

REPORT TO: Executive Board

DATE: 5 September 2013

REPORTING OFFICER: Strategic Director, Children and Enterprise

PORTFOLIO: Physical Environment

SUBJECT: Regenerating Halton, Regeneration Delivery Models and Future Governance

WARD(s): Borough Wide

1.0 PURPOSE OF REPORT

The purpose of this report is to set out potential regeneration delivery models which could be used to support Halton's continuing regeneration.

The report also presents an option for a new overarching governance arrangement, the adoption of which would bring forward specific regeneration projects from a number of strategic areas, into one single Regeneration Programme. This is intended to enable greater focus and efficiency in the oversight, management and delivery of regeneration projects once they have been prioritised within the Council.

The report provides a summary of next steps and actions required to drive Halton's economic prosperity and growth agenda

2.0 RECOMMENDATION: That

- 1) the preferred Governance option outlined in section 3.2 of the report is further developed;**
- 2) a Regeneration Board is established in line with the preferred Governance option;**
- 3) the delivery models outlined in section 3.3 of this report are considered;**
- 4) different delivery models will be applied to different projects and programmes; and**
- 5) different financing models outlined in section 3.4 of this report are considered;**

3.0 SUPPORTING INFORMATION

3.1 Background

Economic regeneration in the UK continues to face many challenges. Public sector cuts and reductions in grant funding mean that an even greater focus on efficiency and value for money is required. This environment is placing a greater emphasis on finding innovative and alternative ways to fund and deliver regeneration schemes.

A number of models are being increasingly used to combine private sector finance and skills with public sector land and property assets as a means of driving development and investment.

Finding and delivering innovative ways of working in regeneration is not new for Halton.

However, the development of the Mersey Gateway Project and its potential to further the regeneration of Halton, provides an excellent opportunity to review past, present and future models in order to maximise the regeneration benefits that the MGP will bring.

Equally, this is an opportune moment to reflect on the governance arrangements needed to drive the Borough's economic prosperity agenda. Having the appropriate governance and reporting measures in place will enable us to develop and implement new approaches to regeneration; engage with key partners more effectively; pool organisational resources efficiently; and coordinate our regeneration activities in a coherent and structured way. It is also important to ensure that the Mersey Gateway goes beyond physical regeneration per se, and is used to create an economically prosperous Borough that encourages investment, entrepreneurship, enterprise and business growth, and improves the education, skills and employment prospects of our **people** and workforce, so that we can all share in the opportunities the Mersey Gateway Project offers. This way of working is reflected in the proposed governance model outlined later in this report.

3.2 Governance framework for Halton's Regeneration

Halton's current working practices and governance arrangements have enabled projects to be delivered, the results of which are clear to see. It is appropriate however to consider how the increased range and complexity of project delivery and financing options could be actively and effectively used and managed. These are set out in set out in sections 3.3 and 3.4 below.

The drive behind regeneration as we move forward is primarily within the Mersey Gateway Regeneration Strategy, the Core Strategy, the Housing Strategy, and the Economy, Enterprise & Property Departmental Strategic

Regeneration Framework; each containing a broad spread of possible projects across a number of key geographical and thematic areas, and covering a range of possible regeneration outcomes.

One option to consider as the regeneration agenda is taken forward is to place all regeneration projects within a Regeneration Framework as they become 'live', regardless of their strategic origin. This would provide an organisational umbrella under which projects can be progressed, monitored and controlled. The Regeneration Framework would be developed through input from a range of stakeholder groups and would accommodate projects of varying sizes and scope, but with a common understanding that the projects within the Framework had been afforded a higher degree of regeneration priority.

Oversight of the Regeneration Framework would come from a Regeneration Board. The Council has an established precedent for an arrangement such as this in its Efficiency Programme Board, having overseen a range of projects of varying magnitude and scope since its inception in 2009.

The Regeneration Board would incorporate the activity currently undertaken by the Capital Development Group.

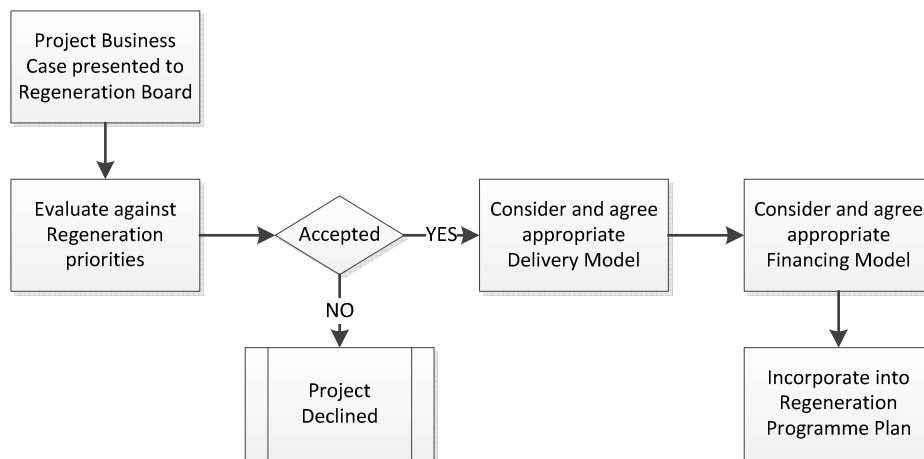
A schematic illustrating how the Regeneration Board would operate in practice is attached at Appendix 1.

