

**Manchester City Council
Report for Resolution**

Report to: The Executive – 16 November 2022

Subject: Mayfield Phase 1 Update (Part A)

Report of: Strategic Director – Growth & Development

Summary

This report provides the Executive with an update on progress on the Mayfield development and informs Members of proposals for the Mayfield Development Partnership Limited Partnership, (“the Partnership”), in which Manchester City Council (through various contractual and joint venture arrangements) is a partner, to enter into a partnership with a Land Securities Group plc special purpose vehicle for the delivery of the first phase of commercial development and to acquire an interest in the neighbouring Macdonald Hotel car park site. The report is accompanied by a Part B report, which outlines the confidential commercial terms of the arrangements for both of these transactions. Approval is also requested for the proposed financing of the transaction, and the refinancing of historic costs of the public sector limited partnership.

Recommendations

The Executive is recommended to:-

- (1) Note the progress made on delivery of Phase 1 of the Mayfield development.
- (2) Note the terms of the arrangements for delivery of Phase 1 of the commercial development of Mayfield and for acquiring the Macdonald Hotel car park site as set out in this report and the detailed confidential commercial terms for those transactions as set out within the Part B report on Mayfield Phase 1 on this agenda.
- (3) Approve a virement of £886k from the Strategic Acquisitions budget to the Mayfield budget.
- (4) Approve the use of the Strategic Acquisitions budget (£1.262m) and the Mayfield budget (£90k) to fund additional working capital to the Partnership by way of loan notes in the sum of £1.316m to facilitate and support the delivery of Phase 1 of the Mayfield development and the acquisition of the Macdonald Car Park.
- (5) Approve the use of £879k from the Mayfield budget to refinance some of the historic development costs of the public sector limited partnership.

- (6) Delegate authority to the City Solicitor to complete and enter into any necessary contractual or ancillary documents required to give effect to the above recommendations and the arrangements as set out in this report.
 - (7) Approve, in the Council's capacity as shareholder or limited partner, the entering into or completion of any necessary contractual or ancillary documents on behalf of Mayfield Development Manchester Limited, Mayfield Partnership Limited Partnership, Mayfield Partnership (General Partner) Limited, Mayfield Development Partnership Limited Partnership and Mayfield Development (General Partner) Limited required to give effect to the above recommendations and the arrangements as set out in this report.
 - (8) In accordance with paragraph 18 of Part 4, Access to Information Procedure Rules and paragraph 14 of Part 4, Scrutiny Procedure Rules of the Council's constitution, and having considered the advice of the relevant statutory officers and obtained the agreement of the Chair of the relevant scrutiny committee, to agree this matter as urgent, in that any delay caused by the key decision and call-in processes, would seriously prejudice the legal or financial position of the Council or the interests of the residents of Manchester and exempt the above decisions from call in
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Ward Affected: Piccadilly

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

Transforming previously industrial and largely derelict land into a park is a large-scale green infrastructure opportunity. Green and blue assets have been developed through opening up the River Medlock as a feature through the park, as well as sustainable draining solutions and the provision of a substantial number of new trees, providing both climate change resilience and flood attenuation. Recycling and reusing of materials during the construction of the park, has saved more than 240 tonnes of CO₂, and the park benefits from a sustainable source of irrigation from a series of Victorian wells discovered during construction, saving one tonne of carbon per year and up to three million litres of water.

The Mayfield site has an overarching sustainable development strategy that will encompass building design, maximise the opportunities from green and blue infrastructure, and encourage active travel and public transport use through improving connections.

Located next to Piccadilly Station, Mayfield is extremely well connected by public transport, including rail, Metrolink and bus, reducing the need to travel by private car. Car parking is being centralised on the site, within a multi-storey car park, with access off the Inner Ring Road, with no further parking within individual plot developments, creating a largely vehicle free neighbourhood, with minimal vehicle emissions.

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

Mayfield will be open to all residents from across Manchester, and will provide a range of job, leisure, and skills opportunities. Enhanced connections will be provided to surrounding communities, to enable them to take advantage of the opportunities offered at Mayfield and beyond (by also improving access to Piccadilly and the wider city centre).

