

**Manchester City Council
Report for Resolution**

Report to: Resources and Governance Scrutiny Committee – 18 June 2019
Executive – 26 June 2019

Subject: Strategic Acquisitions in the Northern Gateway

Report of: Strategic Director (Development)

Summary

This report summarises the context and benefits associated with the provision of a commercial loan facility to Far East Consortium International Limited (FEC) to support strategic land acquisition as part of the Northern Gateway programme. Commercially sensitive content, including the draft Heads of Terms is included within the Part B report attached to this agenda item.

Recommendations

The Resources and Governance Scrutiny Committee is invited to comment on the report and endorse the recommendations to the Executive as detailed below.

The Executive is recommended to: -

1. Note the content of this report and the proposed approach to facilitating strategic land acquisitions within the Northern Gateway SRF area.
 2. Note that the proposals to provide a term loan Facility to Far East Consortium the details of which are set out in the separate Part B Report.
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Wards Affected

Piccadilly; Cheetham; Harpurhey; Miles Platting and Newton Heath

Manchester Strategy outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The Northern Gateway will expand the city centre in a northern direction establishing sustainable mixed-use neighbourhoods including new jobs and employment opportunities.
A highly skilled city: world class and home grown talent sustaining the city's economic success	The Northern Gateway will provide direct employment opportunities and also meet the demand for housing from residents who wish to live close to the skilled employment opportunities located in and around the Regional Centre.
A progressive and equitable city:	Development of the Northern Gateway offers the

making a positive contribution by unlocking the potential of our communities	potential to deliver on the objectives of the Manchester Residential Growth Strategy and meet the growing demand for high quality new housing in the City.
A liveable and low carbon city: a destination of choice to live, visit, work	The Northern Gateway development opportunities will support the delivery of new residential developments using state of the art technologies and low carbon construction methods.
A connected city: world class infrastructure and connectivity to drive growth	The master-planning of new neighbourhoods within the Northern Gateway will include traffic and transport planning, ensuring that various modes of transport (car, bus, rail, Metrolink, cycle, and walk) are provided for.

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 immediate revenue consequences at this stage of the process.

Financial Consequences – Capital

As part of the Council's Capital Programme budget 2017-2022, £25m has been allocated to promote residential growth in the Northern Gateway through land assembly and the provision of core infrastructure. This funding will be utilised alongside capital investment capability generated by the Housing Revenue Account to partly fund an initial phase of development activity in Collyhurst. Detailed funding proposals, for the release of all capital expenditure, will be subject to approval through the Capital Strategy checkpoint process.

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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.

- Northern Gateway: Implementation and Delivery, Executive, 13 February 2019
- Northern Gateway Strategic Regeneration Framework, Executive, 13 February 2019
- Residential Growth Strategy: Action Plan Update, Economy Scrutiny Committee, 9 January 2019
- Manchester's Affordable Housing Strategy - Proposed New Affordable Housing Policies for The Council, Executive, 12 December 2018
- Northern Gateway Draft Strategic Regeneration Framework Update, Executive, 25 July 2018
- The Northern Gateway - Progress Update, Executive, 7 March 2018
- The Northern Gateway – Driving Forward Residential Growth, Executive, 8 March 2017
- Northern Gateway – Driving Forward Residential Growth on the Northern Edge of the City Centre, Executive, 9 September 2015
- Manchester Residential Growth Strategy and Action Plan 2016/17, Executive, 2 March 2016

1.0 Introduction

- 1.1 Manchester City Council entered into a Joint Venture (JV) with the Far East Consortium (FEC) in April 2017 for the comprehensive redevelopment of the Northern Gateway for housing and ancillary development. As part of the delivery arrangements, the Council and FEC established a JV company, Northern Gateway Operations Limited (OpCo), to have strategic input into and oversight of the development of the Northern Gateway.
- 1.2 On 13 February 2019, the Executive formally approved the SRF for the Northern Gateway, a 155 Hectare land area made up of the adjacent neighbourhoods of New Cross, the Lower Irk Valley and Collyhurst and where the opportunity exists to deliver up to 15,000 new homes over a 15 - 20 year period.
- 1.3 In advance of this major milestone being reached the JV has been preparing an infrastructure strategy with a specific emphasis on unlocking development sites over an initial 5-year period. Work is also nearing conclusion on the production of a Strategic Business Plan, including detailed financial modelling, which will be used to guide investment and underpin the sequencing of development.
- 1.4 A key component to all of this is a clear strategy with regards to land assembly. As part of the JV agreement FEC will, as the appointed Development Manager, be required to assemble further sites for development. It is critical to the JV that the Partnership owns a sufficient area of land to ensure that coherent development plots can be identified and a series of initial planning applications are prepared and submitted as soon as possible.

