

TRAFFORD COUNCIL

Report to: Executive

Date: 13th December 2021

Report for: Decision

**Report of: The Executive Member for Housing and Regeneration and the
Corporate Director of Place**

Report Title:

GMP Site, Chester Road, Old Trafford

Summary:

This report seeks the Executives's approval to enter into a Joint Venture (JV) with the Greater Manchester Combined Authority (GMCA) and a Developer Partner to support the proposed residential led mixed-use development of the GMP Chester Road site in Trafford.

Recommendation(s)

It is recommended that the Executive approve the recommendations below related to the proposed residential led mixed-use development of the GMP Chester Road site in Trafford.

- a) Approve the principle of the Council entering into a Joint Venture (JV) agreement with the GMCA and a Developer Partner as proposed within the report on terms to be agreed;
- b) Delegate authority to the Corporate Director of Place in consultation with the Executive Member for Housing and Regeneration to agree the terms of the JV Agreement;
- c) Approve the £642,500 of funding needed to procure a development partner and obtain detailed planning consent for the scheme;
- d) Approve that the Corporate Director for Place commences the procurement process;
- e) Delegate authority to the Corporate Director of Place in consultation with the Executive Member for Housing and Regeneration to appoint a development partner;
- f) Delegate authority to the Corporate Director of Place in consultation with the Corporate Director of Governance and Community Strategy and Director of

- Finance and Systems to agree appropriate legal agreements with the GMCA to establish the JV partnership;
- g) Delegate authority to the Corporate Director of Governance and Community Strategy to enter into appropriate legal agreements to establish the JV partnership;
 - h) Notes that the development proposal will be reviewed at the conclusion of the planning process and a report will be brought back to the Executive to consider the matter further at that time

Contact person for access to background papers and further information:

Richard Roe, Corporate Director for Place Extension: 4265

Background Papers: None

Relationship to Policy Framework/Corporate Priorities	Supporting People out of Poverty Addressing our climate crisis
Relationship to GM Policy or Strategy Framework	Good lives for all
Financial	As detailed in Section 6.
Legal Implications:	The procurement process will be undertaken with support from our legal and procurement teams. This will ensure that all legal considerations are appropriately addressed.
Equality/Diversity Implications	New Homes and jobs will be delivered as a result of the delivery of this project and it will align with those specific housing needs and priorities for Greater Manchester and as a result will not have any adverse implications from an equality perspective. The scheme’s location close to public transport nodes will enable access for the whole community to leisure facilities and employment in the wider area and the mix of market and affordable homes will ensure a balanced and inclusive community is delivered.

Sustainability Implications	See Above
Resource Implications e.g. Staffing / ICT / Assets	Not Applicable
Risk Management Implications	The process we are undertaking does not oblige us to proceed and we have the ability to withdraw at any time. We will manage the process by implementing an appropriate governance structure to manage the process in partnership with GMCA. There is no guarantee the JV will be pursued following the initial expenditure. In that event, it is unlikely these costs will be recovered. The main risk therefore is the initial revenue expenditure.
Carbon Reduction	The scheme is aiming to be a Net Zero Carbon development. Discussions have already been held on the potential options for district energy networks. Environmental enhancements have also been factored into the schemes viability appraisal to reflect the net zero ambitions for the scheme.
Health & Wellbeing Implications	Not Applicable
Health and Safety Implications	Not Applicable

1. Introduction

- 1.1 Chester House, Old Trafford is part of the Greater Manchester Police (GMP)/ GMCA estate and was the former location of the GMP headquarters known as Chester House. The site is approximately 3.57Ha (8.8 acres), in the ownership of the Greater Manchester Combined Authority (GMCA) and is currently occupied by a GMP data centre and a communications branch. GMP have previously declared the site as surplus to their operational requirements and have agreed to vacate the premises within timescales that will not impact on the delivery of the development. The GMP Target Operating Model Estate identified transformational changes of services that meant the data centre and communications facilities were not dependent on the Chester House site. This confirmed that the site could be rationalised from the estate and surplus to requirements.