A major new, fully publicly accessible, park has been provided on the site, providing wellbeing opportunities to residents, workers and visitors. The Council's Equality, Diversity and Inclusion Manager advised on the design of the Mayfield Park, to ensure that it is as accessible and inclusive as possible. E.g. play equipment for disabled children and regularly placed seating to provide resting points have been included.

Strong links have been made with local communities, and ongoing engagement is taking place with local schools, community group and charities. Social value is being maximised as far as possible through the delivery of the site, e.g. through local labour/apprenticeships, workshops and learning opportunities, and community events.

A range of events, appealing to different ages and community groups are held at Mayfield.

Manchester Strategy outcomes	Summary of how this report aligns to the OMS/Contribution to the Strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The scale and potential of development within this area will provide a major focus for new investment and the growth of jobs. With the potential for up to 1.6m sq ft of office space and a prominent location next to a major transport hub, Mayfield can be an attractive location for business, especially in key growth sectors, providing a range of job opportunities.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	The site has the potential to accommodate up to 10,000 new office-based jobs, in a range of sectors and levels, including in key growth sectors, such as tech/digital, creative and media. The partners will seek to maximise local employment and training opportunities from this initiative.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	The SRF seeks to maximise local employment from this initiative. Social value was included as a criterion, within the selection of the developer, and social value has already been delivered as part of the construction of the park and from

	<p>meanwhile uses. The scheme will provide new connections both to other parts of the city centre and to surrounding communities, including Ancoats and New Islington and Ardwick, providing improved access to local residents to the opportunities and amenities within the Mayfield area. The area will also provide new leisure opportunities, including a new park, accessible to all residents. The involvement of local schools and community groups is also a key part of activity on the site.</p>
<p>A liveable and low carbon city: a destination of choice to live, visit, work</p>	<p>The delivery of Mayfield will result in a major mixed-use scheme on a currently derelict site. As well as providing new high quality commercial accommodation, the new residential accommodation and the public amenities including public realm, retail and leisure opportunities, will create a desirable location in which to live and work. A major new park for the city, available for all residents and visitors, has now been completed and open to all. Located immediately adjacent to Piccadilly Station, Mayfield is also highly connected to all forms of public transport, minimising the need for car journeys to and from the area, and pedestrian and cycle routes through the area will be maximised.</p>
<p>A connected city: world class infrastructure and connectivity to drive growth</p>	<p>Located immediately adjacent to Piccadilly Station, Mayfield benefits from excellent access to all forms of public transport. The scheme will provide new connections both to other parts of the city centre and to surrounding communities, including Ancoats and New Islington and Ardwick. High quality new commercial accommodation will be provided as well as significant new public realm, including the new public park.</p>

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

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The proposals set out in this report will enable the financing of the Partnership for the short-medium term, with later phases of development providing the long term revenues for the maintenance of the site, as well as returns to the Council on their up-front land investment. The maintenance costs of the park and site are estimated to be approximately £750k for 2023/24, rising to £1.1m by 2025/26.

Financial Consequences – Capital

The acquisition of the Macdonald car park site, and further immediate cash requirements, requires the Council to fund additional working capital of £2.2m (£1.316m to the Partnership, acting through its general partner Mayfield Development (General Partner) Ltd. and £879k to the public sector limited partnership, acting through its general partner Mayfield Partnership (General Partner) Limited). Funding has been secured through use of the approved Strategic Acquisitions budget which was established to enable the council to move at pace where an opportunity arises to secure or develop an asset of strategic importance.

Whilst the level of return from future development cannot be quantified at this stage, there are appropriate “gain share” mechanisms in place within the partnership to ensure returns are secured by each partner on a proportional basis, as set out in the Part B report to Executive on the Mayfield development.

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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.

