Report

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Chester One City Plan

Delivery Framework

February 2012

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For and on behalf of GVA Grimley Ltd

1. Introduction

1.1 Chester is highly fortunate to have several physical development schemes of regional-significance within its short-term pipeline. These include the Northgate retail scheme, the new Central Business District (CBD) and new Chester Theatre.

1.2 Unlocking and accelerating these opportunities, as well as delivering potential new projects and resolving the issues identified within the One City Plan (OCP), must be progressed in a focused fashion. Only by taking a considered and programme-wide approach can the long-term and city-wide implications of individual projects be planned for, duplication and conflict removed, and their constituent benefits and value be maximised to the benefit of Chester as a whole.

1.3 It is important to ensure that the delivery of the OCP ambition sits beyond the responsibility of the public sector (Cheshire West and Chester Council) alone. Enhanced partnership working will be critical. This Delivery Framework document provides Cheshire West and Chester Council, Chester Renaissance, and other stakeholders an overarching guide to advance the OCP strategy and programme. Its structure is set out as follows:

- **Delivery Framework Context** – setting the wider context for delivery within Chester.
- **Governance and Leadership Arrangements** – establishing the organisational structure within which management of the OCP overarching strategy and programme will progress.
- **Potential Delivery Mechanisms** - an assessment of the appropriateness of various financial levers and mechanisms for project and wider programme delivery.

2. Delivery Framework Context

2.1 The One City Plan (OCP) presents a major opportunity for the various stakeholders, communities and businesses of Chester. Significant work has been undertaken to examine, define and agree this strategic OCP framework, which sets both the direction for the city over the next 15 years and a renewed focus for the channelling of investment resources in delivering this overarching vision.

2.2 The aims and objectives of the One City Plan will inform the emerging Cheshire West and Chester Local Plan. The Local Plan is the statutory planning document, which will guide future growth across the borough.

2.3 The city finds itself in a new era of 'Localism', where the responsibility for setting priorities rests jointly with local authorities, local stakeholders and local communities in partnership. The powers and resources for delivery now rest firmly at this level.

2.4 Concurrently, the present era of public sector funding cuts is undermining the ability of the public sector to invest in regeneration projects. We have seen this with the demise of the Regional Development Agencies (RDAs) for example – previously acting as a traditional route to financing urban regeneration and growth. Local authorities are, however, gaining greater financial autonomy, which provides a new scope for the utilisation of more innovative delivery mechanisms and financing structures in order to facilitate regeneration.

2.5 Chester is embracing this new era of opportunity and has introduced a new governance structure – driven by Cheshire West and Chester Council and Chester Renaissance. This new way of working for Chester builds upon the positive progress that has been made by the Chester Renaissance programme and the formation of the new unitary Council.

2.6 Importantly, the new governance structure provides much clearer coordination and leadership and a renewed focus for directing investment and resources in delivering the One City Plan ambition. Within this structure significant activity has taken place to identify and prioritise the actions and potential mechanisms through which the OCP and its programme of component projects will be managed from concept to design and into operational delivery.

2.7 Importantly, the OCP remains a 'live document' – responding to the evolving requirements of Chester over its lifetime – with an active management, monitoring and review process in place to effectively align the OCP trajectory to the wider economic climate. This includes a performance management approach.

3. Governance & Organisation

3.1 In their review of the previous Chester programme in November 2010 the Urban Land Institute (ULI) was critical of the seeming confusion in the landscape of leadership, governance and responsibilities for delivering and coordinating a major programme of investment across both the public and private sectors.

3.2 Under the direction of the One City Plan (OCP), Cheshire West and Chester Council, along with Chester Renaissance, and partner organisations in the city have since moved to rectify this situation and set in place a renewed leadership and governance structure to manage and deliver the programme of investment identified within the OCP.

3.3 This is a necessary step, for assertive accountable leadership that is supported by high quality programme management, which will be vital in order to effectively drive and co-ordinate the direction of OCP strategy, and translate this into both programme implementation and project development.

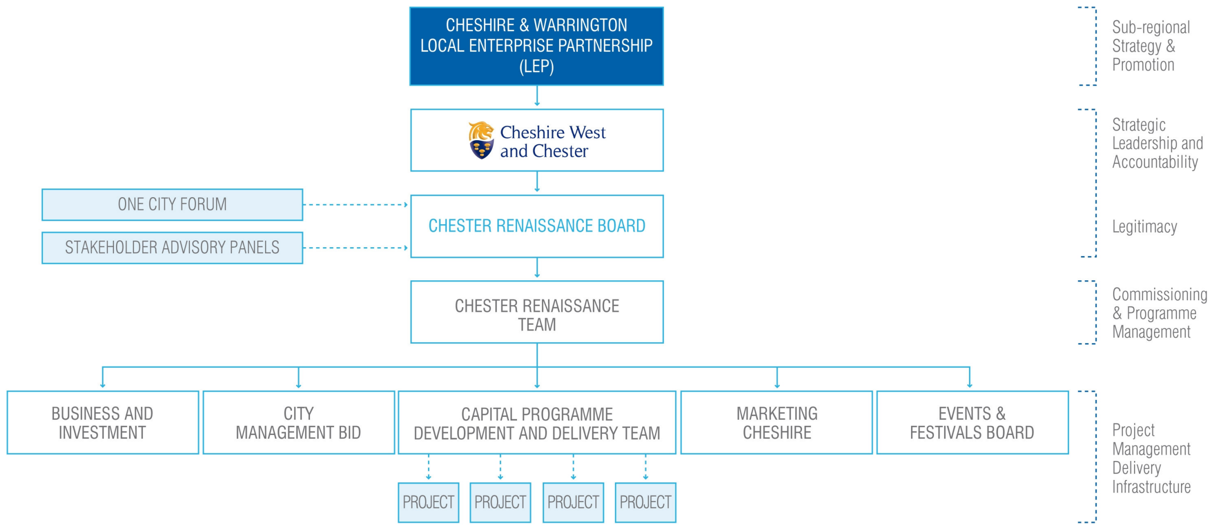
3.4 Managing the available resources in an effective and focused way will be a tough challenge, but one which must be achieved for the successful delivery of the programme.