The key benefits of placing projects within a Regeneration Framework would be;

- Initial prioritisation of projects against outcomes criteria for inclusion in the Framework,
- Bringing together of key disciplines,
- Synergies between projects become visible,
- Ability to identify and prioritise resources (human and financial),
- Focussed consideration of suitable delivery and financing models,
- Opportunity to present regeneration in a broader economic prosperity context,
- Concentrated monitoring and accountability against desired outcomes,
- Provides a mechanism for providing a coherent and consistent message to stakeholders (elected members, partners, regional, national)

The Regeneration Framework would be documented through a Regeneration Programme Plan, which would be updated on an annual basis.

Selection of projects for inclusion in the Framework would be through analysis and evaluation of a project business case against regeneration priorities, and subject to acceptance, the appropriate delivery and financing models would be considered and agreed.



Once incorporated into the Regeneration Programme Plan, monitoring of progress through to delivery stage would be within the remit of Regeneration Board.

Appropriate reporting of all constituent projects within the framework would be facilitated to the Regeneration Board.

3.3 Regeneration Models/Vehicles

In this section of the report a summary of regeneration models is provided.

i) Local Asset Backed Vehicles (LABV)

In the LABV model, a public sector body, for example, a Local Authority will create a corporate entity with a private sector partner. The Local Authority transfers real estate to this entity and the private sector matches the value of these assets with cash. These investments form the equivalent of the parties “equity” in the LABV.

The advantage of this approach is that the vehicle is endowed with both land and cash. The cash could be invested in a way which would enhance the value of the site, for example, by obtaining planning permission, providing infrastructure or carrying out development works. Profit is then shared between the public and private sector partners, enabling the Local Authority to either recycle funds in the LABV, or use the money for other purposes.

The nearest example of this model in Halton was the establishment of Widnes Regeneration Limited.

Following the decision to wind up the company, relations between respective parties have become strained, but it is worth noting the advantages and benefits that the Local Authority and the private sector partners accrued over the years. For Halton BC we used the company to regenerate a significant

proportion of Widnes Town Centre, whilst using out land as equity. We used our influence to drive a longer-term and coherent vision for the area, ensuring that the business model reflected a socio economic rather than a purely bottom line approach to the delivery of regeneration projects in Halton.

ii) Joint Venture

Alongside the LABV model, the establishment of a joint venture (JV) is often used to implement a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity.

Sci-Tech Daresbury is an example of a Joint Venture. In this case, it is set up as a Limited Liability Partnership, (LLP) where Halton BC Langtree PLC and the Science Technology Facilities Council (STFC) are developing the next phases of the Daresbury Science and Innovation Campus.

The model has worked well in bringing together public and private sector expertise to successfully bid for Enterprise Zone status and external funding. The private sector partner provides commercial experience in managing existing assets on the campus, as well as knowledge of the market and demand for future developments. Halton BC provides planning, highways and regeneration input and the STFC provides Daresbury's USP i.e. a strong science and innovation offer. On the negative side, the complexity of the governance arrangements, as well as competing priorities, have delayed progress on developments.

iii) PSP

Recently, the Council received an approach from a company called Public Sector Plc (PSP) to investigate the establishment of a Limited Liability Partnership (LLP) which would facilitate a range of property opportunities with the Council.

The PSP model originated from the public sector. Although it is described as a 'unique' funding joint venture and not a LABV, the model shares a number of LABV / Joint Venture principles. The model primarily focuses on facilitating property projects with Local Authorities bringing finance, skills and resources to the partnership. PSP is regarded as an, 'additional option', which does not take away a Local Authority's ability to use other methods or vehicles, nor does it preclude the Council from getting a, 'better deal'. The PSP model advocates a concept known as, 'relational partnering'. In essence this means that partners enter into a long-term relationship. In advance of any contractual commitment, partners table potential areas of interest and work together to assemble a portfolio of assets for development. The PSP model brings with it strong financial backing, which is a key advantage, but there is an expectation that the Local Authority would need to provide (human) resources to oversee and steer the partnership. As with other partnership models, the more investment PSP would make, the larger the expected return on this

investment. Discussions with PSP are at an early stage and it is, therefore, uncertain whether the complexities of some of Halton's sites may prove to be unattractive to PSP.

Irrespective of the development of any future relationship with PSP, the model sets out a structured way of working on regeneration initiatives. See appendix 2. There are aspects of the PSP model that the Council might wish to consider alongside the phases of work described in section iv) below.

iv) The Council acting as a developer

The Council also has the capability to act as the developer and has done so on a number of sites, particularly at 3MG and the Widnes Waterfront.