1.2 As a prime gateway site to the Civic Quarter in Trafford, this site offers a great opportunity to deliver development in Greater Manchester that reflects the aspirations of both GMCA and Trafford Council. These aspirations include the provision of a policy compliant percentage of affordable homes (25%), the delivery of a net zero carbon development, the creation of a destination and new community with excellent levels of design and placemaking, high levels of social value and to work in partnership to deliver these. GMCA and Trafford Council envisage a long-term retention of the asset so profit from the scheme can be reinvested into public services in Greater Manchester.

1.3 This site is identified as being in the Northern Neighbourhood of the Council's Civic Quarter Area Action Plan (AAP). The vision for the Northern Neighbourhood is for it to be a prime gateway location with opportunities to drive forward employment growth opportunities within a diverse and mixed-use neighbourhood. Opportunities for the site are noted to be:

- Gateway neighbourhood development opportunity
- Capitalise on the potential of the Trafford Bar interchange and success of Exchange Quay opposite.
- Opportunity for significant modern workplace development offer as part of a mixed-use and vibrant neighbourhood.
- Consolidate Chester Road fringe-built form to protect potential new amenity to the south
- Reveal the history of the Henshaw's Asylum and ensure the remaining entrance posts are protected.

2. GOVERNANCE

2.1 Given the scale of the opportunity, and the involvement of public sector partners, it was appropriate to establish formal governance structures to oversee the development of proposals for the Chester House site, and future

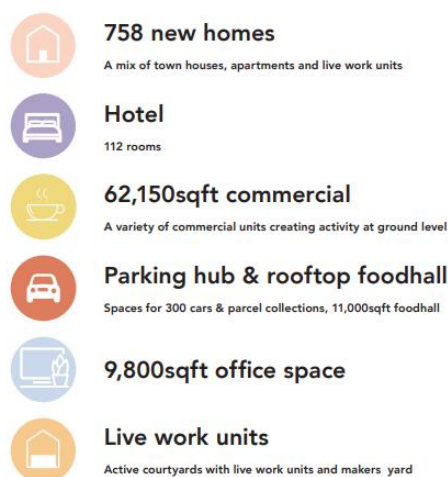
delivery to ensure a high-quality scheme that aligns with GM and Council priorities and maximises the return to the public purse.

- 2.2 Therefore, a senior level Project Delivery Board was established with overall responsibility for bringing development forward and an Operational Delivery Group which has day to day responsibility for the project.

3. SCALE AND MASSING

- 3.1 The Chester House area is a key gateway and catalyst for the delivery of the wider Civic Quarter Area Action Plan (AAP) and therefore the quality of its design is very important not just for this site but other parcels of land too.

- 3.2 Buttress Architects were appointed to undertake scale and massing for a residential led mixed-use scheme. They produced a number of options which tested the capacity of the site to accommodate new uses. An accommodation schedule was produced with sufficient detail provided to allow high level cost plans to be assembled.



- 3.3 The above quantum of development has been used by consultants to allow for financial modelling to test viability. The scheme is very much indicative at this stage and subject to change as it progresses through detailed design and a full planning application process.

4. VIABILITY

- 4.1 A Whole Scheme Appraisal was submitted to Trafford Council to start discussions on competing objectives and how these could be balanced. The appraisal is a policy compliant appraisal which provides for 25% affordable housing and the required Area Wide Infrastructure Levy sum.
- 4.2 The mix of affordable tenure is to be determined by future work, but it should be noted that the inclusion of a greater proportion of social housing will impact on the viability of the scheme. It is the ambition of both the GMCA and Trafford Council to deliver a Net Zero Carbon development with further exploration of appropriate technologies anticipated.
- 4.3 There is a disused rail tunnel under part of the site so it is inevitable that there will be associated abnormal cost with the delivery of the scheme. As such the viability appraisal has factored in £3m of abnormal cost which will be refined through future work phases. To enable the delivery of the area wide infrastructure for the Civic Quarter AAP a levy fee of £11.2m will be paid by this project towards it. This sum has been factored into the viability work.

5. LAND VALUATION – EXISTING USE VALUE

- 5.1 As a starting point it is proposed to utilise the Existing Use Valuation figure and apply an Equilibrium Approach to ascertain the final land value. This means in practice that the land value will change and could either go up or down depending on the results of further technical work that may identify abnormal costs with the final Land Value agreed between the parties once planning consent has been obtained and detailed cost proposals have been prepared.