3.5 Continuing to embrace the principles of Localism - and the importance of the ongoing process of engagement with communities across Chester – must be inherent in the governance of the OCP to maintain both legitimacy and accountability.

Chester OCP Governance Structure

3.6 This section sets out the renewed governance structure within which the strategic direction, programme management and delivery of the OCP will be administrated. This structure is subsequently presented as a diagram in Figure 3.1.

Figure 3.1: Chester OCP Governance Structure



Source: CW&C Council, Chester Renaissance, GVA, 2012

Sub-regional Strategy, Influencing and Promotion

3.7 The Cheshire & Warrington Local Enterprise Partnership (LEP) will set the high level context across the sub-region to co-ordinate economic development activity and set the strategy for private sector-led economic growth. The LEP will also play a key role in liaising with partners across the sub-region to identify and agree key economic development priorities, explore and co-ordinate responses to national and regional funding opportunities and promote Chester as a key investment destination at the sub-regional, regional, national and international scales.

Strategic Leadership and Accountability

3.8 Chester Renaissance has inaugurated a new Chester Renaissance Board. The role of the Chester Renaissance Board is to act as the 'guardians' of the OCP – defining the overall strategic direction of the OCP, recommending key investment and funding priorities, influencing partners to secure resources from the private sector, and championing Chester as a business location to existing and potential inward investors. It will play a key role in ensuring Chester is effectively positioned to take advantage of new and emerging funding and delivery initiatives.

3.9 The Board comprises of individuals with a well developed understanding of social, economic and physical development - representing the public and private sectors as well as locally elected representatives.

3.10 It will act as the interface between Cheshire West and Chester Council, Chester Renaissance, partner agencies and wider stakeholders (the latter through a series of local Advisory Panels). In doing so, the Board will be held accountable to local stakeholders for the strategic decisions made in the following areas:

- Managing the City through City Centre Management (including commissioning the delivery of a new Business Improvement District in the city centre)
- Business in the City (working with the newly formed Cheshire West and Chester Business Hub, new partnerships and a particular focus on new inward investments)
- Developing the City (commissioning the delivery of the One City Plan capital and revenue programme)
- Animating the City (working with the Events and Festivals Board)
- Marketing the City (working with a reconstituted Marketing Cheshire)

Legitimacy

3.11 The One City Plan is a 'live' and evolving document. Its vision, objectives and projects have been widely consulted upon to ensure its legitimacy. Continuing to engage to obtain the support and ownership of the local communities, businesses and other stakeholders will be critical to ensuring the OCP remains accountable to the people of Chester.

3.12 The successful interaction and maintenance of communication channels between the Chester Renaissance Board, the Council, delivery partners, and Chester's communities will be critical.

3.13 In order to maintain this participatory relationship a 'One City Forum' and specific topic related Advisory Panels (businesses, local residents, etc) are proposed to engage and with the Renaissance Board to review progress, develop new ideas and refine existing ones. It is anticipated that these groups will formally assemble bi-annually for progress meetings.

Commissioning & Programme Management

3.14 The Chester Renaissance Board will be supported by a reorganised Chester Renaissance team. This team will hold primary responsibility for co-ordinating and managing the practical and timely delivery of the OCP programme of projects. Drawing on the strategic advice of the Renaissance Board and its partners, Chester Renaissance will act as a commissioning body to monitor progress on projects across the programme – providing an overarching programme management input. Chester

Renaissance should not, however, be directly responsible for the day-to-day delivery of individual projects within the OCP programme.

3.15 Chester Renaissance will provide a leading role in monitoring the progress of the OCP against its vision, aims and objectives by drawing on key local indicators and wider comparables. Chester Renaissance will submit a regular interim evaluation to the Chester Renaissance Board for its review in order to test the alignment of strategic priorities with outputs.

Project Delivery Infrastructure

3.16 Cheshire West and Chester Council, and its supported delivery agencies, will draw together officer resource from across the range of service areas to constitute a new Capital Programme Delivery Team (CPDT).

3.17 At present our experience has been that major projects being promoted by the Council are often managed by several or single 'gatekeepers' in a vertical or 'silo' manner with limited transparency or clear 'fit' within a wider programme. Introduction of the CPDT will remove potential duplication in resources across departments caused by these present arrangements and close any gaps or loopholes to provide a more efficient and transparent delivery service. Personnel will be deployed into smaller sub-teams (linked to their skills sets) to deliver individual projects with greater 'horizontal' integration and awareness at the project (and up to the programme) level.

3.18 To enable a smooth transition to this structure it is necessary for a detailed audit of the existing projects – both within the Capital Programme and outside it (e.g. One City Plan) to be undertaken across the Council. This should confirm the Council's existing and proposed commitments (financial or otherwise) to the projects, their viability and current funding structure/position, proposed phasing and outputs.

