

**Manchester City Council  
Report for Information**

**Report to:** Economy Scrutiny Committee – 23 June 2022

**Subject:** This City: Progress Update

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

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### **Summary**

In December 2021, the Executive approved a business case outlining the ambitions and intentions of This City, the Council's wholly owned housing delivery vehicle. This report provides an update on progress of both strategic and scheme specific activities in advance of a further report being presented to the Council's Executive in September 2022 on the company business plan.

### **Recommendations**

The Committee is recommended to consider and note the report.

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### **Wards Affected:** All

**Environmental Impact Assessment** - the impact of the issues addressed 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.

**Equality, Diversity and Inclusion** - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments

This City will actively support equality, diversity and inclusion in both the approach to development and creation of policies which will directly affect its customers. Examples of this include:

- Embedding an approach to design of homes which will meet the needs of our citizens- for example - ensuring that all homes built to M4(2) standards, allowing flexibility if the needs of the residents change or if one of the tenants requires adaptations to be made prior to move in

- Development of an inclusive approach to lettings through the This City Lettings Policy to ensure that homes are available to all

<b>Manchester Strategy outcomes</b>	<b>Summary of how this report aligns to the OMS/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 of £33m funded by prudential borrowing has previously been approved by Full Council and the Executive towards the construction costs to deliver the first scheme through the This City housing delivery vehicle.

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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.

- Executive: Delivery of new affordable homes in Manchester – 25th March 2020
- Executive: A Housing Delivery Company – 3rd June 2020
- Executive: This City Housing Delivery Vehicle – 15th September 2021
- Executive: This City: Manchester's Housing Delivery Vehicle Business Case – 15<sup>th</sup> December 2021

## **1. Introduction**

- 1.1 The purpose of the report is to provide Economy Scrutiny Committee with an update of the creation of This City, the Council's wholly owned housing delivery company. The report will outline progress to date, on both strategic and site specific activity, along with proposed future activities.

## **2. Background**

- 2.1 Further to reports to the Executive in September and December 2021, there has been continued concerted work undertaken to establish This City as a wholly owned company and to bring forward development proposals for the first phase of delivery.
- 2.2 In September 2021, the Executive approved the creation of This City based upon the following core principles:
- Viable proposition – to ensure that as a minimum the company can repay principal and interest finance costs back to the Council as well as managing and maintaining the property to a high-quality standard;
  - Provision of an accessible tenure – that a proportion of each scheme, a minimum of 20%, is let at Manchester Living Rent, which is defined as at or below Local Housing Allowance levels;
  - Sustainability – demonstrate that a high-quality housing product, meeting zero carbon aspirations and providing affordable 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 Manchester Living Rent 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 In order to clearly articulate how This City intended to translate the objectives into delivery, a business case was approved by the Executive as a Part B report. The business case set 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

- 2.4 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.
- 2.5 A range of corporate structuring options were also considered for the establishment of This City. The company 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. For the first phase of delivery, This City will be delivered through a wholly owned Council 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.
- 2.6 To wrap around the operation of This City, there will be transparent governance, regularly reporting back to the Council as Shareholder, 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, with a set of Key Performance Indicators being established through the continued development of the company business plan, which is being led by Ernst & Young. This will ensure that there is effective oversight of operations and any emerging risks or performance issues can be mitigated appropriately.

### **3. This City – Strategic and Scheme Update**

- 3.1 As outlined, an extensive range of activity is being brought forward as part of the establishment of This City. The sections below provide an update and overview of both strategic and scheme specific activities.

#### **3.2 Strategic Activities**

##### ***Business Plan***

- 3.2.1 Ernst & Young are currently working on drafting the overarching business plan for This City. Significant work has already been done on this, with the business case being used as the basis for the development of the plan. The business plan is intended to be presented to the Executive in September for endorsement prior to the official go live of This City as a commercial entity.

##### ***Procurement Strategy***

3.2.2 Work is underway to develop a bespoke procurement framework for This City. The framework is to cover both construction of future developments and professional services to appoint multi-disciplinary design teams. It was decided to create This City's own procurement framework, rather than using one already in existence, following a workshop session with members of the North West Construction Hub, due to the different types of development that This City will want to deliver and to work with a small group of trusted contractors who are all signed up to the ethos and principles of what This City is aiming to achieve.

### ***Management, Maintenance and Lettings***

3.2.3 The Council are working collaboratively with Campbell Tickell to design a service specification for the tendering of the lettings, management and maintenance provision for This City properties. The provision of the service must be high quality and responsive, ensuring that there is a significant level of resident satisfaction. Initially, the service will be contracted to a third-party provider under a 'white label' arrangement with the longer term ambition for This City to establish its own subsidiary to provide this service. However, at this stage, due to the limited portfolio of properties which This City currently has, this wouldn't drive sufficient economies of scale to make this a financially viable proposition, hence the rationale to contract with a third party.

