

Manchester City Council Report for Resolution

Report to: Executive – 15 September 2021

Subject: This City: Manchester’s Housing Delivery Vehicle

Report of: Deputy Chief Executive and City Treasurer

Summary

The Executive received a report at its meeting on 3rd June 2020 outlining plans for the creation of a Housing Delivery Vehicle. This proposed vehicle would provide direct delivery routes for a range of new supply accessible and market homes utilising City Council land assets, with the initial phase of development providing mixed tenure rented properties.

Through the vehicle, it is intended to create an ‘Accessible Rent’. This would be properties that will be let at or below Local Housing Allowance levels, so all residents of Manchester will be able to benefit from the homes that are to be delivered by the vehicle.

As well as the provision of accessible rented homes, a key priority is to develop sustainable homes, making a key contribution towards the zero carbon priorities for Manchester. Detailed work has taken place to ensure that homes developed through the vehicle are will deliver high quality, sustainable housing solutions ahead of other developments proposed for the City.

This report provides an update on progress to date, outlining the intention to deliver the first two schemes through the wholly owned Council company which is to be called This City.

Recommendations

1. The Executive to note the progress made to date with the creation of This City Housing Delivery Vehicle;
 2. Note that a further report will be presented to the Executive outlining a detailed business case and financial proposal for the delivery of the first two schemes under This City.
 3. Approve an increase to the capital budget of £0.347m to cover design team fees for the continued development of proposals for the first phase of delivery, to be funded from borrowing, noting that it is expected that this will be recoverable from This City once it is established.
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Wards Affected: All

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

The delivery of sustainable homes will be a key priority for This City. This will be at the core of the design considerations for all homes that will be delivered through the housing delivery vehicle.

Careful consideration is being given as to how the developments will make a positive contribution to the zero carbon agenda and support the Council with the achievement of zero carbon by 2038.

All proposals linked to sustainability have been costed and considered from a financial viability perspective to ensure that there is a clear cost vs benefit realisation justification for the approach being taken.

| Our Manchester Strategy outcomes | Contribution to the strategy |
|---|--|
| A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities | A successful economy must be supported by a vibrant and diverse housing market. The provision of a multi-tenure, high quality, low carbon range of housing options will assist the City to attract investment and provide a housing offer to those working on lower incomes in the city. |
| A highly skilled city: world class and home-grown talent sustaining the city's economic success | A successful jobs and skills market has to be supported by a vibrant and diverse housing market. The provision of a multi-tenure, high quality, zero carbon range of housing options will assist the City to attract and retain talent. |
| A progressive and equitable city: making a positive contribution by unlocking the potential of our communities | The scale of development envisaged will provide much needed accommodation in the city which will be delivered across a range of communities to meet the needs of the City. |
| A liveable and low carbon city: a destination of choice to live, visit, work | All homes being developed will be expected to contribute to our zero carbon targets through the sustainability measures that will be included within design specifications. |
| A connected city: world class infrastructure and connectivity to drive growth | Housing development makes a direct and influential impact on infrastructure and growth. By ensuring an accelerated delivery programme, it is anticipated that there will be a stimulus to investment and development. |

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

- Equal Opportunities Policy
- Risk Management

- Legal Considerations
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Financial Consequences – Revenue

Any revenue consequences are associated with the use of revenue funds from the Housing Investment Reserve to cover the costs of establishing This City and initially covering design team fees.

Financial Consequences – Capital

If the recommendations are approved, the capital budget will increase by £0.347m. The capital financing costs associated with the increase will be funded from existing revenue budget.

