



CITY DEAL

Preston, South Ribble & Lancashire

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

2017/18 End of Year Finance Monitoring Report (Appendices 'A' and 'B' refers)

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Executive Summary

This report provides an update on the City Deal Infrastructure Delivery Fund during Quarter 4; January to March 2018 and sets out the latest position going forward.

The current position of the Infrastructure Delivery Fund is based on the assumption that the mitigation of £75.150m required following the North West Preston Roads Programme funding decision is agreed and implemented. To not do so would result in the Infrastructure Delivery Fund model being in deficit of £73.098m and outside of the agreed funding position. With this mitigation included, the Infrastructure Delivery Fund is forecasting a projected surplus over the life of the deal of £2.052m, this is a reduction from the previously reported position at December 2017 of £3.675m which included the same mitigation assumption.

Key Risks to the model

- Agreement to fund the 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 City Deal Review to address this.
- 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 become payable outside of the 11-15 year run on period if sites are phased.
- The total risk of reductions to income are currently **circa £41m**.

Recommendation



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The City Deal Executive and Stewardship Board is asked to:

- (i) Note the Quarter 4 Finance Update and dashboard
- (ii) Note the key risks and issues going forward and consider mitigation needed to ensure the model remains balanced over the lifetime of the Deal.

Background and Advice

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

1.1 Background

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. 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 from 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 sustainable subject to the maximum agreed cumulative cash flow limit of £107m 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, 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.

1.6 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



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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.

- 1.7 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 a £51.366m assumption 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 section 106 that would be at risk.
- 1.8 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

- 1.9 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 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



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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 of the North West Preston Roads Programme 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 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 or if other schemes have a greater priority.

1.12 Position of the model as at 31st March 2018

1.13 The model as at Quarter 4 2017-18 is appended to this report.

1.14 The model is currently showing a projected surplus over the city deal period of £2.052m, compared to a position at 31st December 2017 of £3.675m surplus. This assumes the mitigation for North West Preston Roads Programme is implemented, without this the model would be in a deficit position of £ 73.098m which is outside of the agreed limits.

1.15 The changes this quarter can be summarised as:-

Net reduction in developer contributions	-£ 1.447
Increase in contingency budget	
(Community Infrastructure Levy inflation)	-£ 1.300
Net effect of housing return and profiles	-£ 2.747
Additional income from Preston City Council capital	£ 0.124
Reduction in expenditure (Heatherleigh spine)	£ 0.989
Reduction in Homes England loan interest	£ 0.012
	<u>-£1.622</u>

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.