3.19 Where possible actions to facilitate project delivery will be made by the resource within the CPDT. However, where the nature or scale of action or solution requires specialist skills, the CPDT will draw down resource (from CW&C Council / Chester Renaissance) to purchase and commission external agencies.

3.20 To inform this position, a skills audit of existing Council resources and capabilities should be undertaken as part of the next stage review. In our view, the Council possesses a strong body of project based skills already. If there is a deficiency to be addressed, it is our view that programme and project finance skills should be sourced and integrated within the project delivery teams. This skill-set should envelop a detailed appreciation of structured finance, delivery vehicles and models, assets and crucially, maintain an interface with private sector capital organisations.

Monitoring and Performance Management

3.21 In order to enable the OCP to function as a flexible 'live document' with the capability to respond effectively and efficiently to the evolving requirements of Chester it will be necessary to conduct a continuous process of monitoring. In doing so, a detailed understanding of the evolving socio-economic performance of Chester is required.

3.22 The information gathered and analysed during the development of the OCP, and presented within the Appendix – 'The City of Now' (March 2011), provides a comprehensive foundation from which to build. This will need to be revisited on an annual basis. The implications arising from the emerging trends in the data should be set out concisely for consideration by the partners in order to make informed decisions regarding OCP performance management and the future priorities for the programme.

3.23 It will be the responsibility of Chester Renaissance to manage inputs into this process and provide a progress report to the Chester Renaissance Board. The Board will be responsible for ensuring that expectations are managed and there is a clear focus for Chester Renaissance, which is monitored on delivery of key priorities.

3.24 It will be important for the process line to be agreed and initiated with partners responsible for providing necessary data, as well as a system to 'flag' new relevant data and intelligence sources if and when these become available.

3.25 The review process will take account of the annual monitoring duties and assessment of performance against strategic growth targets – undertaken by the Council's Spatial Planning team.

4. Mechanisms for Delivery

4.1 This section presents an overview of the potential funding and finance structures available for consideration and further testing within Chester. This is a key part of the delivery framework that will be driven by Cheshire West and Chester Council.

Context

4.2 In developing the OCP an examination was undertaken of the 'fitness for purpose' of projects programmed in Chester. A number of features were apparent – a plethora of masterplans, development briefs and strategies have been produced for constituent parts of Chester that did not appreciate or consider the city as a whole; very few 'delivery ready' projects; and an approach largely dependent on external public sector funding. As a result the image portrayed to residents, visitors, businesses and investors was arguably one of a real lack of direction and prioritisation.

4.3 The governance arrangements set out in earlier sections of this Development Framework demonstrate that the OCP has now gained a new basis from which to drive Chester forward. The OCP has therefore sought to draw together these opportunities alongside a series of new concepts (pre-project ideas), which when brought together could deliver more as a coherent whole than individual interventions will achieve independently.

4.4 Importantly, these arrangements are driven by a streamlined process of prioritisation and a renewed focus on achieving best value, implementation and delivery within the city.

4.5 However, effectively positioning Chester to take advantage of opportunities to develop delivery structures and funding mechanisms that are able to reduce reliance on the public sector is vital. Without doing so, the challenge to moving priority projects forward from concept to design and delivery within the OCP programme will be increasingly difficult in the short-term, reflecting wider macro-economic investment and lending patterns.

Funding & Finance Structures

4.6 It is important to understand the alternative sources of funding available to finance routes to the delivery of regeneration and development infrastructure, in line with the overall vision and objectives set within the OCP.

4.7 This section of the Delivery Framework presents an analysis of the potential funding sources and mechanisms/structures for delivery. It has been divided in to three sub-sections:

- **Mainstream Sources** – an assessment of the more traditional sources of funding and their applicability in assisting in the delivery of projects;
- **New Funding Initiatives** – an assessment of new initiatives that could contribute to funding development; and
- **Structured Funding Mechanisms** – highlighting other potential innovative structures/mechanisms that could be explored by Cheshire West and Chester Council, the Renaissance Board and partners.

4.8 This will require ongoing future monitoring as funding criteria or external circumstances change.

Mainstream Sources

4.9 This sub-section presents the potential mainstream (traditional) sources of funding that could be used to meet the vision and objectives of the OCP.

4.10 The decline in the level of public grant available to support infrastructure delivery, coupled with the current challenging financial environment and fiscal austerity/budget-reduction measures, have significantly reduced the potential for funding from these traditional sources. As a result, unless these sources are used innovatively in combination, or alongside other mechanisms, they are unlikely to make a significant contribution to funding the programme of projects within the OCP.

4.11 Moreover, the gradual shift to investment approaches (as opposed to grant or gap based) has led to a new way of conceiving project delivery. The Homes and Communities Agency (HCA) has shifted its support towards a more investment based approach. The evolution of Financial Engineering Instruments (FEIs) (e.g. JESSICA) is another illustration of the direction of travel.

Capital Programme

4.12 The Council's Capital Programme is the most traditional form of funding capital projects accessed by local authorities. The Capital Programme identifies agreed capital schemes for funding by the local authority, calculating the total cost of schemes and the projected phasing of those schemes over current and future financial years. These can be funded from loans, capital receipts, capital grants and contributions from revenue.

4.13 Importantly, however, as part of the financial settlement, the coalition government has announced that on average, direct funding to local government capital projects will reduce by 45% over the period of the spending review.

4.14 Within this context, the Council has continued to work on the development of an indicative 3 year core capital programme and a set of schemes to be included in the first stage of a 10 year programme (2011-12 to 2013-14) with a total value over the period of £266m.

4.15 It is important that the projects contained within the OCP are prioritised and built into the next Capital Programme.