Contact Officers:

Name: Carol Culley
Position: Deputy Chief Executive and City Treasurer
Telephone: 0161 234 3406
E-mail: carol.culley@manchester.gov.uk

Name: Alan Caddick
Position: Interim Director of Housing and Residential Growth
Telephone: 0161 234 4811
E-mail: alan.caddick@manchester.gov.uk

Name: Sarah Narici
Position: Head of PMO: Commercial Governance & Directorate Support
Telephone: 07971 384491
E-mail: sarah.narici@manchester.gov.uk

Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Executive: Delivery of new affordable homes in Manchester – 25th March 2020

Executive: A Housing Delivery Company – 3rd June 2020

1. Introduction

- 1.1 The 'Our Manchester' strategy has established a series of high level aims to secure the 2025 vision for the city, in particular the need to build well designed, energy efficient, sustainable and affordable homes to rent and buy. Creating more homes to meet the needs of a growing population and economy is a significant priority.
- 1.2 At the Executive in March and June 2020, the idea of creating a Housing Delivery Vehicle (HDV) to boost housing supply and offering a range of tenures across a number of different housing markets, was outlined. Since June 2020, detailed work has taken place to define what this HDV looks like in terms of priorities, aims and objectives, corporate structure, financing, identification of sites and routes to delivery. This report outlines the proposed approach for the HDV which is to be named This City.
- 1.3 It is to be noted that this report focusses on the delivery of phase 1 of This City with the intention to return to a future meeting of the Executive to outline the proposition and accompanying business plan/case for future phases of development.
- 1.4 For the phase 1, from initial capacity studies and outline scheme designs, it is intended to deliver 204 new homes, with at least 54 of these new homes being let at an accessible rent, which will be set at or below Local Housing Allowance levels. In addition, the homes will be developed to a high-quality standard, with a focus on inclusion of a range of sustainability features to ensure that the developments are contributing towards the zero carbon priorities for Manchester.

2. Background

- 2.1 In recent years a number of local authorities have set up housing delivery vehicles often with the objectives of increasing housing supply and to act as a catalyst for regeneration. Alongside these two objectives, the establishment of a housing development delivery model for Manchester will also:
 - a) Maximise the number of ways in which homes are developed and provided in order to maximise housing choice and supply; and
 - b) Enable the Council to have greater control over how new homes and tenure types are developed and provided.
- 2.2 With this in mind, in order to support the achievement of the Council's residential growth targets and providing homes that are truly accessible to Manchester residents, work has been underway to formulate an approach for the creation of a Housing Delivery Vehicle HDV called This City.
- 2.3 A number of local authorities have implemented a range of housing delivery models across the country to facilitate the delivery of all tenure types appropriate to local needs. These are mainly facilitated through Joint Venture arrangements or the creation of a wholly owned company.

2.4 As outlined in the June 2020 report to Executive, the Council undertook an options appraisal on potential structures based on the following criteria:

- Deliver up to 500 new homes per year;
- Provide a mix of accessible and market housing;
- The market priced housing should be able to cross subsidise the accessible homes;
- The Council should be able to retain control over the operation and delivery of the model;
- Allow the Council to invest land; and
- Can return a surplus/dividend back to the Council or recycle / reinvest funds into future developments.

2.5 Following this assessment, it was recommended that the most appropriate construct for the vehicle to deliver the initial phase of development is via a wholly owned company. The rationale for this approach was the ability to create a long term, stable investment proposition which could deliver a range of housing tenures, as well as having the ability to invest and innovate both in respect of social value outcomes and technology to support the zero carbon objectives of the Council.

2.6 It is to be noted, following assessment of approaches from other Local Authorities, that the list of initial criteria for This City are more ambitious than most other Local Authority housing delivery vehicles. Therefore, the Council has taken a prudent approach to risk to ensure that the lessons highlighted in recent public interest reports on similar ventures are taken into account when developing the company.

3. This City: Manchester's Housing Delivery Vehicle

3.1 As part of the dynamic and proactive post COVID-19 recovery for the city, the Council is committed to sustaining confidence in the development market and ensuring that our core messages to investors and developers remain as strong. With this in mind, an additional delivery route is to be created with the capacity to drive investment beyond the existing local development delivery framework. Through the establishment of This City, the housing delivery vehicle will develop new accessible and market homes, contributing towards the Council's housing, regeneration and growth priorities.

3.2 There has been significant work undertaken to formulate the This City proposition in detail as well as to bring forward development proposals for the first phase of delivery via This City. Furthermore, there has been extensive work on the development of a robust financial model to underpin the operation of the entity and provide detailed performance monitoring information which will be regularly reported back to the Council as Shareholder. The sections of the report below outline more detail on This City, which will be underpinned by a detailed business case which is in the process of being drafted and independently assured.

