

MAYORAL DEVELOPMENT CORPORATION INVESTMENT FACILITY**Report of the Borough Treasurer, Corporate Director for Place Management & Regeneration****1. INTRODUCTION AND PURPOSE OF REPORT**

- 1.1. The Council has set out an ambitious long-term vision for the future of Stockport's Town Centre West through its Strategic Regeneration Framework (SRF) for the area which sets out how up to 3,500 new homes could be brought forward in the area, along with the supporting social infrastructure, in Greater Manchester's newest, coolest, and greenest urban village.
- 1.2. The Council's ambition for the area, and track record of successfully bringing forward development, has led to the creation of Greater Manchester's first Mayoral Development Corporation (MDC) to bring together the Council, Homes England, Greater Manchester Combined Authority, and the Greater Manchester Mayor and lead delivery by working in partnership with private sector landowners and developers.
- 1.3. The Council's regeneration ambition is currently being refined to reflect the responses to the public consultation on the SRF and a final version is due to be submitted to Cabinet in November for approval. Once approved, work will begin to turn the SRF into a Supplementary Planning Document which will help ensure that planning decisions in the area are aligned with the overall regeneration ambition.
- 1.4. In parallel, the 'Stockport Town Centre West Mayoral Development Corporation (Establishment) Order 2019' came into force on 2nd September and the MDC was formally established at its first board meeting on 9th September.
- 1.5. The creation of the Stockport Town Centre West MDC sends a very strong message to the property industry about the commitment of the public sector to Town Centre West. The MDC will take responsibility for working with the Council, the Greater Manchester Mayor, Homes England, Greater Manchester Combined Authority, other relevant statutory public bodies, landowners, and developers to bring forward the scale and character of development consistent with the Council's confidence in the potential of its Town Centre.
- 1.6. In the first phase of its delivery lifecycle, the MDC will take an essential leading role in pump priming development activity through initial land acquisitions and site assembly works, packaging sites and bringing them to the market, leveraging public and private sector investment, and unlocking the infrastructure investment required to support development on this scale.
- 1.7. This report sets out an overall strategic approach to supporting delivery through the MDC in the context of the Council's existing blended approach in the

Investment & Development Account across retail, leisure, office, hotel, light industrial, and residential sectors. It also proposes the creation by the Council of an investment facility including loan, equity and grant mechanisms to support the MDC which will enable it to access funding, subject to appropriate Council scrutiny and approval processes, to kick start development activity in Town Centre West.

- 1.8. This investment approach focuses on the Council's approach to accelerate delivery in Town Centre West. The MDC will, however, produce an annual Strategic Business Plan that will be submitted to the Council and Greater Manchester Combined Authority for approval prior to adoption by the Corporation. The MDC's initial interim Strategic Business Plan is addressed at Section 5 of this report but the first full-year Strategic Business Plan will require the production of a comprehensive multi-agency MDC Investment Strategy which includes the Council's commitment and which sets out what investment capacity is available to the MDC to support delivery.

2. RATIONALE FOR COUNCIL SUPPORT TO THE MDC

- 2.1. Over recent years the Council has demonstrated an appetite for taking a proactive role in regenerating its town centre by using its own resources, carefully assessed in terms of anticipated return and risk, to bring forward appropriate development which the market is unable to deliver alone. Through a blended approach to investment the Council has been able to directly deliver a range of regeneration schemes and influence market conditions in Stockport to create an increase in private sector investment and
- 2.2. Stockport does, however, still suffer from a range of constraints and barriers to deliver in terms of current values and viability, fragmentation of land ownership, remediation and abnormal costs, and infrastructure provision. It is the responsibility of the Stockport MDC to address and overcome these challenges in Town Centre West to successfully deliver the scale of change set out in the SRF. The MDC's unique ability to act as a single institutional platform from which to engage the property industry and wider public sector – combined with its statutory powers around land acquisition - will ensure that the approach to regeneration which it develops will be significantly more comprehensive than any developed by the Council acting alone.
- 2.3. The Council's confidence in the potential of its Town Centre and the ability of the MDC to deliver development at-pace and at-scale provides the conditions in which targeted Council investment, and the creation of a capital facility, in support of the MDC could significantly accelerate delivery.
- 2.4. Any Council investment in support of the Mayoral Development Corporation will be brought forward in line with the Capital Strategy which sets out the framework within which the Council will deploy, manage, and optimise its capital resources as it delivers its strategic objectives. In particular, the key guiding principles that ensure the Council has an affordable, prudent, and sustainable capital programme will shape all future resource allocation, project appraisal, and investment decision-making to support regeneration through the MDC.