### ***This City Board and Governance***

3.2.4 At present, This City is operating under a Council governance structure; there is a well-established Strategic Programme Board that is chaired by the Executive Member for Housing & Development, which meets on a monthly basis. The Strategic Programme Board acts as the consultative forum for a number of activities and approaches which This City proposes to take in order to deliver the priorities outlined within the Executive endorsed business case.

3.2.5 In the coming months, a This City company board is to be established. Consideration is currently being given to which Council Members and Officers would sit on the Board to negate any conflicts of interest. Furthermore, recruitment is underway for the appointment of three Non-Executive Directors. Interest for the positions have been high, with over 90 applications received. The appointment process is currently at stage three with in person interviews being scheduled with the shortlisted candidates who have been successful to get through to this stage of recruitment.

### ***Investor Memorandum***

3.2.6 As described earlier in the report, phase 1 of development is intended to be funded via Council borrowing through the Public Works Loan Board (PWLB). For future phases the intention has always been to partner with a third-party investor. Therefore, in order to maintain momentum with the delivery of future phases, the Council is working with PwC to produce an Investment Memorandum (IM). The IM will set out opportunity for potential investors, outline any site-specific opportunities, the proposed investment structure and

transaction process. Once the IM has been prepared, it is intended to undertake a period of soft market testing with a wide range of potential investors to further refine the IM and understand the market appetite for becoming involved with This City.

### **3.3 Scheme Specific Activities**

#### ***Rodney Street***

- 3.3.1 Rodney Street is the first This City scheme to be brought forward as part of the housing delivery vehicle. The scheme comprises of 128 new homes; 118 x 1 and 2 bedroom apartments and 10 x 3 and 4 bed townhouses. The scheme will provide 70% (90) market rented homes and 30% (38) Manchester Living Wage homes, which would be let at or below Local Housing Allowance levels.
- 3.3.2 Following a procurement process, Wates have been appointed as preferred contractor for the scheme and are currently working under a pre-construction services agreement (PCSA) until planning permission has been received for Rodney Street. The planning application for Rodney Street was submitted on 13<sup>th</sup> June, with determination hoped in late September.
- 3.3.3 As part of This City's vision to have a high level of sustainability, the development is targeting certification under the Association for Environment Conscious Buildings (AECB) standards, which exceeds the Manchester Roadmap to Net Zero Carbon targets. The development will aim to use materials with a low life cycle impact, and responsibly sourced materials will be preferred, both for the main building elements and the internal finishes. Preference will be given to local manufacturers who can meet these requirements where possible.
- 3.3.4 With regards to parking, the 10 townhouses will be provided with in curtilage car parking spaces in the form of driveways. 7 accessible spaces will be provided for the apartment blocks. All on-site parking spaces will be provided with electric vehicle charging points. 30 spaces for the Rodney Street development are proposed to be allocated within the Ancoats Mobility Hub, which is to be developed on Poland Street.
- 3.3.5 The scheme has a significant element of public realm included and will be complimentary to the wider Back of Ancoats Public Realm Strategy. Both design teams have been working collaborative to come up with proposals to ensure that there is a clear synergy between Rodney Street, acting as a transitional route from Miles Platting to Ancoats Green and vice-versa.
- 3.3.6 It is to be noted that costs have been monitored closely throughout the development of the scheme to RIBA Stage 3. The construction sector still remains a volatile environment with inflation and supply chain issues very live and pertinent issues. An update on Rodney Street costs will be included as part of the report to the Executive in September on the business plan.

### ***Postal Street***

- 3.3.7 Design activity continues to progress on Postal Street, with a workshop recently held with Planning to agree principles regarding orientation and massing of the proposed development. The development proposals are now being refined in line with the advice provided. At present, the scheme is a 105 home development, which provides a mix of 1, 2 and 3 bed apartments. Once the designs are further progressed, public engagement will be scheduled to gain feedback from the local community on the proposals.
- 3.3.8 Tenders have recently been received from contactors who have bid to develop the scheme. The tenders are currently being assessed by a multi-disciplinary panel. It is hoped that a contractor to develop the scheme will be selected imminently.
- 3.3.9 At present, the site currently has an operational unit in situ. The Council will gain vacant possession of the unit and accompanying car park from the 30<sup>th</sup> June. Plans are in progress to secure the site from handover back to the Council and to demolish the building as soon as possible.

### ***Phase 2 Development Opportunities***

- 3.3.10 Work continues to identify potential opportunities for phase 2 and beyond of This City. A shortlist of five sites are currently going through a due diligence process to understand as to whether the sites are viable for development. The due diligence is in the context of development potential i.e. number of homes that could be delivered on the site and meet requirements for housing demand / requirements of any Strategic Regeneration Frameworks that may be in place, and rental yields that could be generated through the market rent homes and how attractive this could be to a potential external investor.

## **4. Recommendations**

- 4.1 The Committee is recommended to consider and note the report.