6. FINANCIAL IMPLICATIONS

INITIAL INVESTMENT COSTS

- 6.1 An important consideration for the GMCA and Trafford Council is the initial upfront and potentially abortive costs. The At-Risk Cost Table below indicates the initial investment for the first two years of the project. The first years spend

will begin in January 2022. The table is split between how much the public and private sectors will need to pay. The public sector column will be a 50/50 split between Trafford Council and GMCA.

At Risk Cost Table

Immediate Cost Pre-Developer	2021/2022			2022/2023		
	Public	Private	Total	Public	Private	Total
Marketing	£100,000		£100,000			
Procurement	£20,000		£20,000			
Legal	£150,000		£150,000			
Early JV Costs						
Energy Strategy				£15,000	£15,000	£30,000
Site Investigations				£125,000	£125,000	£250,000
Planning Application				£450,000	£450,000	£900,000
Construction Design				£425,000	£425,000	£850,000
Total	£270,000		£270,000	£1,015,000	£1,015,000	£2,030,000

6.2 The current programme timetable indicates that a Developer Partner will be appointed in April 2022. Therefore, the cost in 2021/2022 will be paid by the public sector and would be abortive costs if the JV project does not progress.

6.3 Following the appointment of the Developer Partner the cost in 2022/2023 will be the responsibility of the public/ private JV partnership and will be focused on site investigations, a planning application and construction design.

6.4 GMCA will be using the land value of the GMP site as part of its equity contribution to the scheme’s construction delivery. It is anticipated that the land value associated with the site will be set once planning permission is granted via a RICS accredited independent surveyor. The land value will be GMCA’s initial contribution until it is matched by Trafford Council and the developer partner.

- 6.5 As the initial JV will be between Trafford Council and GMCA, the preferred option is that Trafford Council would pay a 50% contribution and GMCA would pay a 50% contribution. The estimated cost to the public sector partners up to planning permission being granted and therefore the total at risk contribution to the public sector partners is £1,285,000. This equates to a Council contribution of £642,500. These at risk costs would be charged to the Asset Strategy Reserve in the event the scheme did not proceed.
- 6.6 An alternative delivery option for GMCA is to simply just sell the land to a developer. This option however has limitations such as it would greatly reduce GMCA and Trafford's ability to influence the place making element of the scheme's delivery and given that this is a gateway site, this element is very important. In addition, there would be very limited control and influence over the project being net zero carbon or on the delivery of affordable homes. Being part of the JV will also mean that GMCA and Trafford will benefit from the profit generated by the scheme's delivery. The land sale option has therefore been discounted.
- 6.7 Following approval of this report GMCA and Trafford Council will commence a procurement process to appoint a Development Partner. Soft Market Testing ("SMT") for the procurement of a Developer Partner has already taken place and was advertised on the CHEST. In total 6 developers attended a site visit and 6 attended a question and answer session (7 developers in total) who have all expressed an interest in the site. This process gauged the level of interest in the JV being proposed and will inform the procurement process. We believe that our SMT shows that in the current market developers will be interested in delivering the site. Accepting that the market may change and developers in the future may be reluctant to commit, this could result in the loss of funds spent to date and delays to the schemes delivery. It is anticipated that the procurement process will begin in December 2021 with the intention that a Developer Partner will be appointed in April 2022.
- 6.8 GMCA and Trafford recently appointed Addleshaw Goddard to provide legal advice with the purpose of considering possible joint venture models the JV may take to allow for the implementation of the development proposal. The recommendation was to use a deadlocked 50:50 LLP.
- 6.9 The use of an LLP structure is usually driven by the benefits of tax transparency in relation to the partnership structure and is the preferred JV model for property developers i.e. a future development partner. An LLP structure is more beneficial in reducing SDLT on the transfer of the Site into the JV as SDLT should only be calculated at half of the relevant tax due to GMCA owning half of the LLP.

6.10 The terms of the joint venture will be developed as part of the procurement exercise. External legal advice will be sought on the specific terms of the agreement to protect the Council's commercial position.

