**CITY DEAL EXECUTIVE AND STEWARDSHIP BOARD**

**Private and Confidential: No**

**ITEM FOR INFORMATION / NOTING IN ADVANCE OF THE CITY DEAL MEETING SCHEDULED FOR 16TH AUGUST 2018**

**2018/19 Quarter 1 Finance Update**

(Appendix A refers)

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| **Executive Summary** This report provides an update on the City Deal Infrastructure Delivery fund during Quarter 1; April to June 2018 and sets out the latest position going forward.  The current position of the Infrastructure Delivery Fund is a **deficit position of £ 73.098m** awaiting resolution of the mitigation for increased budgetary support to North West Preston Roads Programme which requires £75.150m budget pressure to be addressed.  **Key Risks to the model.**   * Agreement to fund North West Preston Roads 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. * Budget pressures around the A582 dualling are emerging which are not yet included in the model due to the level of uncertainty of scheme and final costs. * Other developer contributions of £16.863m still need to be secured with a further circa £15m currently secured being at risk following the need for revision to planning application on the Whittingham Hospital site. * Developer contributions will fall due outside the 15 year run on period if sites currently forecast to start as one site are phased. * The total risk of reductions to income are therefore **circa £41m**.  **Recommendation** The City Deal Executive and Stewardship Board is asked to:   1. Note the Quarter 1 Finance Update 2. Note the key risks and issues going forward and consider mitigation needed to ensure the model remains balanced over the lifetime. |

**Background and Advice**

**1. YEAR 5, QUARTER 1 FINANCE MONITORING REPORT (attached)**

* 1. **Background**
  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. 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 an understanding and commitment of the partners to keep the model balanced.
  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 sustainable subject to maximum agreed cumulative cash flow limit of £107m being in place and not being breached.
  4. **Key risks to the model**

**Resources**

* 1. 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 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 and the availability of Business Rates retention being available to local partners to pay into the model.
  2. The total of developer contributions in the current model is £110.452m after building in increased rates and the modelling of those sites / units which will attract Community Infrastructure Levy and other contributions and allowance for the deductions for parish council deductions and local admin fees. Following latest housing return figures, £19.217m (net) 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 on the period of time that the county council will have to cash flow the City Deal over and the resulting finance charges incurred. Within this assumption is the current start date for each site which triggers the full Community Infrastructure Levy payment for the site within 2 years. Some sites are not currently profiled to be delivered in phases which is unrealistic given the large number of units on these sites and as such there is a risk that phasing will increase the amount of Community Infrastructure Levy payable in the run on period and increasing the cash flow risk within the model.
  3. While there is more certainty with regard to the Community Infrastructure Levy element of developer contributions, within this total figure of £110.452m there is also £51.366m which relates to “other developer contributions”, previously referred to as Community Infrastructure Levy Plus, and which includes monies payable through, for example, section 106/ 278 agreements. It should be noted that to date £34.503m of these have already been secured under agreements leaving an amount of £16.863 still to be sought.

This represents a risk to the model remaining in balance as should these not be secured, expenditure and resource forecasts will not remain aligned. The issues relating to the agreed section 106 / section 278 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 reporting a secured section 106 agreement will not realise as much income to the model once the new application is prepared. Information is outstanding to fully understand the effect on the model of the suggested new application but the impact is believed to be circa £15m of the already agreed section106 that would be at risk.

* 1. There are also changes to government policies proposed relating to Community Infrastructure Levy, New Homes Bonus and Business Rates along with a housing white paper – all of which have the potential to undermine the assumptions currently in the model. These have been considered in the Resources Review work. To date only the New Homes Bonus changes have been confirmed. In short the changes are from 2018/19 for New Homes Bonus being paid for 4 years instead of 6 per house. The impact on the current 10 year model would be circa £9m with no mitigation. Over a 15 year period with the New Homes Bonus reduction, the model would continue to be adversely impacted.

**Expenditure**

* 1. 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 has agreed to fund the delivery of the North West Preston Roads Programme including Preston Western Distributor. Whilst the agreement to fund was made, the compensating changes to the model to ensure income and expenditure remain aligned was deferred to form part of the 5 year review process due to complete summer 2018. The current Infrastructure Delivery Fund position reflects the revised Preston Western Distributor 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 North West Preston Roads Programme need full business case approval in 2018/19.

* 1. 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 has a process in place to ensure that final costs are scrutinised prior to approval and schemes are fully funded prior to implementation.
  2. 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 or if other schemes have a greater priority.
  3. **Position of the model as at 30th June 2018**

1.13 The monitoring table in year for Quarter 1 2018/19 is appended to this report.

1.14 The model is currently showing a projected deficit over the City Deal period of £73.098m this requires the mitigation for North West Preston Roads Programme of £75.150 to be implemented as without this the Infrastructure Delivery Fund is outside of the agreed cash flow funding limits.

1.15 There are no changes to the overall model forecast this quarter.

1.16 There is a currently an agreement to fund North West Preston Roads Programme which if unmitigated represents a risk that the model breaches the maximum allowed cash flow and / or the model forecasts a deficit position. 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.

1.18 **Key issues as at 30th June 2018**

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 section 106 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.

1.21 There are currently two reviews underway – the first a review of housing sites by HIVE will inform future housing profiles and will impact on the model in terms of income and timing as well as phasing of key large sites. These will potentially reduce the level of income or increase the timescale income is received over – both will impact on the financial risk within the model.

1.22 The main 5 year City Deal review being carried out by SDG is underway with emerging findings relating to technical improvements in the working of the model itself and the need for partners to consider new income approaches, while managing and prioritising current and future expenditure, to ensure the sustainability and resilience of the underpinning financial model.

**List of Background Papers**

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| Paper | Date | Contact/Tel |
| None |  |  |
| Reason for inclusion in Part II, if appropriate  N/A | | |