authority capital financing framework.

Recommendations

Members are asked to note the contents of the report.

Wards Affected: All

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city
Under the governance process for capital expenditure decision making, zero and low carbon measures are a key component. Each project must set achievable carbon reducing targets before being approved.

Our 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 capital programme contributes to various areas of the economy, including investment in public and private sector housing, education and children’s social care, transport infrastructure, major regeneration activities, environmental, cultural and leisure services.
A highly skilled city: world class and home grown talent sustaining the city’s economic success	The capital programme includes substantial investment in education and also provides opportunities for the construction industry to bid for schemes that could provide employment opportunities at least for the duration of contracts.

A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	The capital programme includes investment in adult and children's social care, education, housing and the environment, cultural and leisure services, all of which contribute towards the strategy.
A liveable and low carbon city: a destination of choice to live, visit, work	Investment in all areas of the capital programme contributes towards the strategy, notably investment in sustainable and affordable housing, building schools for the future, transport, environmental and major regeneration programmes.
A connected city: world class infrastructure and connectivity to drive growth	Through investment in areas such as ICT and the City's infrastructure of road networks and other travel routes.

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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.

- Capital Strategy and Budget 2020/21 to 2024/25 – report to Executive 17 February 2021

1. Introduction

1.1 This report is to inform members of approaches to using capital investment to support regeneration across the City, including some examples of how this has been achieved successfully, and to detail some of the expected changes to the capital financing framework.

2. Background

2.1 Over the past 20 years Manchester has seen enormous change, through a 35-year journey of driving successful growth, regeneration and public service reform to create a post-industrial city that is creating opportunity for those who live and work in there. Early interventions, such as Hulme City Challenge, the post IRA bomb recovery led by Manchester Millennium Ltd, through to Manchester 2002 Commonwealth Games Company and New East Manchester Ltd, were founded on a strong public - private partnership ethos and the need for the Council to play a central role in convening the necessary interventions needed to deliver long term growth. These early public - private partnership arrangements provided a strong platform for extending these approaches to other parts of the city and enabled the Council to broaden and deepen its commercial capabilities.

2.2 For the last 15 years the Council has sought to bring forward a broad range of approaches to help ensure forward momentum was sustained through, and beyond, the 2009/2010 economic recession in order to consolidate and expand the city's capacity to grow its commercial, residential, transportation and cultural asset base. During this time a range of new partnership arrangements and other financial instruments were established. For example, the partnership with the Far Eastern Consortium will deliver 15,000 homes to the north of Victoria Station creating a new city centre suburb; and as part of the Greater Manchester Devolution Agreement the establishment of the Greater Manchester Housing Investment Fund to encourage, accelerate and unlock new residential development, predominately on brownfield land to further regenerate previously run-down areas.

2.3 The 35 year journey of transformation is not complete. However, it is safe to say that the city has broadened its economic base, transformed its housing offer and put in place the necessary quality of life drivers that can attract those who want to invest, work, visit and live in our city. Manchester's overall success can be assessed in a number of dimensions:

- The economy has continued to grow. In 2017 Manchester's GVA (Balanced) was £22,500million - between 2016 and 2017, overall GVA (B) grew by 3.6%, compared to 3.4% for the UK.

- The latest ONS Business Register and Employment Survey shows that employment rose from 357,000 in 2015 to 392,000 in 2017;

- The visitor economy is increasingly important with the city the third most visited city (as measured by overnight stays) and is boosted by Manchester Airport's position as the key international gateway to the North of England; and

- The city has experienced a sustained period of unprecedented population growth over the past two decades, with the 2019 ONS mid-year estimate of our resident population being 552,858. By way of reference the population in the late 1990s dropped below 400,000.

2.4 Whilst COVID has had a significant impact on the economy, there are strong signs of recovery. A confident approach and the ability to leverage investment will be critical to the long term success of the city.

2.5 None of the above would have been possible without the strong relationships with central government but also the willingness of the City Council to prioritise its own more limited investment capabilities. During this period every capital and other investment decisions has been made to support the strategic priorities of the city and focused on securing a sustainable economic future, rather than to purely achieve a revenue return or yield.

2.6 Prior to the COVID-19 pandemic the growth achieved was starting to generate significant additional revenue:

- Business Rates - Manchester has been part of a business rates 100% retention pilot since 2017/18 and retains 100% of the additional business rates growth achieved since the start of the Business Rates Retention scheme in 2013, with an additional £30m of retained income which has supported continued investment and work in core service areas such as social care.