2.0 Commercial Loan Proposal

- 2.1 There are some areas within the Northern Gateway area, most notably within the Phase 1 development area, where the JV partners will be seeking to make strategic land acquisitions to facilitate comprehensive development activity. FEC have already acquired two sites within the area since formation of the JV and Heads of Terms have been agreed for a third large site.
- 2.2 Given the potential upfront costs associated with acquiring sites for future development, the parties have explored opportunities for a co-investment arrangement. It is proposed that co-investment in land assembly will be in the form of a commercial loan set at a rate of interest acceptable to both parties and which would be State Aid compliant.
- 2.3 The co-investment in land assembly via a fully recoverable commercial loan provides the following benefits:
 - Significant land assembly can be acquired in the Lower Irk Valley and New Cross in order to fully realise the Northern Gateway opportunity and deliver the level of housing growth anticipated;

- Co-investment will provide confidence to our JV partner, especially given the long term approach that they will need to take to generating commercial returns;
- Co-investment will allow FEC to stretch their own capital outlay further, supporting a range of other activities associated with delivering the Northern Gateway vision;
- The outlay secures developable sites which stands to benefit the Council financially in accordance with the “waterfall” terms of the JV Agreement;
- The alternative approach to land assembly is that the Council buys sites itself and passes them into the JV at a time when FEC are able to develop them. This will be a more expensive and riskier option, as land values could fall in the interim, plus we would have to bear holding costs.
- The loan enables the Council’s capital commitment to be ‘go further’ as it will be recovered (with interest) and can be recycled back into other Northern Gateway workstreams;

2.4 The loan would be expected to be provided on a maximum loan-to-value rate of 50% with the Council having first charge on the land in order to protect its position and with a parent company guarantee provided by FEC. The loan would be funded through the £25m allocated to Northern Gateway activity as part of the 2017-2022 Capital Strategy. The loan approach has the potential to facilitate delivery of the same, if not greater, quantity of new homes at considerably lower risk, than if the Council were to acquire the land directly.

2.5 To ensure that the JV can make progress in implementing development activity, aligned to the projected infrastructure interventions, land acquisitions must move at pace. This will allow FEC to submit a planning application and start on site with the first development in 2019/20.

3.0 Concluding Remarks

3.1 The provision of a commercial loan facility to support the acquisition of additional sites for the purposes of bringing forward comprehensive development and regeneration of the Northern Gateway is considered to be a sensible option for the reasons as set out above.

3.2 Commercially sensitive content, including the draft Heads of Terms, is included within the Part B report attached to this agenda item.

4.0 Contributing to the Our Manchester Strategy

4.1 (a) A thriving and sustainable city

The Northern Gateway will expand the City Centre in a northern direction establishing sustainable mixed-use neighbourhoods including new jobs and employment opportunities.

4.2 (b) A highly skilled city

The Northern Gateway will provide direct employment opportunities and also meet the demand for housing from residents who wish to live close to the skilled employment opportunities located in and around the Regional Centre.

4.3 (c) A progressive and equitable city

Development of the Northern Gateway offers the potential to deliver on the objectives of the Manchester Residential Growth Strategy and meet the growing demand for high quality new housing in the city.

4.4 (d) A liveable and low carbon city

The Northern Gateway development opportunities will support the delivery of new residential developments using state of the art technologies and low carbon construction methods.

4.5 (e) A connected city

The development of new neighbourhoods within the Northern Gateway will include traffic and transport planning ensuring that various modes of transport (car, bus, rail, Metrolink, cycle, and walk) are provided for.

5.0 Key Policies and Considerations

5.1 (a) Equal Opportunities

A key aim of the Northern Gateway is to deliver residential led development providing a significant number of high quality homes and alongside commercial development. This will both meet increasing levels of demand for housing within the regional hub and create new city centre employment opportunities.

5.2 (b) Risk Management

The risks associated with the project will be managed by the Strategic Development Team using the Manchester Method Project Management methodology. Risks will be escalated and decisions made in accordance within the agreed governance structure.

5.3 (c) Legal Considerations

The Council's legal team will continue to support and advise the project team. All activity, including the development of the commercial loan facility agreement and the implementation of initial phases of delivery in the Northern Gateway SRF area will include full input and support from representatives of the City Solicitor, augmented by external legal advice as and when necessary to ensure that arrangements are put in place which sufficiently protect the Council, and comply with all legislative requirements.