Capital Receipts and Development Contributions

4.16 In addition to a General Reserve, the Council holds a number of earmarked revenue reserves set aside from operating surpluses to provide for specific future expenditure requirements.

4.17 The Capital Reserve is maintained by capital receipts from the sale of land and buildings and by contributions in some years from revenue. The reserve exists to finance future capital schemes and at no point will the commitments exceed the value of the reserve. The main features of the reserve therefore are to provide funding for potential emergency spending requirements on assets, support investment in tangible and intangible assets, to hold committed balances where spending is restricted to specific capital schemes and make additional repayments of debt in line with approved Council policy.

4.18 The Council will also, where appropriate, seek contributions from developers via Section 106 (S106) Agreements in order to provide for additional facilities and the infrastructure demands that are generated as a result of new development. All are based on the Council's requirements for Developer Contributions as set out in SPD 1 – Affordable Housing and SPD 3 – Developer Contributions. The S106 process will, however, be replaced (in part) by the Community Infrastructure Levy (CIL) from 2014 (or earlier depending on the Council having a Charging Schedule in place).

Prudential Borrowing

4.19 The Local Government Act 2003 allows local authorities to borrow to invest in capital infrastructure and development works and assets (amongst other service lines) in line with the criteria set out within the Prudential Code, which is endorsed by the Chartered Institute of Public Finance and Accountancy.

4.20 Termed Prudential Borrowing, this source of debt finance has traditionally been granted via the Public Works Loan Board (PWLB). The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

4.21 However, in December 2010, as part of the Comprehensive Spending Review the Government increased the interest rates on PWLB loans by 0.83% to 1 % above Government gilt rates, making this a less competitive source of finance by increasing the cost of supporting capital expenditure[1]. As a result, local authorities have proceeded to explore different methods of funding infrastructure and development. These include bonds (Municipal Bonds), infrastructure banks/funds, and capital disposals of operational assets (on a lease and leaseback basis). The method a local authority chooses can impact its revenue account, although this depends on the repayment method.

4.22 Local authorities are also providing debt funding to development partners via the PWLB, because they can source funding at a lower cost than the banking sector and this can provide an efficient use of funding for public sector works and infrastructure. This needs to adhere to strict State Aid rules.

4.23 Importantly, despite the increase in interest rates, prudential borrowing allows local authorities the flexibility to implement capital investment to timescales that are appropriate locally in order to respond to deliver infrastructure and service improvements that respond to community needs and generate cost efficiencies. As powers continue to be devolved to the local level by Government, prudential borrowing may come to play a greater role for more local authorities in helping to realise local priorities.

[1] Note: A reduced rate will apply to Housing Revenue Account reform loans taken with the PWLB from January 2012 until close of business on 26 March 2012.

Government, European & other Investment alongside Grants or Funds

4.24 Capital grants represent project-specific funding for capital projects from Government or the EU. This could be received from quasi-government sources or other national organisations.

European Programmes

4.25 The European Commission has adopted a draft legislative package which will frame Cohesion Policy for 2014-2020. The new proposals are designed to reinforce the strategic dimension of the policy and to ensure that EU investment is targeted on Europe's long-term goals for sustainable growth, creating jobs and promoting innovation (the "Europe 2020" Strategy). The Commission's proposal will now be discussed with the European Parliament and EU governments. It should enter into force in 2013.

4.26 The ERDF is part of the EU's cohesion policy, which remains an essential element in the EU's financial framework for 2014-2020 proposed by the Commission. The EU will make substantial funding available for it.

4.27 The proposed ERDF would channel resources towards energy efficiency and renewable energy use, innovation, and support for small and medium-sized businesses (SMEs) – at least 80% of support for more developed regions and at least 50% for less developed regions. As a result, specific support from the ERDF would go to cities and urban development equivalent to up to Eur 18bn. The proposal would ring-fence an amount for integrated sustainable urban development measures and for the setting-up of an urban development platform across up to 300 cities within the EU.

4.28 To maximise opportunities to access EU funding in the future, it will be necessary for Chester to continue to develop and promote itself as a sustainable, inclusive, 'Smart City'. This will require the development of renewable energy and energy efficiency measures and incorporating these into urban planning. Such a stance has the potential to enable access to a further EU fund in the order of Eur 20 – 25 bn.

4.29 Potential exists to improve the budgetary efficiency of available funding for future intervention in EU cities via mechanisms such as the Joint European Support for Sustainable Investment in City Areas (JESSICA). This provides the structure by which funding can be leveraged multiple times in order to generate a substantially larger finance vehicle for funding and recycling.

National

4.30 Prominent examples include the UK Big Lottery Fund, Heritage Lottery Fund, Regional Growth Fund, Growing Places Fund and various funds administered via the Homes and Communities Agency.

4.31 In developing capital proposals the Council will always seek to maximise such external contributions, subject to any related grant conditions not being inconsistent with the Council's policy aims and targeted outcomes. Frequently such funding, which enhances the Council's investment capacity, will also be linked to match funding arrangements.

4.32 Capital schemes, even those with 100% grant aid, can become a revenue burden on the Council and it is important to take account of the whole life costs in making the decision whether or not to proceed with a specific project.

New Homes Bonus

4.33 The Government announced that it has committed almost £1billion across this Comprehensive Spending Review period running to 2015 for the New Homes Bonus. The Bonus is the incentive created by the Government to encourage local authorities to build new homes - every new home built will attract an annual financial bonus for the local authority for six years equal to the annual council tax payable on that home. The £900 million will be in addition to the central Government grant to local authorities, but - as the amount of New Homes Bonus grows beyond this figure - the extra will be increasingly top sliced from the formula grant.