- Council Tax - The success in encouraging housing growth, particularly in the City Centre, has seen an average growth in the council tax base of around 3% a year for the past 5 years. Over 60% of the new city centre housing is at a council tax band of C or above compared with 20% in the rest of the city, contributing to increasing the council tax base.

- Investment Income - the Council's investments generated dividend income of £71m in 2019/20 (predominantly but not exclusively from the Airport). Loan interest received has been used to directly offset the costs of borrowing, with any additional income used to establish a Capital Financing Reserve. This will be deployed to ensure there are no additional pressures on the revenue budget as a result of the additional borrowing required to support the capital programme.

2.7 Whilst these revenue streams have been impacted by the pandemic, they are all expected to be a continued important part of the council's resource base.

2.8 The exceptional employment and economic growth up until COVID-19 encouraged institutions, developers, investors and companies to develop a pipeline of investment proposals linked to economic growth in the key sectors. The need to re-establish economic growth and investment momentum pandemic has reinforced the three-pillar approach based on:

- *People:* Equip residents and workers with the qualifications and softer skills that will enable them to access more opportunities.

- *Place:* Ensure sustainable growth is achieved in key assets, including the city centre and around the Airport. Create the conditions that will deliver a more inclusive, zero-carbon economy by investing in transport infrastructure, digital infrastructure and the environment.

- *Prosperity:* Create higher-quality job opportunities, including better pay, improved working conditions and flexibility, particularly within the foundational economy.

2.9 Establishing sustainable growth in people and skills is a high priority, as is long-term sustainability in our place and assets. Despite the impact of COVID-19, the city remains well-placed to align with the Government's levelling up agenda, with existing investments and innovation assets primed to play a key role in levelling up the North. The Government has a major role to play in helping Manchester to re-establish the economic momentum and further investment in the opportunities available in Manchester is central to the levelling-up agenda and rebalancing the economy.

3. Capital Strategy

3.1 The Capital Strategy is developed to support the delivery of the Our Manchester Strategy (the city strategy) where the vision is for Manchester in 2025 to be in the top flight of world-class cities. "This includes the need to support a competitive, dynamic and sustainable economy that draws on its distinctive strengths in science, advanced manufacturing, culture, creative and digital business, cultivating and encouraging new ideas; that is connected, internationally and within the UK; and is internationally competitive." The priority areas from the 2021/22 Capital Strategy are listed below:

- ***Investment that is catalytic*** in supporting economic growth, housing growth, job creation, reducing carbon emissions, transforming health, economic and social outcomes, and creating further investment in the city and supporting economic recovery of the city following the COVID-19 ***pandemic.***

- *Supporting the declaration of the* ***Climate Emergency****. The Council has a clear target to at least halve its carbon output by 2025. Investment plans must consider the carbon impact alongside* financial impact.

- ***Deliver new affordable housing*** to meet the increased delivery target from 5,000 Affordable Homes to a minimum of 6,400 Affordable Homes between April 2015 and March 2025.

- Developing a more ***inclusive economy***. This will require investment on an invest to save basis in existing Council assets and strategic investment to unlock wider commercial and residential developments. The use of progressive procurement policies and social value will ensure the maximum benefit to residents from these new developments.

- Regeneration in ***North Manchester.*** This includes the North Manchester General Hospital redevelopment, anchoring a health and wellbeing campus as proposed in the Economic Recovery and Investment Plan. This, alongside the Northern Gateway should create the potential to support a growing city, create new housing and regenerate the area.

- Investment in the ***city centre*** as a key driver of growth and jobs for the city and one of the four strategic areas of interventions within the Economic Recovery Plan. Whilst a significant amount of investment will be from the private sector, public sector investment is needed in core areas such as public realm, in order to stimulate further private investment and growth in those areas.

- Investment in ***cultural and creative industries*** which make a major contribution to Manchester's international reputation and role as a destination for cultural tourism and are a growing element of the city economy.

- ***Market intervention*** where the existing market outputs do not support the Council's wider aims. This is likely to be focussed on areas such as health and social care such as residential and intermediate care and will require significant partnership support.