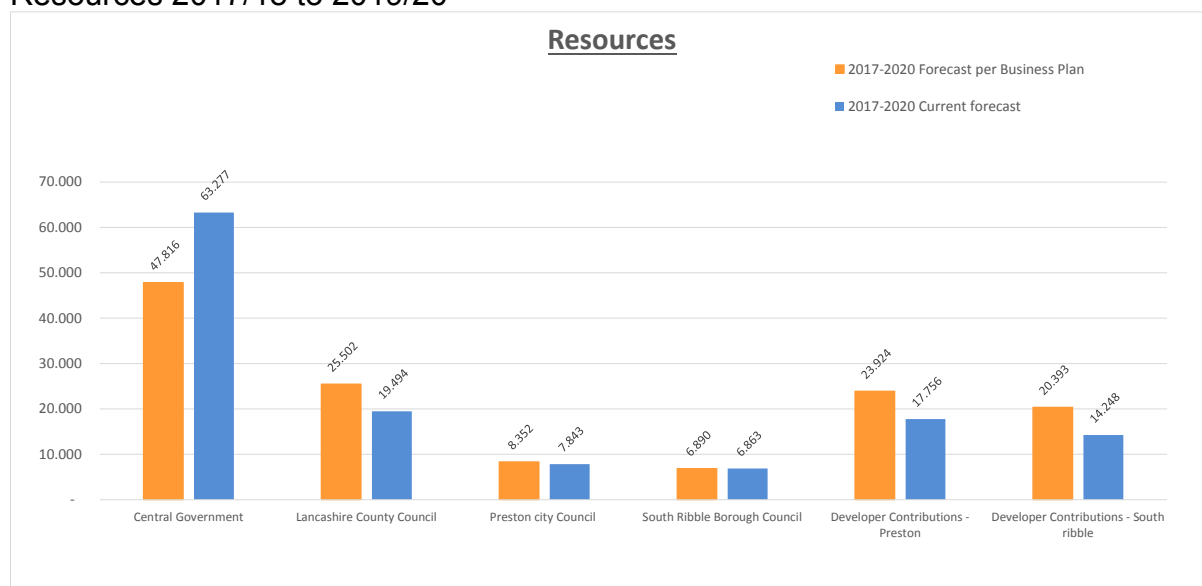


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Financial performance against the business plan 2017-20

- 1.17 Comparing the current 2017-2020 position 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 sections 1.9 Resources 2017/18 to 2019/20



The above shows that, over the 3 year period covered by the business plan, the forecasts have changed overtime as is the nature of the dynamic model.

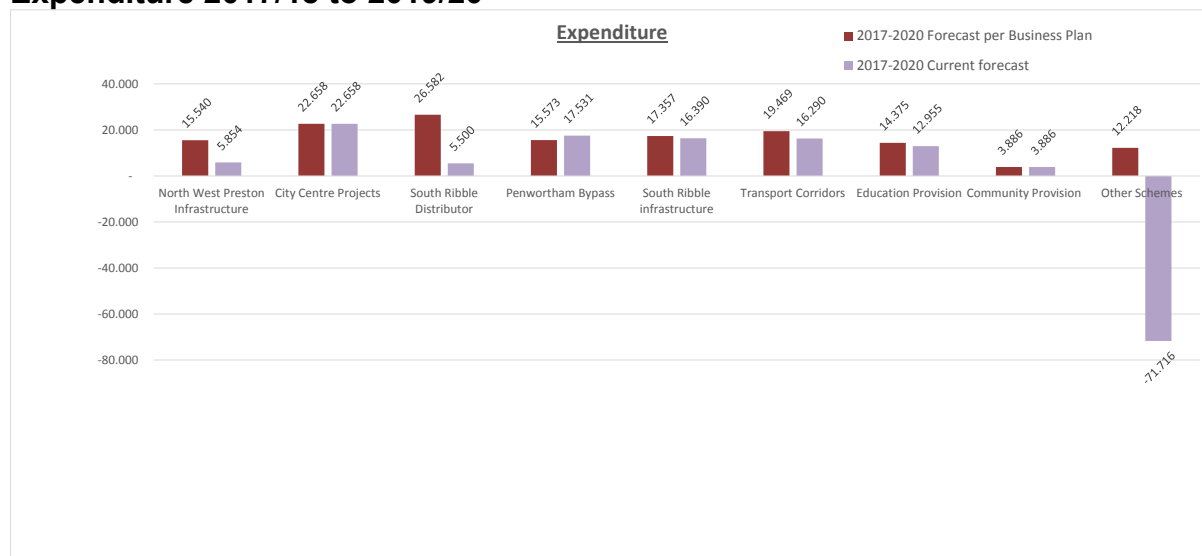
The total in the business plan was for total income of £132.877m and current forecasts are £129.482m over this period. There are variations between the types of income over the period with the fixed amounts of income from growth deal and Homes England being more than was originally anticipated but the more risky income streams such as developer contributions being less in the period. This poses an increased exposure risk in the model as these income streams are not fixed or capped amounts and could potentially not materialise within the life of the deal.



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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 Broughton Bypass, the additional funding for North West Preston Roads Programme along with the slipped delivery timescales and clearly shows the need for £75.150m of mitigation to address the imbalance in the model. This mitigation will need to be in place before the full business case for the North West Preston Roads Programme is submitted for approval, which will be within the current business plan period.

1.18 Key issues raised by 31st March 2018

- 1.19 As part of the Resources Review, Keppie Massie advised on the assumptions made at the outset of the Deal with specific regard to the “other developer contributions” stream which includes section106 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 show the 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.



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- 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

Paper	Date	Contact/Tel
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None

Reason for inclusion in Part II, if appropriate

N/A