4.34 The Bonus will form a key income stream for the Council as new housing is developed across the borough. Whilst it is likely to be difficult to secure the six year income stream, as any borrowing would need to be repaid over this period, the Bonus is not ring-fenced. Therefore, it is for the Council to apply this flexible fund to help develop new sites, fund alternative approaches and support the revenue account as per local economic priorities and community needs dictate.

4.35 A number of authorities have examined the potential to set up a small fund to re-invest these monies, from which new development can be partially funded. However, there are no tried and tested approaches in place yet.

Enterprise Zones

4.36 The Government's 2011 Budget announced the introduction of Enterprise Zones (EZ) within LEP areas, with the Budget setting out the first 11 LEPs to benefit from EZ status. To date two phases of EZ have been introduced, with 22 EZ in total thus far (at

February 2012). The aim of the EZ is to attract inward investment into LEP areas by offering economically favorable conditions including:

- A 100% business rate discount worth up to £275,000 over a five year period, for businesses that move into an Enterprise Zone during the course of this Parliament;
- All business rates growth within the zone for a period of at least 25 years will be retained and shared by the local authorities in the Local Enterprise Partnership area to support their economic priorities;
- Government and local authority help (via Local Development Orders) to develop radically simplified planning approaches in the zone; and
- Government support to ensure superfast broadband is rolled out in the zone. This will be achieved through guaranteeing the most supportive environment and, if necessary, public funding.

4.37 The Government is targeting EZ sized broadly 50 – 150 hectares, with an objective (generally) be based on 'clean' sites with little or no business occupants.

4.38 The Government is also working with LEP's to explore additional options within each EZ, to suit local circumstances, including consideration of TIF to support the long-term viability of the area.

4.39 There is a Government presumption that only one EZ will be created within each LEP area. Given that the Daresbury Science and Innovation Campus was granted EZ status by the Government in 2011. Moreover, the second phase of bids for EZ closed in summer 2011, and it is unclear if further phases will be introduced. These factors may preclude further EZ bids from the LEP across Cheshire and Warrington.

Growth Funds (Regional Growth Fund and Growing Places Fund)

4.40 The Regional Growth Fund is a £2.4bn fund announced by the Coalition government that will initially operate for 4 years from 2011 to 2015. The RGF is designed to stimulate economic growth and new jobs within the UK by being targeted at increasing economic activity and employment opportunities in areas with a significant reliance on public sector jobs Organisations must submit competitive funding bids to the Government during successive 'rounds' in order to access the RGF.

4.41 The objectives of the Government's approach to the RGF are that:

- The RGF will be flexible, with bidders from both the public and private sectors (operating independently or in partnership) able to submit bids either as a project; or a package of projects; or a programme.
- The RGF will not duplicate existing funds, and where appropriate it will align with other funds.
- The RGF will have a minimum bid threshold of £1 million.

4.42 Most RGF bids have typically focussed away from land and development due to the short timescales involved for demonstrating additional economic outputs (productivity, employment, floorspace). Instead, private sector businesses have accessed RGF to fund, for example, new plant and machinery or new infrastructure where the appropriate consents are already in place.

4.43 RGF Round 3 was launched on 23rd February 2012 – providing access to circa £1bn of funding. The deadline for submitting bids is 13th June 2012. It is critical that the Council maximises the potential funding stream available through this source.

4.44 The Growing Places Fund aims to help address this constraint within RGF; enabling targeted investment in pieces of infrastructure which unlock development (i.e. removing financial constraints), allowing places to realise development values which can be recycled to provide a longer term solution to infrastructure provision.

4.45 The Growing Places Fund will provide £500m to enable the development of local funds to address infrastructure constraints, promoting economic growth and the delivery of jobs and houses. The Department for Communities and Local Government (DCLG) and the Department for Transport (DfT) will jointly administer the Fund, with funding allocations issued by DCLG. Proposals, or bids, for funding are co-ordinated and submitted by the LEP. The Growing Places Fund will not provide individual local authority allocations – the priorities for funding are agreed by members of the partnership.

4.46 Within this revolving structure, as projects unlock development, the developers would use a proportion of land value uplift or financial receipts to repay the public sector outlay and the return re-invested in other, similar schemes. Alternatively, contractual models could be used for investment recovery. Initial funding could be recouped or interest paid and recycled.

4.47 Cheshire and Warrington LEP has been provisionally awarded £8.901m by the Government via the Growing Places Fund. The LEP will take a lead role in managing the funds. Cheshire West and Chester Council will determine its infrastructure priorities and the LEP will allocate the funding accordingly based upon an appraisal process.

4.48 We have provided commercially sensitive advice to other organisations on the effective deployment of RGF and GPF for delivery at both programme and project levels.

Business Improvement Districts

4.49 Business Improvement Districts (BIDs) are agreements by local businesses to make a future contribution to the infrastructure cost of making small scale improvements to an area. This is similar to a rates contribution, but is not payable to central Government.

4.50 BID's are not a new initiative launched by this Government, but are becoming increasingly mainstream. These schemes are often successful in raising funding and achieving local consensus to deliver 'softer' localised improvements, such as street wardens rather than harder, large scale capital improvements.

4.51 A BID scheme is currently being developed for consideration within Chester city centre.

New Funding Initiatives

4.52 There are a number of new policy initiatives that have been announced by the current Government that may provide additional funding support for key infrastructure projects within a wider programme – often in combination as a 'cocktail' of measures.