SCHEME OVERVIEW

6.11 The total indicative development costs of the scheme are currently estimated at £202m, including construction, fees, contingencies and financing costs:-

	£m
Acquisition Costs	14.1
Construction Costs	142.5
Professional Fees	10.4
Contingency	7.1
Public Realm	2.8
Abnormal Costs	3.0
Area-wide	
Infrastructure Levy	11.2
CIL	0.2
Marketing	1.3
Disposal Costs	4.1
Finance	5.8
Total Costs	202.5

6.12 It is proposed that the scheme be financed by a mix of equity, senior debt and recycled receipts as follows:-

	£m
Equity:-	
Trafford Council	8.5
GMCA	8.5
Private Sector Partner	17.0
Senior Debt	130.5
Recycled Receipts	38.0
Total Funding	202.5

6.13 The estimated net development value of the scheme is £241m and net of development costs is currently estimated to deliver a net profit of £39m which would be shared across all equity partners (Council share at 25% = £9.75m). A summary of estimated returns shown below:-

	Amount
Gross Development Value (GDV)	£243.8m
Net Development Value (NDV)	£241.3m
Total Equity Drawdown with land	£33.65m
Total Development Partner Equity	£16.96m
- GMCA - £8.48m (inc. land)	- £8.48m (inc. land)
- Trafford - £8.48m	- £8.48m
Debt Repayment	£130.46m
Total Scheme Cost (inc. construction, professional fees and finance)	£202.48m
Margin on Cost	19.2%
Profit on Cost	£38.82m

6.14 The Council's share of equity of £8.5m would be financed from prudential borrowing with the timing of the equity drawdown to be determined. The cost of the prudential borrowing, including interest and principal costs are estimated to be £595,000 p.a once all equity has been paid. At this stage no budgetary provision exists for these costs, therefore it would be necessary to consider ways to offset them to ensure they do not place an additional burden on the revenue budget; options would include:-

- Provision of senior debt - a significant part of the financing of the overall scheme is from senior debt. In order to offset the revenue costs of the Council's equity investment consideration could be given to provide a proportion of senior debt from the Council in order to provide a net income stream at least sufficient to cover the equity financing costs. This would need consideration by the Investment Management Board who would need to be cognisant of the risks associated with this approach given the risk the Council is exposed to as an equity investor.
- Short term use of reserves (Investment Strategy Reserve) – this would need to be replenished from any final dividends the Council would receive from the scheme.

6.15 The Council would also need to consider the cost of its in-house team which would support the delivery of the scheme. The cost of this would be financed

from the Investment Strategy Reserve, with reimbursements to the reserve being made from future dividends on the scheme.

- 6.16 It should however be noted that at this stage, authority is only being sought to enable the Council to be a party to the further development of these proposals. It is proposed that the Council and GMCA enter into a JV arrangement with a Development Partner purely to work up a planning application and to secure a planning approval for the Site. The scheme will be reassessed at that point in time and a further decision will then be required from the Executive as to whether to extend the JV arrangement and to proceed with the proposed development. The agreement proposed will not commit the Council to anything beyond the planning stage and the Council would be able to discontinue its involvement at any point without penalty other than in relation to its share of the costs already incurred to carry out the procurement and to secure the planning approval.

7.Benefits

- 7.1 The redevelopment of the Chester House site in Trafford provides a great opportunity to deliver an exemplar scheme that will benefit not only the new community that will be established on the site, but also the wider existing community. This is not only as a result of the provision of new services and facilities as part of the schemes delivery, but also on the public sector partners' ability to reinvest returns of up to £18.6m as a result of their investment.
- 7.2 Further benefits include the delivery of a high-quality gateway scheme that could act as a catalyst for other developments coming forward in the Civic Quarter and will enable the public sector partners to lead by example in terms of low carbon design and tenure mix. The potential returns will vary depending on the additional costs incurred through making this an exemplar project and this will be determined through the planning and design phase of the project in partnership with Trafford Council and our private sector development partner.

Other Options

The Executive could decide it did not want to be a partner in the scheme but it would mean the Council would not have the same level of influence over the development of the key site.

Consultation

Not Applicable

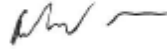
Reasons for Recommendation

To seek approval to enter into a joint venture company and support further design work on the project.

Finance Officer Clearance ...GB.....

Legal Officer Clearance JLF.....

CORPORATE DIRECTOR'S SIGNATURE

A handwritten signature in black ink, appearing to be 'M. W.', written over a horizontal line.