16th December 2009: Report to Executive - Mayfield SRF
10th March 2010: Report to Executive - Mayfield SRF

Mayfield SRF 2010 – Final Report

30th August 2013: Report to Executive - Mayfield SRF

30th August 2013: Report to Executive - Manchester Piccadilly HS2 SRF

Mayfield SRF Final Report – January 2014

Manchester Piccadilly HS2 SRF Final Report – January 2014

27th July 2016: Report to Executive - Mayfield Development

14th September 2016: Report to Executive - Mayfield Development Part A

7th February 2018: Report to Executive - Mayfield Strategic Regeneration Framework Update 2018

30th May 2018: Report to Executive - Mayfield Strategic Regeneration Framework Update 2018

Manchester Piccadilly Strategic Regeneration Framework 2018

1. Introduction

- 1.1 Mayfield occupies a 30-acre site adjacent to Piccadilly Station, and sits within the Eastern gateway of the city centre. An updated Strategic Regeneration Framework (SRF) was approved by the Executive in May 2018, as part of the overall SRF for Piccadilly, following a public consultation. The Mayfield SRF presents a vision for the area as a distinctive new mixed-use urban neighbourhood that defines a key gateway into Manchester; extends the high quality environment of the city centre; and provides key linkages between East Manchester and the city centre.
- 1.2 As outlined in the 2018 Mayfield SRF, development will be phased over the next 10 years and, upon completion, Mayfield is expected to deliver 1.6 million sq ft of office space, 1,300 new homes and 300,000 sq ft of retail and leisure amenities. Up to 10,000 new jobs are expected to be accommodated on site when fully built out. In addition to the new 6.5 acre park, a further 6.5 acres of public realm will be delivered. Significant steps have now been made to enable the delivery of this vision.
- 1.3 Progress on Mayfield shows the continued confidence in the ongoing development of the city, providing crucial economic growth and resilience to help counter the current economic climate.

2. Background

- 2.1 Reports to Executive in September 2016 advised Members of the selection of U&I PPP Limited (“U+I”) by the Council, working with TfGM and LCR (the public sector partners taking forward the Mayfield development) as preferred private sector development partner for the site, following a full procurement process, and the proposed commercial and contractual arrangements between U+I and the public sector partners. The Executive gave approval to the City Solicitor to complete and enter into the necessary contractual arrangements with U+I and the public sector partners, to form the Public Sector and Partnership joint ventures.
- 2.2 The Council is a limited partner in the Public Sector joint venture (Mayfield Partnership Limited Partnership) through its wholly owned company Mayfield Development Manchester Ltd, and the Public Sector joint venture (acting by its general partner Mayfield Partnership (General Partner) Limited) is then a limited partner in the Partnership (Mayfield Development Partnership Limited Partnership) joint venture with U+I.
- 2.3 Since then, U+I have been acquired by a Land Securities plc group company (“Landsec”) in December 2021, who are now looking to take forward the first phase of commercial development, following the completion of the Mayfield Park in September. The first phase includes two office buildings, and a multi-storey car park, as well as the park. A further Phase 1b is proposed which would comprise of the first three residential buildings (a detailed design and planning application still need to be completed for Phase 1b and will be subject to consultation).

- 2.4 There is an opportunity for the Partnership to acquire the car park site next to the Macdonald Hotel (which is covered within the SRF boundary) from its current owner and an offer to purchase the site has been accepted in principle. Securing this site is key to ensuring the successful delivery of the vision set out in the Mayfield SRF and will ensure the Partnership has strategic control over its future development.
- 2.5 This report, along with the Part B report on this agenda, provides Members with an update on the delivery of the first phase of Mayfield and further details of the proposed arrangements with the Partnership and Landsec to take forward the commercial development, and the acquisition of the hotel car park site.

