

## Manchester City Council Report for Resolution

**Report to:** Executive – Wednesday 15 December 2021

**Subject:** This City: Manchester's Housing Delivery Vehicle (Part A)

**Report of:** Deputy Chief Executive and City Treasurer

---

### Summary

Further to a report to the Executive in September 2021 on This City, a business case has been developed outlining the rationale and considerations that have been taken into account when developing the proposal for the establishment of the Council's wholly owned housing delivery vehicle.

### Recommendations

The Executive is recommended to note the content of the report and comment as appropriate.

---

### Wards Affected: All

<b>Environmental Impact Assessment</b> - the impact of the decisions proposed in this report on achieving the zero carbon target for the city
<p>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.</p> <p>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.</p> <p>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.</p>

<b>Our Manchester Strategy outcomes</b>	<b>Contribution to the strategy</b>
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

---

### **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**

A capital budget increase of £33m funded by prudential borrowing has previously been approved by Council and the Executive towards the construction costs to deliver the first scheme as part of the This City housing delivery vehicle.

---

### **Contact Officers:**

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

Name: Becca Heron  
Position: Strategic Director, Growth & Development  
Telephone: 0161 234 5515  
E-mail: rebecca.heron@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 – 25<sup>th</sup> March 2020*

*Executive: A Housing Delivery Company – 3<sup>rd</sup> June 2020*

*Executive: This City Housing Delivery Vehicle – 15<sup>th</sup> September 2021*

## **1. Introduction**

- 1.1 As part of the dynamic and proactive post COVID-19 Manchester Economic Recovery Plan, the Council is committed to sustaining confidence in the housing market by reinforcing current approaches to new development to ensure that our existing core messages to investors and developers remain as strong. With this in mind, the Council has decided to create its own housing delivery vehicle, This City, to further bolster housing supply, focussing on the provision of new accessible and sustainable homes, which are in significant demand.

## **2. Background**

- 2.1 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.
- 2.2 To ensure there is clarity around 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 in addition to managing and maintaining the property to a high standard;
  - 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.
- 2.3 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.
- 2.4 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.

- 2.5 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.
- 2.6 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.
- 2.7 With regards to Directorships, it is proposed that the Executive Member for Housing & Employment alongside another Councillor nominated by Council, will take up positions on the Board. In addition, a senior officer will act as the Council's Shareholder representative on the Board. In addition, adverts have been issued for the appointment of Non-Executive Directors, who will be recruited in early 2022.
- 2.8 For the first phase of This City, it is expected that the Council will fund the construction of the homes 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.
- 2.9 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.
- 2.10 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.
- 2.11 A comprehensive financial modelling tool has been developed for This City. 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 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.

- 2.12 For the first phase of delivery, a prudent approach to the cost estimates has been taken to pricing with 5% inflation, 5% risk and 5% design contingency included in any indicative cost modelling. 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.
- 2.13 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.
- 2.14 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.
- 2.16 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.

### **3. This City Business Case**

- 3.1 The This City Business Case sets out the proposals for Manchester City Council to establish a wholly owned housing company, This City, to develop new homes which will contribute towards meeting the Council's housing, regeneration and growth objectives.
- 3.2 This City will operate as a wholly owned, independent company, with the business case setting out the following:
  - (i) The rationale for establishing This City, including the aims and objectives of the company;
  - (ii) Housing market context and how This City will act as a key player in meeting housing need
  - (iii) Governance, legal and financial considerations that have been taken into account
  - (iv) Proposals for the first two schemes that are intended to be delivered through This City and an overview of future phases of development
  - (v) An overview of key policies which are in the process of development
  - (vi) Operational considerations, both in terms of an indicative staffing

- structure and the service provision of the management and maintenance function
- (vii) Risks and proposed mitigations

- 3.3 The business case outlines the finer detail of the proposed approach, building on the reports presented to the Executive in March and June 2020 and more recently, September 2021. It sets out the context of the project, the Council's vision and the proposed governance arrangements. It demonstrates the legal frameworks that the Company will operate within and that the proposals meet with legal and financial requirements. It is hoped that this document will give senior leaders the confidence that the proposal has been carefully thought through and that all aspects for the creation, development and operation of a venture as such as this have been considered from both a company and Council perspective.
- 3.4 It is to be noted that the content of this business case has been independently assured to provide external validation that approach outlined has taken into account necessary regulatory provisions and has responded to any lessons learnt highlighted through recent public reports into the operation, financing and governance other similar Local Authority backed ventures.
- 3.5 Once approved by the Council's Executive, the business case will be used as the guiding document to initiate the operation of the company and delivery of the first two phases of development. The business case will be reported back through to the already established governance structure for This City and will eventually evolve into a business plan for the company. In addition, performance of This City will be reported back through to the Council's Shareholder Panel, to ensure that the company is performing against Key Performance Indicators and financial projections.

#### 4. Risks and Mitigations

- 4.1 Through the development of the This City proposition and refinement of the business case, a number of key risks have been highlighted, and a mitigations tracker has been developed. The points below highlight the most live and pertinent risks to this project at present:
- **Volatility of the construction sector:** Cost consultants and economists working as part of the design team have ensured that accurate as possible inflation figures are applied to the cost profiling. At present, there is a 5% provision for inflation but this is being monitored closely as some sources have indicated that this could increase up to 9%. It is to be noted that financial modelling has also been undertaken on a 9% basis to ensure that overall potential impact is clearly understood. In addition, the contractor procurement commenced early in the design process for the first proposed development to ensure that there is a contractor that has the capacity to include the scheme in their resourcing programme.
  - **Financial and Cashflow:** The financial model developed 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.

- ***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.
- ***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.
- ***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.

## **5. Contributing to a Zero Carbon City**

- 5.1 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.
- 5.2 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.

## **6. Contributing to the Our Manchester Strategy**

### **(a) A thriving and sustainable city**

- 6.1 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**

- 6.2 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**

- 6.3 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**

- 6.4 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**

- 6.5 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.

## **7. Key Policies and Considerations**

### **(a) Equal Opportunities**

- 7.1 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**

- 7.2 As outlined at section 6, there is a comprehensive understanding of the risks associated with This City and are being mitigated appropriately. There is a detailed risk register included in the business case which is regularly tracked through the This City governance structure and once the This City Board is established, this will be a standing item on each agenda.

### **(c) Legal Considerations**

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