- 2.5. The Council's commitment to the MDC is based primarily on its potential to deliver housing and regeneration outcomes in Town Centre West. But it is reinforced by the exceptionally strong commitment to it demonstrated by Homes England. As the Government's national housing delivery agency, Homes England is an essential partner in terms of its strategic role at the heart of Government, its capacity to invest to acquire land and enable scheme delivery, and the significance of its role in shaping the housing market.
- 2.6. The senior-level support Homes England have shown for the MDC represents a very strong foundation for coordinated working on land acquisition in Town Centre West and alignment of funding programmes. As part of the Agency's work to update its delivery model in line with its updated mission and Strategic Plan, Council officers are working closely with colleagues in Homes England to explore opportunities to utilise the full range of Homes England funding, powers, expertise, and influence to support delivery across Town Centre West.

3. INVESTMENT OBJECTIVES

- 3.1. The primary objective of a strategic approach to Council investment to support delivery through the MDC is to ensure that it is able to access appropriate funding to pump-prime development activity in Town Centre West that will generate housing delivery that realises the ambition in the SRF and that helps address the Borough's wider housing requirements.
- 3.2. Commitment from the Council to investing in support of the MDC's business plan and delivery MDC provides significant confidence for partners and external investors and will be critical in unlocking third party investment across both the public and private sectors. Homes England's commitment of £11.2m from Housing Infrastructure Fund to development projects in Stockport (£10.8m of which is to projects in Town Centre West) demonstrates the significant investment appetite amongst the Council's partners - generated in part by the momentum created through the existing regeneration programme in Stockport – which the MDC will look to maximise by bringing forward suitable investment opportunities.
- 3.3. The objectives of the Council's strategy for investment to support delivery through the Mayoral Development Corporation are:
 - To provide targeted investment to kick start development and help to bring forward up to 3,500 new homes in Town Centre West over a ten to fifteen year period
 - To ensure that there is no additional pressure on General Fund as a result of Council investment to support delivery through the MDC
 - To ensure that any funding provided by the Council is allocated on a recyclable basis and that Council investment is recoverable while allowing sufficient flexibility to accommodate different types of investment
 - To ensure that any funding decisions are taken on the basis of robust appraisal processes to manage risk and optimise the deployment of Council resources

- To allocate Council resources to unlock third party investment that would not otherwise have come forward
- To make targeted interventions in the market which have a catalytic impact and which positively affect values and yield thereby facilitating private sector-led development across Town Centre West