Tax Increment Financing

4.53 Tax Increment Financing (TIF) – otherwise referred to as Accelerated Development Zones (ADZ's) – will enable local authorities across England to access new borrowing arrangements in order to fund infrastructure and other capital projects, which will support locally driven economic development and growth.

4.54 The national Government in England (and Wales) has yet to formally approve and legislate for TIF, although it is anticipated this may happen as soon as 2013. The Government is currently working with advisors and local authorities to establish an effective framework for legislating TIF. The Local Growth White Paper released on 28 October 2010 indicated that TIF in England will initially be implemented through a bidding process to central Government. TIF has already been introduced in Scotland – using the Scottish Government's devolved powers, and has been widely utilised in the USA for the past 50 years.

4.55 The TIF model when applied in England is anticipated to enable a proportion of locally raised future business rates to be invested in securing finance for the delivery of new infrastructure and related development. The investment finance will be generated through utilising part of the projected uplift in local non-domestic rates within a ring-fenced area as a result of the delivery of the new infrastructure scheme, in order to forward fund its delivery. This mechanism is expected to be applied where the available funding for major regeneration development schemes fall short of the cost of delivering the scheme infrastructure.

4.56 A local authority, private sector partner organisation, or a public-private partnership would lead the TIF. Where a local authority assumes responsibility for the financing, this would have to meet the stringent terms of the Prudential Code, but where a scheme is developer led this would not necessarily be the case. There may be potential to repackage the finance/debt and issue a bonds sale to remove this from the public balance sheet.

4.57 The primary risk in initiating TIF as a funding mechanism is that revenues to repay the initial finance will not be raised if inward investment in the local area does not materialise and property values do not increase as expected. The challenge for TIF is therefore to identify schemes that are low risk with a solid business case (i.e. with committed occupiers etc) and would deliver tangible benefits (employment, economic growth and physical and social regeneration) if they could be funded.

Community Infrastructure Levy (CIL)

4.58 The CIL Levy (Amendment) Regulations 2011 were brought into force on 6th April 2011. By putting in place a CIL Charging Schedule the Council is empowered to raise a levy on most types of development (including residential and commercial) across the borough.

4.59 The CIL will form the (partial) replacement for the current system of planning obligations. For, from 2014, Section 106 agreements can no longer be used as a basis to apply a tariff for infrastructure in order to generate a pooled local infrastructure fund[2].

4.60 The CIL aims to deliver additional funding to local authorities to enable them to more flexibly set local priorities for expenditure on a wide range of infrastructure projects to enable economic growth and support local community needs. The CIL Charging Schedule puts in place the mechanism to facilitate the application of a charge across a local authority at a flat rate, or at rates that vary by the type (use class) of development, or by defined local market areas. The Charging Schedule must be

2 Note: new affordable housing will continue to be delivered through planning obligations rather than the levy.

informed by an evaluation of economic viability in order to ensure that the tariff imposed does not overburden and discourage development.

4.61 This provides developers with a high level of certainty in the tariff they will be required to contribute, enhances transparency and reduces the requirement for site-specific negotiations on contributions.

4.62 Local authorities are now free to implement CIL and new buildings (or extensions to existing buildings) will be liable for CIL if the Charging Schedule is in place when planning permission is granted. This mechanism therefore enables local authorities to project a funding stream to plan for major capital infrastructure works. These works are then subsequently repaid via the CIL tariff, often over a number of years. The CIL tariff is to be paid in pounds sterling (£) per square metre and collected as a cash contribution or by the transfer of land to the charging local authority as payment.

4.63 Developments under 100 square metres should be exempt from the CIL tariff and a CIL tariff will not be charged if there is no extension of floor space as a result of a development. Social housing development is also excluded from a CIL tariff.

4.64 In September 2011, Members of Cheshire West and Chester Council's LDF Panel endorsed the preparation of a preliminary draft CIL charging schedule for public consultation, and work is currently underway on the Council's Infrastructure Delivery Plan, which will help to inform the production of the Charging Schedule. It is proposed that the CIL timetable will closely follow that of the Core Strategy, in terms of consultation and examination, which is currently scheduled for adoption in 2014.

Charge over Land Mechanism

4.65 The Charge over Land Mechanism (CLM) is a repayment system developed by GVA. It is best suited to development areas where there are fewer than six landowners who want infrastructure on a development site but are unwilling to, or cannot, pay for the infrastructure up front.

4.66 The infrastructure is funded by the local authority by way of a loan to the landowners' consortium with a charge taken by the local authority over the land. The charge is released by the local authority when a payment is made to it in proportion to the amount of land sold. Repayment to the local authority is deferred for a period to allow the landowner/ developer to construct the necessary infrastructure and begin selling development sites.

Infrastructure Funds

Private Sector Infrastructure Investment Funds

4.67 Private Sector Infrastructure Funds have facilitated an increase in private sector investment in the UK through the recent identification of infrastructure as a distinct asset class. Most funds have focused their investment in the transport and energy sectors, with a preference for roads, rail, airports and ports, regulated gas, electricity and water utility assets, with specialist funds continuing to be the significant investors in renewable and PPP/PFI infrastructure assets.

4.68 The UK Treasury is in the process of attracting £20bn of private sector investment to deliver the National Infrastructure Plan. This will be delivered through the attraction of institutional investors into the market place. As such, the Insurer's Infrastructure Investment Fund has been set up to improve investment in infrastructure. In addition a high proportion of the £20bn will be sought from Pension Fund Infrastructure Funds (see below).