- Ensuring the Council's ***corporate estate is fit for purpose***. This includes investment to reduce the Council's carbon output and in relation to the current condition of the estate. This is particularly important for the leisure estate where the assets developed for the Commonwealth Games are now nearly 20 years old.

- ***Investment in digital infrastructure, data management, and the application of new approaches.*** These are now key elements of the Manchester economy and reflected in the new draft Manchester Digital Strategy.

- Continued Investment in ICT infrastructure as part of being a ***well-managed Council***. Increased digitisation, and the need to move from legacy ICT platforms will mean investment is required, alongside work on ICT resilience, network capability, and key operating systems.

3.2 Within the Strategy it was noted that different investment approaches may be appropriate to lead and encourage regeneration activities. The Council may seek to fund some regeneration activity directly but any proposed project would require consideration of the appropriate investment strategy which could include:

- Using Council-owned land to leverage external investment from partners rather than seeking a capital receipt;

- Funding of public realm to support wider external regeneration investment;

- Direct investment in a regeneration project alongside an external partner(s); and

- A mix of the above.

3.3 In broad terms it is balancing the risk with the benefits to be delivered that is the main consideration in determining which approach is suitable, with a strong focus on using resources where they are most needed and securing value for money. This will include ensuring a commensurate return for the risk taken, which could be in the form of ground rents, lease income, or interest, ensuring the commercial aspects of the wider investment are considered and how the return can be maximised, alongside the achievements of the aims of the regeneration project.

3.4 The following case studies provide some more detail.

4. Victoria North

4.1 In spring 2016 GVA and Pinsent Masons, acting on behalf of the City Council, commenced a competitive process in order to select an investment partner for the Victoria North (previously known as Northern Gateway) development project. This process identified initial sites in the Council's ownership that would form the basis of the initial development opportunity and the establishment of a partnership based on the City's contribution of land and the investor / delivery partner contributing investment finance and expertise. Bids were submitted by interested parties and were subsequently reviewed against a bid invitation structure, resulting in a formal recommendation report provided by GVA in the autumn identifying a shortlist of final bidders. The Council entered into a Joint Venture (JV) with the Far East Consortium (FEC) in April 2017, the comprehensive redevelopment of the Victoria North area for housing and ancillary development. As part of the delivery arrangements, the Council and FEC established a JV company, Northern Gateway Operations Limited (OpCo), to have strategic input into and oversight of the development of the Northern Gateway.

4.2 The Victoria North development overall is a £4bn development that will deliver 15,000 new homes, a new public park centred on a rewilded river area, new tram infrastructure and new schools, shops and GP surgeries. To kick start the development the Council's capital budget for the scheme is £104m of which £51m is via the HIF funding from Homes England to enable the unlocking of the infrastructure.

4.3 The JV has prepared an infrastructure strategy with a specific emphasis on unlocking development sites over an initial 5-year period to deliver the residential led redevelopment of the adjacent neighbourhoods of Lower Irk Valley, New Cross and Collyhurst, on the north eastern edge of the City Centre, which have the capacity to provide circa 15,000 new homes over the next 20 years, 3,000 of which will be affordable and will all be built to a high carbon standard.

4.4 Following the public consultation exercise in 2018, the February 2019 Executive approved the Northern Gateway Strategic Regeneration Framework (SRF) to guide and coordinate the development activity undertaken by the JV partnership and other third-party agencies within the area. The Executive subsequently approved a Strategic Business Plan for the JV that set out details of how delivery would be brought forward. In 2020 the Council entered into a Grant Determination Agreement (GDA) with Homes England (HE) for a grant award of £51.6m from the Housing Infrastructure Fund (HIF) programme to provide critical infrastructure that would help unlock the development potential of the Redbank neighbourhood, where capacity exists for the provision of c5,500 new homes over the next 15 – 20 years. The intention is that 20% of new homes will be affordable.

4.5 The first phase also includes the delivery of circa 274 new residential properties in Collyhurst. Of the 244 new homes in Collyhurst Village (Harpurhey ward), 100 will be new Council homes with the remaining 144 properties being developed for open market sale. A further 30 Council homes are to be developed in South Collyhurst (Miles Platting & Newton Heath ward) on a site agreed with local members. The scheme has been designed to deliver high sustainability credentials based on a 'fabric first' approach incorporating Passivhaus principles. To contribute towards the Council's target of zero carbon by 2038, energy supply to the properties will be 100% electric. The scheme is being developed in partnership with the JV and the City Council. With FEC acting as development manager, and with the Council investing £31.2m the HRA.