3. Progress to Date

- 3.1 Despite some delays caused by the COVID-19 pandemic, substantive progress has now been made on delivering the first phase of Mayfield, which will set a strong foundation for realising the overall development. Planning permission was achieved in September 2020 for the first phase of development, which includes the Mayfield Park; two office buildings 'The Poulton' and 'Republic', together providing around 300k sq ft of commercial space, with ground floor retail and leisure use, leading to new jobs and leisure opportunities; and a multi-story car park.
- 3.2 Following approval of £23m from the Government's Getting Building Fund, the Mayfield Park is now complete and was opened to the public by the Leader of the Council in September 2022. The park provides 6.5 acres of space for Manchester residents, workers and visitors to enjoy, transforming a previously industrial site into a series of connected spaces, with a range of 120 mature and semi-mature trees, 120,000 plants and shrubs, a large public lawn, riverside walkways and the city's largest play area. At the heart of the park is the River Medlock, which has been restored and is now attracting new wildlife.
- 3.3 The Mayfield Park will help the Council to meet its target of becoming net zero carbon by 2038, including by recycling and reusing of materials during the construction (saving more than 240 tonnes of CO₂) and the provision of sustainable irrigation.
- 3.4 Place making and a strong identity has already been established at Mayfield, as a destination for diverse and varied events and activity that is accessible for all. Activities include Escape to Freight Island (F&B and entertainment offer), largescale music events, MIF events and community activities such as a school allotment project. Escape to Freight Island has supported over 50 local businesses, and a total of 1,200 jobs, just over 200 of which are full time. Strong links have been made with local schools, community group and charities, e.g. local school children were given an opportunity to be involved in planting during construction of the park, and 100 children from 5 schools across the city attended its launch and were among the first to use the park, with a range of activities provided.

4. Next Phase

Phase 1 Arrangements with Landsec

- 4.1 Following the acquisition of U+I, Landsec have expressed a desire to progress with the first phase of commercial development at the earliest opportunity. The delivery of Phase 1 will kickstart the future phases of development, provide essential investment to the site, and begin to bring new businesses and jobs to the area.
- 4.2 The Partnership have been negotiating with Landsec on development delivery arrangements to deliver the first phase, and are now looking to enter into this arrangement, which could then be extended to future phases. The agreement does not alter the terms of the overarching Public Sector and Partnership joint venture arrangements, reported to the Executive in September 2016.
- 4.3 The public sector partners have been advised by an independent property agency and every care has been taken to ensure that the partners receive best value from the arrangements and that any risks to the Council and the other public sector partners are minimised. However, it should be noted that should the delivery arrangements fail, and the expected receipts are not received through the re-development, the Partnership will be required to meet the future costs of the maintenance of the site, including the running costs of the park. These are estimated to be £750k for 2023/24, and reaching £1.1m p.a. by 2025/26.
- 4.4 The key terms of the Phase 1 delivery arrangements are outlined in the Part B report included with this agenda.

Acquisition of Macdonald Hotel site

- 4.5 The current owners of the Macdonald Manchester Hotel on London Road recently marketed the car park adjacent to the hotel for sale as it is considered to be surplus to their operational requirements for the hotel. This site is included within the Mayfield SRF and is marked on the plan at Appendix 1. The Mayfield Partnership made an offer to the owners to purchase the site, with the price based on independent valuation advice. This offer has now been accepted and terms agreed, in principle, for the sale (as outlined in the Part B report).
- 4.6 The Macdonald Hotel Car Park is a key site, which sits at an important gateway position to the Mayfield site. Any future development by a third-party that is inconsistent with the wider Mayfield site in terms of use or quality could present a risk to the Partnership's investment at Mayfield, potentially negatively impacting reputation and / or value. The acquisition of the Macdonald Hotel car park safeguards the site, ensuring that development is in line with the principles of the SRF, and complementary to the vision for the wider area. It also provides a further redevelopment opportunity for the Partnership. In addition, it will enable future development to generate revenue

which can contribute to the ongoing maintenance of the estate, including the recently completed public park.