Pension Fund Infrastructure Funds

4.69 Infrastructure is currently a relatively minor investment class for pension funds and currently pension funds allocate approximately only 2.5% of their portfolio to infrastructure projects.

4.70 However, the Government is seeking to leverage increased investment from pension funds, which resulted in the signing of a memorandum of understanding between the Government, the National Association of Pension funds and the UK's Pension Protection Fund. This will create an investment vehicle to be wholly owned by UK pension funds to invest in key infrastructure assets and projects.

4.71 Pension funds are looking for low risk capital projects with long term repayment profiles (25 years) that are inflation linked. It is therefore anticipated that returns will be linked to the RPI inflation over a long period, which suits the long term and reliable nature of pension fund investments. The private sector is therefore interested in funding infrastructure, development and regeneration that offers the right risk profile and funding structure.

European Investment Bank (EIB)

4.72 The EIB acts as a significant lender of debt finance for the delivery of capital projects within the knowledge economy (investment in education, research & development and innovation). The EIB views these three areas as critical for Europe's competitiveness and long-term economic growth. Examples of such projects are as follows:

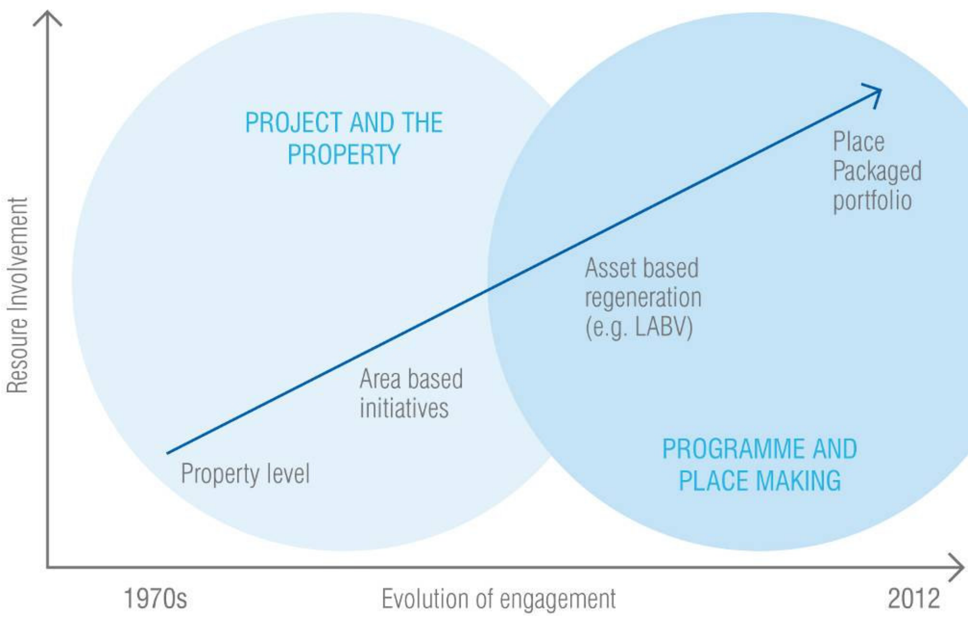
- Education & Learning: Education facilities, adult learning facilities, ICT facilities
- Research & Development: Supporting infrastructure as well as innovation centres / centres of excellence, incubators, clusters/technology parks, heat/energy networks etc
- Innovation: ICT and broadband delivery

4.73 In order to generate sufficient returns the EIB requires a minimum £100 million capital programme to be in place – with £40 million debt funding provided directly into the Local Authority sourced via EIB.

Structured Funding Mechanisms

4.74 The challenging economic context and continued retrenchment of funding markets has made its impact felt both across the public and private sectors. As a result both sectors have started to establish more innovative mechanisms to access either debt or equity finance in order to accelerate delivery of key regeneration, development and infrastructure projects.

Evolution of Private-Sector Engagement with Regeneration



Source: GVA

4.75 These approaches are based on a diverse range of new and existing structured finance mechanisms that can be used alone or in combination to fund single projects or a wider delivery programme. The appropriate mechanism should be appraised for its 'fit' with type of project, the risk profile, and the level of funding required.

Joint European Support for Sustainable Investment in City Areas (JESSICA)

4.76 A funding source that has been attracting more attention recently is the Joint European Support for Sustainable Investment in City Areas (JESSICA). This uses ERDF/European Investment Bank (EIB) funding, matched public sector funding and potentially private sector funds to offer debt, and some equity, funding. This is offered to developers on state aid compliant terms or with state aid exemption where suitable projects can offer significant social benefits.

4.77 JESSICA utilises the establishment of a 'Holding Fund', which draws down funding from the EIB. This then allows the establishment of an Investment Policy and Fund to spend in delivering employment generating projects.

4.78 The JESSICA approach is focussed around sustainable investment, in this instance funding is made primarily through loan and equity approaches which generate a return. This allows funding to be recycled on completion of a scheme and re-invested in further phases. This fund based approach can be of assistance in the current economic climate when debt finance for property development is limited.

4.79 However, the approach typically requires viable schemes that are unfunded. Unviable schemes will still require further financial funding from other sources for development to occur.

4.80 A strong example of an active JESSICA fund is the Merseyside Urban Development Fund (MUDF) which is now close to launch. This fund has also secured a State Aid notification (in place across the North West), which allows the fund to lend at sub-market rates. This is particularly attractive to developers and could play an important role in stimulating development in Merseyside in coming years.

Asset-based Joint Venture Funding

4.81 Joint ventures can be used as a source of funding, and as a repayment of funds, and are common in the private sector between developers and funders.