4.6 A key component to all of this is a clear strategy with regards to land assembly. As part of the JV agreement FEC is, as the appointed Development Manager, required to assemble further sites for development. The Strategic Business Plan identified that the up-front capital outlay (from both JV Partners) required to bring about transformational change in the Victoria North area is significant, with commercial returns to the JV partner following on a medium to long-term basis.

4.7 In order to progress the land assembly activity the Council also co-invested via a fully recoverable commercial loan on the basis that it would provide the following benefits:

- Significant land assembly is essential in the Lower Irk Valley in order to fully realise the Northern Gateway opportunity and deliver the level of housing growth anticipated;

- Co-investment will provide confidence to the 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, in the fullness of time, stand to benefit the Council financially in accordance with the financial provisions 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 the Council would have to bear holding costs; and

- 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 Victoria North workstreams.

4.8 On this basis, a report seeking approval to establish an £11m commercial loan facility was considered and approved by the City Council's Executive, funded from the existing capital budget for Victoria North. The specific sites to be acquired are agreed between the Council and FEC and the loan is secured with the Council taking a first charge over any land acquired. The loan will be repaid at either the point where development commences on the land or at an agreed end date. This has ensured that the JV has secured ownership of the lion's share of land within the Redbank neighbourhood of the Lower Irk Valley, where it is estimated that c5,500 of the homes can be delivered.

5. Case Study - Manchester College Estate Development and Rationalisation Programme

5.1 Manchester College are a key skills provider within Manchester and GM. They have been working to rationalise and transformation of the College estate, with the centre piece being the new College facility on the site of the former Boddingtons Brewery in the City Centre that will be a state of the art campus for creative and digital skills development. The Manchester College is part of the LTE Group and is one of the largest Further Education colleges in the UK and the largest provider of aged 16-19, adult and higher education in Greater Manchester. In November 2017 the Executive endorsed a report from the Strategic Director (Development) which outlined the condition of the college's estate and proposed a new estate development and rationalisation programme.

5.2 The college was operating from buildings on 24 sites across Manchester. The stock, particularly the ageing elements of it was in a relatively poor condition, and the current estate was not capable of providing the sector-focussed centres of excellence that the college required. The Manchester College developed an Estates Strategy to overcome the issues associated with a large, disparate and relatively ageing estate, in particular:

- The additional costs of operating smaller centres, which limits specialisation;

- The limited offer at some locations and in reverse, the availability of good quality provision in less accessible locations outside of the immediate neighbourhood; and

- The impact on the credibility of provision from older and outdated training facilities, and the varying levels of quality of learning and teaching on both learners and employees.

5.3 In broad terms the strategy was to consolidate from 24 sites to 5, one of which would be a new centre of excellence located in the city centre. The remaining 4 sites are Openhaw, Harpurhey, Wythenshawe and a specialist health and educational skills centre on the Oxford Road corridor.

5.4 The new city centre campus will focus on the Creative and Digital and Business, Financial and Professional Services, which aligns with the sectors in Manchester where the majority of employment growth and new markets are anticipated. The site will also accommodate higher education and the College's A Level centre, providing academic routes into Higher Education. In additional to a new facility, there was significant investment required on a number of existing assets to make them fit for purpose in line with the new delivery strategy.

5.5 The sites that were no longer required for educational purposes and declared surplus would be brought into the wider rationalisation programme and, where applicable, brought forward for redevelopment. These included the St Johns' building in the city centre, as well as Northenden Campus, Ashley Lane, Moston and Fielden College.

5.6 The Council worked with the College and other stakeholders and funders to support the comprehensive strategy. The overall cost of delivery is above £100m and required a mix of funding to deliver, including bridging loans to enable the continued delivery of education and training whilst new facilities were being constructed and refurbishments taking place.

5.7 The Council recognised these specific pressures and provided assistance by way of two loans of £17m and £10m respectively to (i) acquire the City Centre site and (ii) undertake refurbishment works to existing facilities to enable decant from existing facilities, freeing them up for disposal.

