

**Manchester City Council  
Report for Resolution**

**Report to:** The Executive – March 15, 2024

**Subject:** The Delivery of This City: Phase 2

**Report of:** Strategic Director (Growth and Development)

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**Summary**

This report provides an update on the advancement of This City, the successful application for £10m of brownfield grant funding and the opportunity to scale up the delivery of around 1500 new low carbon, mixed tenure homes.

Approval is sought to progress procurement of a private sector funding partner based on the conclusions of a comprehensive market testing exercise which has assessed the merits of potential investment and delivery partnership models.

**Recommendations**

The Executive is recommended to:

- (1) Note the progress made to deliver the aspirations of This City to ensure a pipeline of viable mixed tenure homes.
  - (2) Approve the proposal to undertake a competitive process to secure an investment partner to accelerate the delivery of the pipeline of low carbon mixed tenure homes.
  - (3) Delegate authority to Strategic Director Growth & Development in consultation with the Executive member for Housing to finalise the selection and appointment process of the investment partner.
  - (4) Delegate authority to Strategic Director Growth & Development to negotiate and agree the detailed terms of the contractual, commercial and ancillary arrangements between the Council and the investment partner with the outcome of the process and final terms to be reported to a future meeting for approval
  - (5) Delegate authority to the City Solicitor to do all things necessary or incidental to give effect to the recommendations as set out in this report.
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**Wards Affected:** All

<p><b>Environmental Impact Assessment</b> -the impact of the issues addressed in this report on achieving the zero-carbon target for the city</p>	<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>
<p><b>Equality, Diversity and Inclusion</b> - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments</p>	<p>N/A</p>

<b>Manchester Strategy outcomes</b>	<b>Summary of how this report aligns to the OMS/Contribution to the Strategy</b>
<p>A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities</p>	<p>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 to attract investment and provide a housing offer to those working on lower incomes.</p>
<p>A highly skilled city: world class and home grown talent sustaining the city's economic success</p>	<p>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.</p>
<p>A progressive and equitable city: making a positive contribution by unlocking the potential of our communities</p>	<p>The scale of development envisaged will provide much needed accommodation which will be delivered across a range of communities to meet the needs of the city.</p>
<p>A liveable and low carbon city: a destination of choice to live, visit, work</p>	<p>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.</p>

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

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

### **Financial Consequences – Revenue**

There are no direct revenue consequences as a result of the proposals in this report. However, if the commercial model requires the Council to part-finance development this could incur revenue costs such as interest and minimum revenue provision, depending on how it is financed.

### **Financial Consequences – Capital**

There are no direct capital consequences as a result of the proposals in this report, beyond the broadening of the existing budget approval for This City to cover all of the phase 2 sites. Further, it is expected that there will be a requirement for the Council to invest in the phase 2 development through This City, alongside another investor. Any such proposals will be subject to additional approvals via the Council’s capital approval process and would likely be the subject of a further report to Executive.

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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 – 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
- Executive: This City: Manchester’s Housing Delivery Vehicle Business Case – 15<sup>th</sup> December 2021
- Economy Scrutiny: This City Progress Update – 23<sup>rd</sup> June 2022
- Executive: Capital Programme Monitoring Q3 2022/23 - 15<sup>th</sup> February 2023
- Economy & Regeneration Scrutiny Committee – July 18, 2023