4.82 However, due to the funding challenges of recent times, these are becoming increasingly popular in the public sector. Public sector organisations considering a property based joint venture will need to have an attractive asset base available for investment. They will look for a private sector partner able to bring equity funding to match the land value, commercial development and operational expertise and knowledge of commercial debt markets.

Joint Venture Development Agreement

4.83 A joint venture development approach may be undertaken with a private sector delivery partner, such an approach may be used where there is a desire to share development risk between parties. Approaches typically involve an even equity contribution by both parties in the form of land or cash for development. This can included forming a separate legal entity if required.

4.84 A key to this approach is that it typically involves a public body contributing land or other assets (e.g. buildings) whilst a development partner finances the construction. In these instances the separate legal entity is also know as a Local Asset Based Vehicle (LABV). Issues to consider are the exit strategy for both parties as well as how risk and profit are shared through the scheme. The approach allows a Local Authority to access private and capital market expertise through working alongside the developer, this approach is therefore suited to schemes which are high risk and have a number of unknown factors at outset.

4.85 The approach of using an asset backed vehicle is one that has been promoted recently in the public sector. A recent JV LABV example is the Big Opportunity in Gateshead, where the Gateshead Council procured a development partner to assist with the delivery of 30 sites owned by the Council for housing in order to deliver nearly 3,000 new homes.

4.86 Other high profile vehicles include Croydon Council's Urban Regeneration Company. This type of joint venture partnership has been used to harness the value of the public sector's land holdings to bring in matched private investment from a development partner, to help fund developments on the Council's land.

Local Incentive Backed Vehicles (LIBV's)

4.87 The LIBV is a mechanism for enabling the public and private sectors to form a partnership agreement which shares risk and facilitates delivery. The LIBV has been structured to enable delivery despite the recession.

4.88 The LIBV is based on the LABV, with the crucial difference that assets do not need to be transferred on day one of the agreement. Rather a development partner is procured for a number of sites in close proximity and is offered the options to purchase the sites at some time in the future. This is attractive to the private sector, which is currently reticent to pay for sites up front. Once the market has improved, delivery of the sites can commence including the transfer of ownership.

4.89 A key example of LIBV is Skypark. Devon County Council and St Mowden are both 50% shareholders in Skypark, a limited liability partnership tasked with delivering 140,000m² of business space adjacent to Exeter Airport. The land is committed by the Council which will be valued phase by phase with land drawn down as key milestones are achieved. Both partners will share equally in development profits.

Options Appraisal & Cost-benefit Analysis

4.90 Before embarking on the utilisation of a particular finance source or funding mechanism, either at an individual project or wider programme scale, it will be necessary to undertake a full options appraisal including a rigorous cost-benefit analysis. It is vital that a detailed evaluation of each of the projects is in place in order to inform this process.

4.91 The principal criteria for evaluation within the options appraisal are:

- Implementation Costs
- Complexity
- Economic Benefits
- Resource Implications
- Risk
- Relevance
- Governance Issues
- Timescales for Implementation
- Added Value

4.92 Beyond the options appraisal it will be necessary to scope a number of relevant issues, depending on the funding source or mechanisms under consideration. These issues will be particularly pertinent where the Council may wish to introduce partnership arrangements:

- Identify Potential Funders
- External Funding, e.g. EIB, JESSICA
- Financial Structures

- Exit Strategies
- Best Value
- Procurement

4.93 This process will ensure that the appropriate `cocktail' of funding is applied, in order to minimise the Council's liabilities and exposure to uncertainty and risk.

5. Recommendations

5.1 The Delivery Framework recommends Cheshire West and Chester Council / Chester Renaissance undertake the following actions in order to enable, and accelerate, the delivery of key projects within the One City Plan and across the wider authority area:

- **Organisation and Programme/Project Delivery Skills Audit**: Where possible actions to facilitate project delivery will be made by the resource within the CPDT. To inform the appropriate organisational and skills structure of the CPDT a skills audit of existing Council resources and capabilities should be undertaken. The Council possesses a strong body of project based skills already. Programme and project finance skills should be sourced and integrated within the CPDT. This skill-set should envelop a detailed appreciation of structured finance, delivery vehicles and models, assets and crucially, maintain an interface with private sector capital organisations.

- **Regional Growth Fund Round 3:** RGF Round 3 was launched on 23rd February 2012 – providing access to circa £1bn of funding. The deadline for submitting bids is 13th June 2012. It is critical that the Council maximises the potential funding stream available through this source.

- **Critical Review of Capital Projects:** Major capital projects are often managed by several or single Council 'gatekeepers' in a vertical manner with limited transparency or clear 'fit' within a wider programme. To effectively introduce the CPDT as part of wider structural reorganisation it will therefore be necessary for a detailed audit of the existing projects – both within the Capital Programme and outside it (e.g. One City Plan) to be undertaken across the Council. This should confirm the Council's existing and proposed commitments (financial or otherwise) to the projects, their viability and current funding structure/position, proposed phasing and outputs. This will facilitate removal of any potential duplication in resources across departments caused by these present arrangements and close any gaps or loopholes to provide a more efficient and transparent delivery service.

- **Implementation of Structured Delivery Mechanism:** Structured funding mechanisms have the greatest potential to swiftly, and comprehensively deliver the Council's capital development priorities within the current (and foreseeable) economic and funding climate. It is necessary for the Council to develop a 'roadmap' to establish the most effective pathway to the implementation of a structured delivery mechanism operating sub-regionally across Cheshire and Warrington and / or at the Cheshire West and Chester authority scale.