This City Objectives

- 3.3 To ensure there is clarity around what the focus of This City, the approach to delivery and the company business case / plan has been structured around the following objectives:
- **Viable proposition** – to ensure that as a minimum the company can repay principal and interest finance costs back to the Council;
 - **Provision of an accessible tenure** – that a proportion of each scheme, a minimum of 20%, is let at an 'Accessible Rent'; which is defined as at or below Local Housing Allowance rates;
 - **Sustainability** – demonstrate that a high-quality housing product, meeting zero carbon aspirations and providing accessible homes is achievable;
 - **Retention of control** – that the company will retain control of rent setting, management and lettings functions;
 - **Commercial with a conscience** – the company is a trading entity with a key focus on maximising the number of accessible homes that can be delivered through cross subsidisation from the market rented units and ensuring that the delivery of Social Value is embedded through the companies policies and practices;
 - **Scalable and adaptable** – flexibility in the structure and model of the company in order for delivery to be scaled up and provide a route in for investors, with the ability to deliver up to 500 new homes per year.

Contribution to Manchester's Residential Growth Strategy

- 3.4 To ensure that This City is playing its part in delivering the Residential Growth Strategy for Manchester, not only through the provision of new homes towards the targets outlined within the strategy, key contributions will be made in a number of other ways:

Growth

- 3.5 This City is initially going to build homes on Council owned sites which have remained vacant for a number of years providing net new supply housing in areas where demand is high and complimenting other regeneration initiatives taking place in the surrounding area. The This City approach is flexible, so in the future there could be opportunities to acquire land from third parties or partner with others to bring forward larger scale opportunities.
- 3.6 At the heart of This City's proposition is the provision of high-quality housing which will deliver a positive contribution towards the city's Zero Carbon ambition. This City's aspiration is to be at the forefront of sustainable housing delivery and develop sustainable housing solutions ahead of other developments in Manchester. Through work undertaken to date on the sustainability brief for the first phase of development, this has highlighted how This City will meet the LETI recommended target for the Paris Climate Accord alignment.

People

- 3.7 It is intended that there will be an element of family housing provided across the majority of schemes delivered through This City. This will diversify the housing market and develop mixed communities across a range of housing market areas. An example of this is the proposed delivery of a proportion of family town houses where the first scheme is to be developed. In this particular locality, it is understood that through Manchester Move data, there is on average over 600 bids for each 3-bedroom property that becomes available in the area.

Place

- 3.8 A significant proportion of the homes to be delivered by This City will be market rented. This City aims to offer a best in class lettings, maintenance and management function which will act as an exemplar for others to follow and be attractive to prospective residents. Campbell Tickell have been appointed to complete an options appraisal to inform the This City approach to this provision in order to formulate a quality and responsive for all residents.

4. Structure and Governance

- 4.1 As outlined earlier, a range of corporate structuring options have been considered for This City. The structure is required to be efficient, underpinned by robust governance, and offering the flexibility to be adaptable as the delivery and business model evolves for This City over time, to enable the company to be flexible and respond to new opportunities as they emerge.
- 4.2 For the first phase of delivery, This City will be delivered through a wholly owned company. As the Council wishes to exert control and influence on shaping this phase and developing the blueprint for what the This City housing offer will look like, the use of a wholly owned vehicle was deemed the most appropriate way to do this. In addition, it is proposed that This City will utilise the Council's procurement frameworks for the first phase whilst its own procurement strategy is developed.
- 4.3 To wrap around the operation of This City, there will be strong and transparent governance, regularly reporting back to the Council as Shareholder and outlining company performance from both a delivery and financial perspective. The implementation of a robust monitoring and accountability framework for This City will be a critical factor to its success. A set of Key Performance Indicators are in the process of being established which will be tracked by the This City Board, with performance monitoring being presented to the Council on a minimum of each quarter. This will ensure that there is effective oversight of operations and any emerging risks or performance issues can be mitigated appropriately.
- 4.4 A Company Board comprising of Directors and Non-Executive Directors with the appropriate skills is to be created. The Board will work to a defined Delegations Matrix, highlighting the decision making authority which the Board has and what should be referred to the Shareholder.