4. MDC OPERATING MODEL AND INVESTMENT OPTIONS

- 4.1. The principles which inform the powers of the Stockport MDC, along with its overall organisational form, were agreed by Greater Manchester Combined Authority in September 2018. Those principles ensure that the Stockport MDC will not assume planning powers or powers over discretionary business rates relief in Town Centre West. This decision over the MDC's powers ensures that its focus is on leading regeneration through its powers to acquire and develop land.
- 4.2. The MDC will, however, have considerable flexibility over how it undertakes its central purpose of delivering up to 3,500 new homes over a ten to fifteen year period. Its relationship with the Council and with Homes England will ensure that interventions can be led by the most appropriately placed organisation according to the character of each development opportunity. This means that the MDC will be able to adopt a range of roles – including promoter, landowner, JV partner with developers, facilitator, or direct developer – according to opportunities on a site-by-site basis.
- 4.3. In response to the flexibility in the MDC operating model, the Council has multiple options for the deployment of capital across a range of investment models to ensure consistency with its Capital Strategy and Treasury Management Strategy while maximising its ability to influence delivery in Town Centre West in line with its risk appetite, liquidity requirements, ROI requirements, and potential to generate additional revenues through Council Tax and Business Rates growth.
- 4.4. A blended, strategic approach to Council investment to kick start development in Town Centre West could be based around the following types of investment which would provide sufficient scope for the Council, the MDC, and Homes England to target opportunities ranging from the fully commercial to those required primarily for regeneration purposes:
 - **Land acquisition funding** to enable site assembly and unlock private sector investment
 - Investment to provide **gap funding** to address marginal or negative viability resulting from current values in Town Centre West and enable developers to bring forward schemes - particularly where schemes can be expected to impact on the values of assets on the Council's balance sheet
 - **Remediation investment** to de-risk sites for market disposal subject to appropriate profit-sharing, overage, or equity agreements

- **Patient capital** investment through which the Council would opt to take a deferred return triggered on the achievement of a specified values or after a defined period following construction
- **Feasibility funding** to provide seed capital that accelerates development
- **Direct Investment** by the Council in the form of loan or other financial support to partners / developers within the MDC area.
- Deliver and support **affordable housing** provision in the MDC area as part of our overall approach to sustainable communities.

4.5. The approval by Cabinet on 3rd September of a £3m MDC reserve in the Council's 2019/2020 Reserves Policy allows the Council to take a cash-backed approach to investment where appropriate and provides a degree of flexibility, subject to the Council's normal decision-making processes, in the early stage of the MDC's life with regard to timing and funding in response to investment opportunities. In addition the Cabinet has identified the MDC as a key priority in light of any additional one-off resources becoming available to supplement the initial £3m identified.

4.6. The optimum scale of the Council's potential investment support to the MDC is difficult to assess at this stage. However, if the Council chose to adopt the most interventionist approach available to it and directly delivered a small number of strategic schemes in order to kick start the wider development of Town Centre West, the likely capital requirement would be in the region of £100m in the context of a total overall capital investment requirement of c.£500m to deliver the ambition in the Strategic Regeneration Framework.

4.7. Setting a limit to any Council investment facility at £100m would provide the headroom for significant direct intervention if the Council chose to take a highly proactive approach. A more diversified, flexible, and sophisticated approach to investment, appraised and approved on a case-by-case basis, would, however, be preferable both in terms of leveraging investment from public and private sector partners and in terms of managing the Council's exposure to development risk.

5. MDC DELIVERY PROGRAMME

5.1. The MDC is now established and this document is the Strategic Business Plan for its first six months. An Interim Strategic Business Plan has been produced which represents the collective drive and ambition of Stockport Council, Homes England and the Greater Manchester Combined Authority to deliver our ambitious vision set out in the Strategic Regeneration Framework.

5.2. The Outcomes set out in the Interim Strategic Business Plan against which the MDC will deliver are as follows:

- A final form of the Stockport Town Centre West Strategic Regeneration Framework (SRF) approved by Stockport Council and the Board and progressing through the formal adoption process as a Supplementary Planning Document within Stockport Council's planning framework;

- A joint Investment Strategy agreed with Stockport Council, Homes England and GMCA;
- Early acquisition of key land holdings in the MDC area with Stockport Council and Homes England, together with a Memorandum of Understanding with these partners to agree how these will come forward to support the objectives of the MDC;
- Production of a dynamic delivery pipeline demonstrating how the housing targets set out in the SRF will be achieved over the short, medium and long term;
- The Annual Business Plan for the financial year 2020-21 agreed by the Board, Stockport Council and GMCA in line with the Constitution of the MDC
- Engagement formally as the MDC with other infrastructure partners together to develop an infrastructure roadmap to set out the requirements to enable delivery within the MDC area;
- Engagement with Network Rail, TfGM, rail franchisees and other key stakeholders to produce an agreed plan for the future development of Stockport Rail Station as a critical element of infrastructure in the successful delivery of the MDC vision. It is envisaged that this will be led by one of the Strategic Advisors;
- A detailed examination of solutions which will deliver against the core objectives of Design, Sustainability and Innovation set out in the SRF. This will involve the investigation of best practice in use elsewhere and again we would propose working with one of the Strategic Advisors to deliver this.