## 1.0 Background

### About This City

- 1.1 This City is a new kind of housing company, seeking to not just deliver affordable low carbon housing but to create communities.
- 1.2 A minimum of 20% of the new homes will be available at Manchester Living Rent, at or below the Local Housing Allowance level, which means they will be accessible to those receiving housing benefit.
- 1.3 The company will meet the high demand for housing and invest to build genuinely great housing and neighbourhoods for the benefit of all Mancunians:
  - Homes for all – for a fairer city where everyone can thrive
  - Low Carbon – to contribute to Manchester’s Zero Carbon future
  - Local Economy – creating good, green jobs and skills for Manchester people
- 1.4 The purpose of This City is to act as a commercial entity, capable of delivering much needed Manchester affordable rent housing to the people of Manchester. Where activity is through partnership with the private sector, it will be especially important that the housing company is able to act with a level of autonomy and agility to respond to opportunities that maximise affordable housing and financial returns for re-investment.
- 1.5 The objectives of This City align with the Our Manchester Strategy 2016-2025 the recently refreshed Housing Strategy (2022-2032). The following objectives were agreed by the This City Board and MCC Executive in September 2021 as part of establishing the entity:
  - A viable proposition: At a minimum, the pilot scheme development activity repays debt and interest payments to the Council; future phases of development activities will deliver an appropriate shareholder return (in order to attract third party investment).
  - Provision of an Accessible rent tenure: A minimum of 20% of all schemes is provided at a new ‘Accessible Rent’ level;
  - Proof of Concept: Provides high quality housing that meets the Council’s zero carbon aspirations and tenure targets / Manchester’s sub-market housing needs;
  - Retention of Control: The company retains control of rent setting, management and lettings functions for all assets;
  - Commercial with a conscience: Development activity maximises the provision of affordable homes through a cross-subsidisation model and delivers on social value metrics, supports zero-carbon ambitions; and
  - Scalable and adaptable model: Once operations have been optimised, This City aims to deliver up to 500 homes per year. The structure of the company allows for agile inward investment in later phases.

- 1.6 It was intended that This City will seek an investment partner to work with to drive forward new developments beyond the initial phase, 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.

### Formation

- 1.7 A Company Board comprising of Directors and Non-Executive Directors with the appropriate skills was created and formally established in June 2023. The Board work to a defined Delegations Matrix, highlighting the decision-making authority which the Board has and what should be referred to the Shareholder.
- 1.8 With regards to Directorships, the Deputy Executive Member for Housing and Development alongside the Strategic Director for Growth and Development took up positions on the Board. In addition, two senior Council Officers from Finance and Neighbourhood directorates and four non-executive directors were recruited.

Table 1: Appointed non-executives:

<b>Name</b>	<b>This City Role</b>	<b>Employment</b>	<b>Expertise</b>
Adam White	Chair	Exec Director CBRE – Development Advisory services	Development Viability
Helen Robinson	Vice Chair	Legal Professional	Legal & procurement
Matthew Harrison	Non-exec	CEO Great Places housing group	Housing
Heath Thomas	Non-exec	Regional Director NatWest – Real Estate & Housing	Funding

### Rodney Street

- 1.9 This City appointed Wates Construction to deliver the first development, located on Rodney Street in Ancoats. This will deliver 129 new low carbon homes for rent, 30% of which are set at Manchester Living Rent.
- 1.10 Construction commenced in May 2023, enabling 8 direct new hires and employing 54 Manchester residents full time to date on site. Furthermore, it has provided access to an average of 4 T-levels/apprentices per week to learn valuable work experience in low carbon construction and development.
- 1.11 The scheme continues to make steady progress, remains within the construction budget and is on track to complete by May 2025, in line with the contract programme.

## Brownfield Housing Grant

- 1.12 This City and Manchester City Council Strategic Housing officers have coordinated a successful application to the Greater Manchester Combined Authority Brownfield Housing Fund.
- 1/13 This funding is part of the trailblazer agreement between Government and Greater Manchester over three years to unlock brownfield land for new housing.
- 1.14 This funding will provide gap funding to ensure the overall This City pipeline remains an investable proposition, accelerating construction and the delivery of much needed quality housing.

Table 2: details of GMBHF allocations

<b>Site</b>	<b>Homes</b>	<b>Grant</b>
Grey Mare Lane (Ancoats & Beswick)	136	£2,720,000
Hyde Road (Longsight)	84	£1,680,000
Monsall phase 1 (Harpurhey)	175	£3,500,000
Postal Street (Piccadilly)	111	£2,220,000

- 1.15 The funding is conditional on there being meaningful project commencement activity by the end of 2025.