5. Financial Modelling and Funding

- 5.1 Noting that the business case is currently being finalised, for the first phase of This City, it is expected that the Council will fund the construction of the homes by through a mix of debt and equity in the company, which the Council will fund through the Public Works Loan Board (PWLB). The interest and debt repayments received by the Council from This City will be used to service the PWLB debt incurred by the Council.
- 5.2 In progressing this approach, the Council will need to incur costs before the company is fully established, including design fees. It is expected that costs incurred in advance of the This City company being fully established will form part of the setup costs of the company and will therefore be recovered by the Council.
- 5.3 The debt and equity blend are expected to be slightly different for each scheme, and the Council will ensure that the composition of financing is compliant with the Subsidy Control Principles outlined within the Subsidy Control Bill, which provides the framework for a new, UK-wide subsidy control regime.
- 5.4 A comprehensive financial modelling tool has been developed for This City by PwC. The model provides the ability to apply a range of sensitivities in order to create the optimum financial viability scenario. The ability to run a range of sensitivities is a key at this early stage of scheme formation given costs for delivery are still high level, indicative and in the process of being refined as part of the work being undertaken through the RIBA stages.
- 5.5 For the first phase of delivery, a prudent approach to the cost estimates has been take with an additional 5% applied for potential inflation increases at the point of construction, alongside further provisions for risk and contingency. These provisions are being monitored closely, with advice being taken from cost consultants and economists working for Mace, who have the latest industry insights and trends.
- 5.6 Following tax advice covering Corporation Tax, VAT and SDLT, the wholly owned company route for phase 1 provides the optimum level of efficiencies, rather than the first phase of delivery being amalgamated into a wider group structure. Tax advice has been provided for both the Council and This City, to ensure that the implications and benefits for both parties are fully understood.
- 5.7 It is to be noted, that for the first phase of delivery, there will be no grant input, such as Right to Buy Replacement Programme or Homes England funding programmes, applied. However, for future phases, the opportunity to access grant funding streams will be considered.
- 5.8 For phase 2 and beyond, it is intended that This City will seek an investment partner to work with to drive forward new developments, rather than fund through further PWLB debt. Any new schemes which will be delivered in partnership with an investor will still seek to follow the core principles of This City: development of new, high quality, sustainable homes which are

accessible to the people of Manchester.

- 5.9 At the June 2020 Executive, a £1.5m development budget was allocated in order to progress activity in relation to the establishment of This City. To date, there are commitments of £1.2m, including a 10% contingency, with c£500k of the budget committed towards design fees for the first two schemes, with the remaining budget allocated to cover a range of surveys, investigations and professional advice to ensure that the approach to This City was well informed and officers had relevant advice in order to develop the company within the appropriate legal and legislative parameters. As noted above, it is intended that most of this will be recovered from This City once it is set up and as the various phases develop.

6. Phase 1 Delivery

- 6.1 Following a review of potential site opportunities, the first two sites have been identified for delivery; a site in Ancoats & Beswick Ward, Site A, which will be the first scheme delivered by This City, which will then be followed closely by a further development in the Piccadilly Ward, Site B.
- 6.2 As part of the selection process for these sites, high level capacity studies and indicative costings were produced to test the viability of these schemes. Furthermore, the development of these sites will contribute to the delivery of objectives already set out in adopted Strategic and Neighbourhood Development Frameworks.
- 6.3 For Site A, a design team has been appointed which is being led by Mace, with proposals currently developed to RIBA Stage 1 and work already commenced on RIBA Stage 2. Site investigations are ongoing to inform the further development of the detailed design proposals. In addition to this, work has already commenced to test the construction market appetite to bring on board a contractor at an early stage to provide further certainty on cost and delivery timelines. At the time of writing, the scheme is anticipated to provide 122 new homes, with a mix of apartments and townhouses, with a minimum of 37 (30%) of the homes being let at an accessible rent.
- 6.4 With regards to Site B, this is at a less advanced stage than Site A with Faithful + Gould engaged to lead the co-ordination of the design team. At present, work is underway to run a mini-competition to appoint an architect to develop the proposals for the scheme. From indicative capacity studies, it is anticipated that the scheme will be an apartment development, providing in 82 homes, 17 (20%) of which will be let an accessible rent, with the opportunity to increase the proportion of accessible rented homes to be explored as the design proposals progress.
- 6.5 In order to maintain momentum with the design work on these schemes, the Executive is requested to approve funding of £0.347m to cover design team fees until the end of December 2021, when there will be critical checkpoint dates on both schemes in order for the Executive to agree next steps for development and delivery. Funding for design team fees will initially come from the Council's Capital Programme and then will be apportioned to This

City, once the company begins to operate.