5.3. The Interim Strategic Business Plan will be submitted to Greater Manchester Combined Authority and Stockport Council as soon as possible after the MDC's first Board meeting for approval.

6. GOVERNANCE

- 6.1. The Council's Capital Strategy sets out the overarching governance arrangements for the Capital Programme. Any investment to support the delivery of the Council's regeneration ambition in Town Centre West will be subject to the oversight, accountability, control, and reporting arrangements set out in the Capital Strategy. In practice this would ensure that individual investment proposals that come forward as part of the overall strategic approach to investment to support the MDC receive the same level of appraisal and due diligence that apply to any other capital funding proposals.
- 6.2. In line with the Capital Strategy, any new capital investment would be included in the Council's three-year capital programme and officers will monitor progress and report to Members as part of the quarterly Portfolio Performance and Resources Report.

6.3. Responsibility for the management and oversight of investment to support MDC delivery will remain with the Council and remain subject to the Council's corporate obligation to report against Prudential Indicators.

7. RISK

- 7.1. Any significant Council commitment to providing investment support to facilitate development directly or indirectly through the MDC in Town Centre West must be considered in light of the Council's overall risk appetite and investment capacity. Investment to bring forward residential development in Town Centre West would be treated as part of the I&D Account and its blended, portfolio approach to balancing development risk and investment risk across a range of asset classes.
- 7.2. The risk posed to the value of Council investment by adverse market conditions arising from wider economic shocks will be mitigated as far as possible through the combination of robust appraisal of individual investment proposals – based on scenario modelling and sensitivity analysis – and the portfolio approach to investment mentioned above.
- 7.3. The potential for State Aid or procurement considerations to constrain the types and extent of investment support the Council could offer in Town Centre West will need to be carefully evaluated. But any State Aid or procurement implications will be fully worked through as investment proposals are developed and brought forward for decision.

8. RECOMMENDATIONS

- 8.1. Cabinet is recommended to:
- 8.1.1. Approve the principle of a strategic approach to Council investment to support the regeneration of Town Centre West and the MDC as described in this report
- 8.1.2. Approve the creation of a recyclable equity and loan facility with an upper limit of £100m to support the MDC delivery strategy as set out in Section 5 of this report
- 8.1.3. Delegate authority for the appraisal, due diligence, and approval of individual loan agreements on a scheme-by-scheme basis to the Borough Treasurer and Corporate Director for Place in consultation with the Cabinet Members for Resources, Commissioning, & Governance and Economy & Regeneration.

BACKGROUND PAPERS

Town Centre Challenge & Mayoral Development Corporations, Greater Manchester Combined Authority, 28th September 2018

Mayoral Development Corporation, Cabinet, 18th December 2018

Town Centre Challenge Update - Mayoral Development Corporation, Greater Manchester Combined Authority, 29th March 2019

Creation of a Mayoral Development Corporation for Town Centre West, Cabinet, 23rd April, 2019

Town Centre West Strategic Regeneration Framework Consultation, Communities & Housing Scrutiny Committee, 5th August 2019 and Economy & Regeneration Scrutiny Committee, 8th August 2019

Mayoral Development Corporation Board Membership, Cabinet, 20th August, 2019

Anyone wishing to inspect the above background papers or requiring further information should contact Michael Cullen on Tel: 0161-474-4631 (Michael.cullen@stockport.gov.uk) or Caroline Simpson on Tel: 0161-474-5000 (caroline.simpson@stockport.gov.uk).