- 4.7 The acquisition costs will be met by the public and private sector partners which make up the Partnership, in line with their respective interests. This means that the Council's contribution (including fees and applicable VAT and SDLT) to the acquisition will be £1.262m. It is proposed that these costs are funded from the existing approved Strategic Acquisitions Budget. This payment will be paid by the Council on behalf of its wholly owned company Mayfield Development Manchester Ltd to the public sector limited partnership for onward funding to the joint venture Partnership (acting through Mayfield Development (General Partner) Ltd).
- 4.8 In addition, there is a requirement for additional working capital from the public and private sector partners in the Partnership in order to maintain the operational and development activities of the Partnership and enable the preparations needed for the delivery of Phase 1. The Council has previously provided land and working capital to a value of approximately £4.25m. to the Partnership. The Council's share of the additional capital is £90k, of which £83k is already budgeted for within the Mayfield budget. It is proposed that the £7k difference is transferred from the Strategic Acquisitions Budget to the Mayfield Budget and that the £90k from the Mayfield budget will then be paid out in the same way as above.
- 4.9 To support the public sector limited partnership's funding of the acquisition and enable the development to progress there is also a need to refinance the existing public sector partnership (which makes up 50% of the overall Partnership joint venture). Significant historic costs were incurred relating to the original procurement of U+I, costs for negotiating the original public sector and Partnership agreements and the more recent property advice to inform the Phase 1 arrangements. These costs were initially cash-flowed on behalf of the public sector joint venture by LCR and were due to be repaid from the distribution of development profits flowing down from the Partnership to the public sector joint venture. However, due to timings of these development returns and the current need for additional capital funding into the Partnership, the public sector partners have agreed that the Council and TfGM will reimburse their share of these costs now to ensure the cashflow is in place to progress the next phases of the development.
- 4.10 The Council's share of the historic development costs is £879k. It is proposed that this sum is transferred from the Strategic Acquisitions Budget to the Mayfield Budget in order for the Council to meet its share. The payment will be paid by the Council on behalf of its wholly owned company Mayfield Development Manchester Ltd to the public sector limited partnership.
- 4.11 It is anticipated that the refinancing of historic public sector partnership costs and the additional capital funding to the Partnership will enable the realisation of future capital receipts provided from the longer-term re-development of the Mayfield site, including from the development of the Macdonald car park site. Whilst the level of return cannot be quantified at this stage, there are

appropriate “gain share” mechanisms in place within the partnership to ensure returns are secured by each partner on a proportional basis, which are considered to provide best value to the Council.

5. Urgency and Exemption from Call In

- 5.1 There is a need for the arrangements to be finalised as quickly as possible, due to timescales for completion of the Macdonald car park acquisition, to safeguard the ongoing delivery of the Mayfield development to provide further growth and jobs, and to fund the ongoing maintenance of the park and the wider site.
- 5.2 The exchange of contracts on the Macdonald car park is expected to take place by 18 November 2022, meaning that there would not be sufficient time for the report to be referred back through the next cycle of Scrutiny and Executive meetings. Completion of the contracts on this date would safeguard the agreed purchase price and protect against the Partnership from paying an increased price at a later stage.
- 5.3 There is also an expectation that the Phase 1 development delivery arrangements will be concluded imminently. As well as enabling the next phase of development, bringing new businesses and jobs to the city during a difficult economic climate, the completion and execution of these arrangements will help to fund the maintenance costs of the park and wider site and help to protect the Council’s interests.

6. Conclusions

- 6.1 Mayfield is a key strategic site for the city, which presents a significant opportunity to regenerate a previously derelict area, to provide a new mixed-use neighbourhood, in a highly accessible location next to a major transport hub, bringing new jobs, commercial and amenity space, and connections to surrounding areas.
- 6.2 Substantial progress has now been made on delivery of the regeneration of the area, delivering benefits which include the opening of the city’s first new public park for 100 years, and early jobs and leisure opportunities for local people. The proposed provisions set out in this report will continue the momentum of development, enabling delivery of the first commercial buildings, and stimulate further phases of development. This will make an important contribution to the longer term economic growth of the city, securing both new temporary construction and permanent local jobs, particularly important in the current economic climate.

7. Recommendations

- 7.1 Recommendations appear at the start of the report.

8. Legal Considerations

- 8.1 The public sector and Partnership joint venture documents set out the arrangements for funding of, and returns from, the relevant partnership, together with mechanisms for the delivery of development. The proposals as set out in this report and within the Part B report align with these arrangements.
- 8.2 The Council's legal team, together with the public sector partners' external legal advisors will continue to support and advise the project team on the commercial arrangements in respect of Mayfield, to ensure that suitable measures are put in place to protect the Council's investment and to comply with the partnership arrangements and all relevant legislation.