



# CITY DEAL

Preston, South Ribble & Lancashire

## CITY DEAL EXECUTIVE AND STEWARDSHIP BOARD

**Private and Confidential: No**

Tuesday, 20 June 2017

### **Year 3 – Quarter 4 – Finance Report 2016 /17**

(Appendix A refers)

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#### **Executive Summary**

This report provides an overview of the City Deal Finance Model as at 31<sup>st</sup> March 2017 and provides details of financial activity that took place during Quarter 4 (Jan-Mar 2016/17). The report also sets out key financial issues and risks for the E&SB to be aware of.

#### **Recommendation**

The City Deal Executive and Stewardship Board are asked to note the report.

## **Background and Advice**

The City Deal infrastructure delivery model ("the model") is a finance model showing the finance activity to date and expected within the City Deal. The model is split into two sections - resources being income to be received into the model from the various income streams and delivery programmes being expenditure paid or forecast to be paid on the infrastructure schemes. The City Deal is an accelerated delivery model based on the understanding that while the timing of resources coming into the model will be behind expenditure on schemes, requiring cash flow support from the County Council, there is a commitment of the partners to keep the model balanced.

It is recognised that the model is dynamic and that changes to the inputs and outputs of the model will occur over time. This is sustainable subject to maximum cash flow approvals being in place and not breached.

## **Key risks to the model**

### **Resources**

Whilst most of the income to the model is fixed in commitment or capped amounts the main risk (with the exclusion of changes to Government policy and how those might affect the model which are being considered by the City Deal Executive and



# CITY DEAL

Preston, South Ribble & Lancashire

Stewardship Board) to the model in terms of income is certainty of securing developer contributions in line with the expectations at the outset of the City Deal as noted above.

The total of these in the current model is £118.396m after building in increased rates and the modelling of those sites / units which will attract CIL and other contributions. £20.094m of this is now expected to come into the model in the “run-on” period of years 11-15 due to reported slippage in sites being brought forward for development. This also has an impact over the time that LCC will have to cash flow the City Deal over and the resulting finance charges incurred. This represents an increase of 1.563m from that reported at Q3.

While there is more certainty with regard to the CIL element of developer contributions, within this total figure of £118.396m there is also £52.254m which relates to “other developer contributions”, sometimes referred to as CIL Plus, and which includes monies payable through, for example, section 106/ 278 agreement. It should be noted that to date £34.933m of these have already been secured leaving an amount of £17.321m still to be sought. This represents a risk to the model remaining in balance as should these not be secured or be secured for items not in the delivery programme, expenditure and resource forecasts will not remain aligned.

As part of the ongoing Resources Review Keppie Massie are testing all the assumptions relating to developer contributions within the model including site viability. There is also a risk that whilst developer contributions are secured on a site, by their nature, they are for specific items of expenditure. If this expenditure is not listed in the delivery items recognising the income in the model creates a risk of the model not being in balance. There is work ongoing with the three Council Chief Executives to assess the risk to City Deal of this and agree mitigation.

Whilst secured S106/S278 agreements are recognised in the model as 'secured' funding they are sometime payable in instalments sometimes over time or after certain build out triggers on the site. In these cases there remains a risk that the site is stalled and the trigger is not hit, this will mean the income does not crystallise. There are also changes to government policies proposed relating to CIL, NHB and business rates along with a housing white paper – all of which have the potential to undermine the assumptions currently in the model.

To date only the NHB changes have been issued which are covered by KM report, in short the changes are from 2018/19 for NHB being paid for 4 years instead of 6 per house. The impact on the current 10 year model would be c£9m if no local or government interventions are put in place. Over a 15 year period with the NHB capped amounts remaining in place this change would mean that the impact would be a cash flow impact only.



# CITY DEAL

Preston, South Ribble & Lancashire

## **Expenditure**

All agreed expenditure changes and slippages have been included in the model and items to be agreed at this meeting will be reflected in future models once agreed. The scheme estimates set out in the model will continue to be refined and tested as schemes are subject to detailed design, preparation of cost estimates and tendering prior to implementation. The Infrastructure Delivery Steering Group has approved a process to ensure that final costs are approved and schemes are fully funded prior to implementation.

It should be noted that the expenditure lines are indicative budgets allocations only – the amount needed and available for each scheme as it comes forward will depend on the dynamics of the model at the time in terms of funding secured and expected, along with competing priorities from other schemes.

Where income levels fall either by Government policy, site viability or partner actions the delivery programme should be flexed accordingly to ensure the model remains in balance.

## **Position of the model as at 31<sup>st</sup> March 2017**

The monitoring report for Quarter 4 2016-17 is appended to this report.

The model is currently showing a projected surplus over the city deal period of £2.634m compared to a position as reported in the Quarter 3 report to 31 December 2016 of surplus of £1.936m. This is a change of £0.698m.

The main changes relate to forecasts in housing numbers following the six monthly housing number returns and the implementation of the CIL instalment policy as reported in September quarter leading to a review of the CIL inflation figure within the model, and known income from a site being more than was anticipated from that site.

## **Key issues raised by 31<sup>st</sup> December 2016**

As part of the Resources Review Keppie Massie are advising on the assumptions made at the outset of the Deal with specific regard to the “other developer contributions” stream which includes s106 payments. Furthermore the councils continue to work together to ensure there is a shared and common interpretation of the binding Heads of Terms which compel the partners to maximise the value of developer contributions. It is apparent through this work that there are some instances whereby the proposed “projects” for which s106 payments have been secured through the planning process do not form part of the City Deal infrastructure model expenditure proposals.

Further work is ongoing on these matters and to date has included work with partners to identify what developer contributions have been achieved on a site,



# CITY DEAL

Preston, South Ribble & Lancashire

comparison to the anticipated income from that site and will now focus on the linking of the expenditure to proposals in the delivery plan. To date this has only been completed for one of the two districts but this indicates a £2m pressure on the model. Once the picture for both districts is known a report will be presented for partners to assess the impact on the model. Other developer contributions and their link to expenditure plans remains a key risk to the City Deal infrastructure model.