7. Tenure Mix

- 7.1 Housing developments undertaken through This City will provide a mix of tenures through its delivery, with the first phase of delivery the focused on the provision of Accessible and Market rented homes. For the first phase of delivery, no home ownership products have been included but homes for sale at both discounted and market rates will be explored for future delivery.
- 7.2 This City is to create a new sub-market rental tenure called Accessible Rent. This is the provision of homes that will be rented at or below Local Housing Allowance (LHA) levels. Whilst this tenure type doesn't fall with National Planning Policy Framework definitions of Affordable Housing, rents set at this level will be affordable to individuals and households who earn the average Manchester wage of c£27,500. Whilst the Accessible homes won't prescriptively follow the Council's lettings policy, several key principles will be applied to the lettings approach which This City will take, primarily with accessible homes being advertised via Manchester Move and prioritised for those in housing need.

8. Timeline and Milestones

- 8.1 In order to ensure the momentum is continued with the progress of This City, there are a number of key milestones which are being focussed upon being delivered over the coming months:

| Activity | Timeline |
|--|-------------------------|
| Mini-Competition for appointment of design team architect for Site B | September 2021 |
| Soft market test for contractor for Site A | September 2021 |
| Commencement of phase 2 site identification | September 2021 |
| Completion of RIBA Stage 2 for Site A | October 2021 |
| Development of an investor prospectus | October / November 2021 |
| Completion of RIBA Stage 2 for Site B | December 2021 |
| Business Case for Phase 1 presented to Executive | December 2021 |
| Appointment of Design & Build Contractor for Site A | January 2022 |
| Engagement with investors for phase 2 delivery | January / February 2022 |
| Site A proposals submitted to planning | June 2022 |

9. Consultation and Communication

- 9.1 A consultation and communication strategy is in the process of being developed for This City. This will clearly outline when there will be engagement with the community and key stakeholders on site specific developments, as well as communication regarding wider This City activity.

10. Risks and Mitigations

- 10.1 Through the development of the This City proposition, a number of key risks have been highlighted and a risk and mitigations tracker has been developed. The points below highlight the most live and pertinent risks to this project at present, with the approach that is being taken to reduce and mitigate them:
- 10.2 **Volatility of the construction sector:** Cost consultants and economists working for Mace are currently working through refining scheme costs for Site A to ensure that accurate as possible inflation figures are applied to the cost profiling. A contractor is also in the process of being procured for Site A to add more certainty to costs, supply chain and delivery programme.
- 10.3 **Financial and Cashflow:** The financial model developed by PwC allows for sensitivity analysis, so that the impact of, for example, rent levels, voids, and maintenance costs can be reviewed. Inflation risk remains a concern given the current market intelligence, but the design team are building in prudent assumptions on cost increases. Cashflow will be an ongoing risk, which can be mitigated through some of the measures discussed below, but it will need constant review.
- 10.4 **Robust market intelligence:** It's critical that there is robust market intelligence underpinning the approach to This City – that we are delivering the right mix to meet the market need. A range of housing performance and delivery data has informed approach and will keep a regular track of changes in the property market.
- 10.5 **Availability of a properties:** A certain proportion of market rented properties need to be let within a certain timeframe to ensure that there is enough cashflow to repay debt and cover ongoing running costs. Staggered occupancy dates have been built into the financial modelling to provide enough headroom in the scenario where properties could take longer to let than anticipated. Flexibility to switch the tenure to accessible to ensure some level of income is also being explored.
- 10.6 **Governance:** Reviewing the findings of Public Interest Reports into other commercial ventures, ensuring getting the governance right is crucial, especially reporting back into Shareholder on business case / plan performance and having Directors on the Board with the right skills and experience. There will be a clear delegations matrix put in place to sit alongside the company articles to ensure that the relationship between the company and Shareholder is clear.
- 10.7 **Development of accurate and robust business case / business plan:** Failures of other similar entities have been due to unrealistic and poorly managed business cases / plans. In order to address this risk, an independent review of the emerging business case and following business plan has been commissioned to highlight any areas of weakness to ensure that all aspects of operation, development and delivery have been considered and that there is sufficient assurance in place for these matters.