5.8 The Council worked with GMCA, who provided a grant of c£25m from the Local Growth Fund, and the College's funders to create the total funding package. To protect the Council's interests, the council loans are secured against property assets, including the City Centre site, and a 'ringfencing' of land receipts to repay the principle as and when these receipts are realised. A full due diligence exercise, with appropriate benchmarking, was undertaken to price the loan and there are monitoring milestones within the agreement to ensure compliance and progress with the works and disposal of surplus property assets.

5.9 In addition to the loan finance the Council has land interests in several of the surplus sites, including Nichols and Welcomb Street, and has continued to work closely with the College to enable these to be brought forward for redevelopment. This has included the sale of the Ashley Lane site (Moston Campus) to One Manchester for affordable housing, the sale of surplus land at the City Centre campus site to Clarion to support the delivery of high-density city centre mixed tenure housing scheme, with majority of these homes within the affordable sector, and current work to agree disposal process for the Fielden College.

5.10 The construction of the city centre campus is well underway and is already providing a focal point to the corner of Great Ducie Street. The college's surplus land disposal programme is on track and receipts are in line with expectations, with c.£8.3m of the loans repaid to the Council to date.

6. Regulation

6.1 Based on concerns that some local authorities have been investing purely for return, the Government issued a consultation on the Public Works Loan Board (PWLB) last year and has now issued revised guidance. All local authorities now have to provide additional information on the projects included within their approved capital programme, split into the following categories:

- Service spending
- Housing
- Regeneration
- Preventative Action
- Investment assets bought primarily for yield
- Treasury Management

6.2 For regeneration investment, the PWLB guidance states that such projects will usually have one or more of the following characteristics:

- The project is addressing an economic or social market failure by providing services, facilities, or other amenities that are of value to local people and would not otherwise be provided by the private sector;

- The local authority is making a significant investment in the asset beyond the purchase price: developing the assets to improve them and/or change their use, or otherwise making a significant financial investment;

- The project involves or generates significant additional activity that would not otherwise happen without the local authority's intervention, creating jobs and / or social economic value; or

- While some parts of the project may generate rental income, these rents are recycled within the project or applied to related regeneration projects, rather than being applied to wider services.

6.3 Whilst investment assets bought primarily for yield will have one or more of the following characteristics:

- Buying land or existing buildings to let out at market rate;

- Buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification; or

- Buying land or existing buildings other than housing which generate income and are intended to be held indefinitely rather than until achievement of some meaningful trigger such as the completion of land assembly.

6.4 The Council's Section 151 officer, the Deputy Chief Executive and City Treasurer, is required to declare that the capital programme does not contain any investments primarily for yield.

6.5 Following the issuance of the revised PWLB Guidance, CIPFA has sought to reinforce that Council's should not invest primarily for yield by making changes to the Prudential Code and Treasury Management Code which local authorities have to follow. The revised Codes are due to be published by the end of the calendar year to be implemented for 2022/23 and will be clear that an authority must consider the rationale for entering into long term investments for either treasury or service reasons.

6.6 MHCLG have also announced a review of the local authority capital finance framework, of which the CIPFA Codes form part, which will look at data gathering, decision making, and the legislation and guidance that creates the Prudential Framework.

6.7 It is believed that the Council's activities fall within the pending changes to the regulation framework. Officers will continue to engage fully in the consultations to ensure activities are compliant and that the flexibility remains to deliver the Council's ambitious capital and regeneration agenda.

7. Conclusion

7.1 The Council has a long history of using its own capital investment resources to act as a catalyst to leverage both public and private sector investment to bring forward coherent and strategic regeneration within the city and will continue to do so.

7.2 The case studies above show that even in the broader context of the current economic environment, there are several approaches available to the Council to support regeneration activity within the capital financing framework within which the Council operates. These include joint ventures, supported by loans or land assets to leverage private sector investment and share risk, financial support to our public sector partners, bidding for national and regional public sector infrastructure funding and lobbying central government for wider infrastructure funding through its partners at the GMCA and Homes England.

7.3 Regeneration activity forms a very important, part of the Council's capital spend. However, in proportion to the overall capital programme the proportion of the Council resources in this activity is very small. Of the 2021/22 planned capital spend of £422m, 44% is on operational priorities across highways, children's services and schools, housing and neighbourhoods. Around £50m of planned spend could be deemed as regeneration activity, including the investment in Victoria North and £12.5m of HIF funding, with a further portion funded via invest to save arrangements.

8. Recommendations

8.1 Members are asked to note the contents of this report.