## **2.0 Phase 2 pipeline**

- 2.1 In December 2021 the Council Executive approved the This City Business case, in which the first development would be directly delivered by Manchester City Council. This first development is now underway, in the construction of Rodney Street as set out in this report.
- 2.2 The future pipeline of This City constitutes six sites, in five electoral wards and totals around 1500 new homes. It should be noted that the final land and commercial arrangements will be submitted to Executive for approval at a later date.
- 2.3 Phase 2 of the original Business Plan as approved by the Executive in December 2021 envisaged procurement of an investor partner to scale up funding to enable the delivery of a larger scale of new homes and to lessen the requirements of Council financial risk – particularly in relation to borrowing via Public Works Loan Board.
- 2.4 To inform our next steps, build up the evidence of what an investable proposition is composed of and to identify and mitigate the financial and reputational risks to the Council, PwC were commissioned to conduct soft market testing with a range of potential investment and development partners.

### **3.0 Market testing**

- 3.1 Prior to commencing market testing, PwC concluded high level viability assessments on the proposed development sites. A commercial model has been created identifies a delivery vehicle that ensures equitable decision making.
- 3.2 Soft market testing has confirmed that there is interest from the market to invest capital into the residential Private Rented Sector and appetite to fund the delivery at scale of the This City Phase 2 pipeline.
- 3.3 Any financial proposal, land transaction and commercial arrangements will be subject to approval by the Councils Executive at a later date following the conclusion of negotiations with the preferred partner.

### **4.0 Initial Phase 2 budget**

- 4.1 Given the timescales required to comply with the Brownfield Land Funding conditions and in parallel with the negotiations to find a preferred partner, site investigations and preliminary design works need to begin during Spring 2024. It is estimated that a budget of £0.75m would be required for this work, to develop all of the potential schemes through the initial stages to RIBA stage 1 design.
- 4.2 This work will support the discussions with the ultimate partner on the sites, and the site investigation works would be required by the Council to support any development on the sites, not just the This City proposals. The intention would be that the works would form part of the Council's investment into the final delivery vehicle for the sites.
- 4.3 It is proposed to broaden the use of the existing £2.4m budget allocated to initial works on the Postal St site, approved by Executive in September 22, to cover all the initial phase 2 sites and therefore enable it to be used for the site investigations and preliminary design work.

### **5.0 Risks and Mitigations**

- 5.1 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:
- 5.2 **Volatility of the construction sector:** Cost increases in the construction sector have risen steeply over the past two to three years. While current inflation has reduced, it is still higher than targeted baselines. Careful cost controls and monitoring are required to map the inflation impact to viability. Baseline design standards have been created for This City that also aid standardisation in design development and help prevent design scope creep.



- 5.3 **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 less turbulent spikes now seen can be matched by inflationary projections in the project budgets.
- 5.4 **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.
- 5.5 **Availability of 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.
- 5.6 **Meeting grant funding timeframes:** Developments accepted for brownfield grant funding must have made a meaningful start by the end of 2025. While this schedule can still be achieved any significant delays will put the grant funding at risk.

## 6.0 Recommendations

- 6.1 The recommendations are set out at the front of this report

## 7.0 Contributing to a Zero Carbon City

- 7.1 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.
- 7.2 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.

## 8.0 Contributing to the Our Manchester Strategy

### (a) A thriving and sustainable city

- 8.1 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**

- 8.2 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**

- 8.3 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**

- 8.4 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**

- 8.5 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.

## **9.0 Key Policies and Considerations**

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

- 9.1 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**

- 9.2 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**

- 9.3 The Council established This City in 2021 as a company limited by shares to deliver a pipeline of low carbon affordable homes. Under the proposals set out in this report it is intended to secure an investment partner to accelerate the delivery of the housing. The approach to the competitive process is being discussed with legal advisors to ensure compliance with any applicable legal and regulatory requirements.

- 9.4 The Council has secured Brownfield Housing Funding from the GMCA. The commercial and property documents associated with securing the funding are being reviewed and negotiated by the Council's legal team.
- 9.5 Both internal and external advice continues to be provided to ensure that the approach to the creation and ongoing development of the company meets legal and regulatory requirements.