- 10.8 **Resourcing:** Given the range of activities that need to be delivered concurrently to both establish the company and bring forward the first two schemes, resourcing to bring all this activity together is a risk. Additional, temporary resources are in the process of being recruited but it is to be acknowledged that it is proving to be more challenging than anticipated to find officers with the right skills and experience who can add value to the project.
- 10.9 **Company Objectives:** One of the key issues with the failure of other Local Authority housing companies was the lack of clarity on company objectives. There is a clear vision for This City, as a commercial entity, and what it aims to achieve in the Manchester housing market, with all aspects of the This City ambition being worked through to ensure that any potential for conflicting priorities have been negated and the added value that This City will provide being clearly articulated.
- 10.10 **Attracting an Investor for Phase 2 and beyond:** As highlighted earlier in the report, future phases are predicated on attracting an investor to back This City. Therefore, the proposition must be attractive to a third party and constructed in the right way for maximum benefits. An insight into investor preferences has been discussed with some of the external advisors who have supported This City to date to ensure that we are cognisant of the parameters that would need to be worked within.

11. Future delivery phases

- 11.1 It is intended for future phases that a partner and / or investor will be identified to work with This City. This would both be in context of the delivery and financing of new schemes. Phase 1 of delivery is intended to act as the blueprint for the approach for This City, with provision of sustainable and accessible homes being the principles which the This City core offer will continually be structured around. Work is to commence shortly on the development of an investor prospectus that will outline the opportunities that working collaboratively could bring in terms of the Manchester housing market, as well as supporting priorities linked to new supply homes for all our residents and the zero carbon agenda.

12. Contributing to a Zero Carbon City

- 12.1 The delivery of sustainable homes will be a key priority for This City. This will be at the core of the design considerations for all homes that will be delivered through the housing delivery vehicle. Careful consideration is being given as to how the developments will make a positive contribution to the zero carbon agenda and support the Council with the achievement of zero carbon by 2038.
- 12.2 All proposals linked to sustainability have been costed and considered from a financial viability perspective to ensure that there is a clear cost vs benefit realisation justification for the approach being taken.

13. Contributing to the Our Manchester Strategy

(a) A thriving and sustainable city

- 13.1 A successful economy must be supported by a vibrant and diverse housing market. The provision of a multi-tenure, high quality, low carbon range of housing options will assist the City to attract investment and provide a housing offer to those working on lower incomes in the city.

(b) A highly skilled city

- 13.2 A successful jobs and skills market has to be supported by a vibrant and diverse housing market. The provision of a multi-tenure, high quality, zero carbon range of housing options will assist the City to attract and retain talent.

(c) A progressive and equitable city

- 13.3 The scale of development envisaged will provide much needed accommodation in the city which will be delivered across a range of communities to meet the needs of the City.

(d) A liveable and low carbon city

- 13.4 All homes being developed will be expected to contribute to our zero carbon targets through the sustainability measures that will be included within design specifications.

(e) A connected city

- 13.5 Housing development makes a direct and influential impact on infrastructure and growth. By ensuring an accelerated delivery programme, it is anticipated that there will be a stimulus to investment and development.

14. Key Policies and Considerations

(a) Equal Opportunities

- 14.1 There are no equal opportunities considerations at this stage but through the development of policies for This City, there will be equality, diversity and inclusion impact assessments undertaken.

(b) Risk Management

- 14.2 As outlined at section 10, there is a comprehensive understanding of the risks associated with This City and are being mitigated appropriately.

(c) Legal Considerations

- 14.3 Both internal and external advice has been provided to ensure that the approach to the creation of the company meets legal and regulatory requirements.