



# CITY DEAL

Preston, South Ribble & Lancashire

## CITY DEAL EXECUTIVE AND STEWARDSHIP BOARD

**Private and Confidential: No**

**Finance Update - Quarter 3 - October 2017 to December 2017**  
(Appendices 'A' and 'B' refer)

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### **Executive Summary**

This report provides an update on the City Deal Infrastructure Delivery Fund (IDF) during Quarter 3; October to December 2017 and sets out the latest position going forward.

The current position of the IDF is a **projected surplus** over the life of the deal of **£3.675m**. This represents a small increase from the previously reported position at September 2017, and is based on the assumption that the required actions relating to the £75.150m North West Preston Roads Programme (NWPRP) following the NWPRP funding decision are agreed. To not do so would result in the IDF model being over spent by £ 71.475m which would breach the agreed funding position.

### **Key Risks to the model.**

- Agreement to fund the NWPRP programme has created a pressure in the model of **£75.150m** which will require mitigation by agreement of the partners. Work is ongoing as part of the wider review.
- Other developer contributions of £17.584m still need to be secured, additionally circa. £15m currently secured is now at risk following the need for revision of the planning application for the Whittingham Hospital site. The total risk of reductions to income are therefore **c£32.5m**.

### **Recommendation**

The City Deal Executive and Stewardship Board is asked to:

- (i) note the Quarter 3 Finance Update (Appendix 'A') and Dashboard (Appendix 'B')
- (ii) note the key risks and issues going forward.



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## Background and Advice

### 1. YEAR 4, QUARTER 3 FINANCE MONITORING REPORT (attached)

#### 1.1 Introduction

1.2 The City Deal infrastructure delivery model ("the model") is a finance model showing the finance activity to date and expected within the City Deal over the life of the project. The model is split into two sections - resources or income to be received into the model from the various income streams, and, delivery programmes or 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 an understanding and commitment of the partners to keep the model balanced.

1.3 It is recognised that the model is dynamic and that changes to the income and expenditure in the model will occur over time. This is a matter of sustainability subject to maximum cash flow approvals being in place and not being breached.

#### 1.4 Key risks to the model

##### Resources

1.5 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 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 risk relating to changes to Government policy is being considered by the City Deal Executive and Stewardship Board.

1.6 After building in increased rates, and the modelling of those sites / units which will attract CIL and other contributions, the level of developer contributions expected into the model is £111.899m. Due to reported slippage in sites being brought forward for development £13.425m of the developer contributions are now expected to come into the model in the "run-on" period of years 11-15, this was verified in the interim report of the Resources Review, undertaken by external consultants. This also has increased the period of time that LCC will have to cash flow the City Deal over and the resulting finance charges incurred which will have an impact of £0.268m.



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- 1.7 While there is more certainty with regard to the CIL element of developer contributions, £54.340m relates to “Other Developer Contributions”, previously referred to as CIL Plus. These include monies payable through, section 106/278 agreements. It should be noted that to date £36.756m of these have already been secured under agreements leaving an amount of £17.584m still to be sought. This outstanding £17.584m represents a risk to the model remaining in balance, should these not be secured, expenditure and resource forecasts will not remain aligned. The issues relating to the agreed s106/s278 monies and the linking to delivery of schemes is addressed below and is the subject of ongoing work. There is also the risk that a renegotiation of a planning application for a key site, (Whittingham Hospital) which is currently reporting a secured s106 agreement, will not realise as much income to the model under the revised application. Information is outstanding to fully understand the effect on the model of the suggested revised application.
- 1.8 There are also changes to government policies proposed relating to CIL, NHB and business rates along with a housing White Paper. All of these have the potential to undermine the assumptions currently in the model, these have been considered in the Resources Review work. To date only the NHB changes have been confirmed. 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 with no mitigation. Over a 15 year period with the NHB reduction, the model would continue to be significantly and adversely impacted.

## **Expenditure**

- 1.9 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 Executive and Stewardship Board considered, at its previous meeting to fund the delivery of the North West Preston Roads Programme (NWPRP) including Preston Western Distributor (PWD). Whilst the agreement to fund was made the compensating changes to the model, to ensure income and expenditure remain aligned, were deferred to form part of the 5 year review process due to complete summer 2018. The current IDF position reflects the revised PWD cost estimates and uses a balancing mitigating adjustments line of £75.150m to ensure the model remains balanced and within the maximum allowed cash flow position whilst awaiting the outcome of the 5 year review. This funding position will need to be addressed by the time the NWPRP need full business case approval in 2018/19.
- 1.10 Scheme estimates set out in the model 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



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has a process in place to ensure that final costs are scrutinised prior to approval and schemes are fully funded prior to implementation.

- 1.11 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. There is no guarantee that all allocations can be fulfilled if the income to the model is not forthcoming.
- 1.12 Position of the model as at 31<sup>st</sup> December 2017.**
- 1.13 The model as at Quarter 3 2017-18 is appended to this report.
- 1.14 The model is currently showing a projected surplus over the city deal period of £3.675m, compared to a position at 30<sup>th</sup> September 2017 of £3.478m surplus.
- 1.15 The changes this quarter relate to changes in S106 actual monies received compared to forecast (£0.243m) and an increase in the loan interest by virtue of an update of the HCA disposal (£0.024) and small increased changes in expenditure (£0.022).
- 1.16 There is a currently an agreement to fund NWPRP which if unmitigated represents a risk that the model forecasts a deficit position of £71.475m This risk will need to be mitigated by measures agreed by the Executive and a line for mitigation measures required is included in the model.
- 1.17 Comparing 2017/18 forecast outturn against those planned as per the 3 year business plan 2017-20 shows the graphs below. However these are subject to change following the completion of work as detailed in section 1.9.



## Resources 2017/18 to 2019/20



The above shows that, over the 3 year period covered by the business plan, the forecasts are for the income targets to be met, however the actuals received to date (Qtr. 3 of the first year) are low compared to the total which represents a slight risk to the model if the forecasts slip further as we go through the business plan period.



**Expenditure 2017/18 to 2019/20**



The graph shows the movement in forecasts of expenditure items compared to that at the time the business plan was developed. The changes to the current forecast relate to increased funding provision made for the Broughton Bypass and the additional funding required for the NWPRP along with the mitigation measures required by 2018/19.



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## 1.18 **Key issues raised by 31<sup>st</sup> December 2017**

- 1.19 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.
- 1.20 The partners continue to work together to ensure there is a shared and common interpretation of the binding Heads of Terms which require the partners to maximise the value of developer contributions being collected and paid into the fund, and to identify additional housing sites within the area. Work is underway to quantify the amount of additional developer contributions collected to date against that forecast as well as capture the projects being delivered by the funding, as part of the City Deal Infrastructure Delivery Plan.