We have tended to break this down into three phases of work:

Feasibility

- Identify site/s including land ownerships, constraints and history
- Work alongside the Local Planning Authority to consider land use options
- Develop a list of objectives
- Consult with Portfolio Holders
- Identify key stakeholders
- Identify key partners
- Take advice from the commercial sector around realism and deliverability
- Identify potential funding sources
- Determine approach to development and delivery
- Report to Asset Management Working Group

Development

- Develop project or programme of works, perhaps in the form a masterplan or a development brief
- Consider the enabling works which would facilitate the development
- Identify costs
- Produce a programme for delivery
- Report to Members and seek Member authority to progress
- Apply for external funding
- Make recommendations to the Council for allocations within the Capital Programme (albeit to use grant)

Delivery

- Undertake enabling works where necessary utilising available resources; road, rail, utilities, landscape work
- Market the opportunity and engage with developer/s
- Apply for planning permission in conjunction with the developer
- Engage with HEP to offer bespoke services
- Draw up development agreement and land agreements
- Determine commuted sums for maintenance obligations to be retained by Council

- Conclude legal agreements
- Support recruitment through HEP

This model is advantageous because the Council has retained a significant degree of control in managing the development. More importantly, the Council acts as a guardian of the Council's wider socio-economic priorities, notably creating jobs for local people. Where this approach is less advantageous is that the Council is required to allocate significant resources to developing and developing respective schemes.

v) Development Agreements

Development agreements are a contractual arrangement between a landowner and a developer to bring forward the development of property assets.

A development agreement is a way to manage the risks involved within the development process to ensure the parties' intentions are carried out by,

- Retaining some element of control to ensure the property asset is developed as intended,
- The financial offer for the property asset is clearly defined,
- Obligations of the parties are documented and there will be a mechanism for terminating the agreement if development is not forthcoming as agreed

There are however certain key aspects of a development agreement that require good project management i.e. ensuring that:

- An element of control without fettering the developer unnecessarily can be achieved by inserting key date milestones, long stop dates and retaining ownership of the land until the practical certificate of completion has been signed off.
- The agreement should clearly define the basis of the price for the property asset to include a base price, clear overage or top up payments, open book appraisal, definition of allowable costs especially around abnormals and developers profit/management fee
- the parties' obligations particularly in relation to planning, s106 and highway works are clearly defined and ensure an exit strategy if development does not materialise.

An example of the use of a development agreement in Halton has been the disposal of land at Gorse Lane Widnes (the Bayer site) for development for employment use:

In this example, following a national advert for expressions of interest, a development partner was selected on the basis of written submissions, formal

presentation and interview. The developers were selected on the basis of price and quality including the initial proposal for terms of a development agreement.

One of the Council's objectives for the site is to ensure it is fully developed within a reasonable period to fulfil regeneration and employment objectives. The development agreement model has been adopted here to ensure the Council has an element of control to manage the risks as follows:

Deliverability – to ensure the site is developed clauses covering milestones for example submission and obtaining planning consent, a long stop date if there is no buyer or the planning consent has not been implemented, or possibility of extending the development agreement to allow some flexibility depending on market conditions.

Transparency of costs and returns – the original acquisition was funded by grant monies from BIS and the disposal must comply with their governance procedures in addition to the Council's protocols. The offer and costs of the development and developers return/management fee are defined and subject to open book appraisal. Mechanisms to handle unknown costs and 'abnormals' can be managed within the agreement and specific reference to remediation.

Financial offer - The offer has been agreed to specify a base price and the mechanism for further payments for overage on an open book basis.

3.4 Financing Models used in Regeneration

There are some examples of innovative financing models used in regeneration that require further investigation.

a) Tax Incremental Financing (TIF).

Tax Incremental Financing (TIF) is a means of funding public sector investment (usually) infrastructure judged to be necessary to unlock regeneration in an area, and which may otherwise be unaffordable to local authorities. The overarching goal of TIF is to support and guide the increasingly limited public finances available for assisting regeneration and helping to lever in additional private sector capital.

TIF uses future additional revenue gains from taxes to finance the borrowing required to fund public infrastructure improvements that will in turn create those gains. When a public project such as a new road system is constructed within a specific area, increases in the value of the land as well as new property and business investment can occur. Resultant increased site value

and investment generates increased tax revenues. These increased tax revenues (whether domestic or business property) are the 'tax increment'.

In Halton we are applying TIF principles at Sci-Tech Daresbury where borrowing for proposed infrastructure is based on anticipated business rates uplift as a result of this investment.

A key disadvantage of this approach is that it increases Local Authority. There are associated risks if the development is delayed, costs overrun or if forecast revenue is unable to cover the debt. Nevertheless, the cost of private finance may be prohibitively high if there is no Local Authority guarantee, particularly in the current climate and this is regarded as an alternative way of generating finance for investment in regeneration.

b) Business Rates Retention

In April 2013 the Government introduced a business rates retention scheme. This means that Councils will be able to keep a proportion of the business rates revenue as well as growth on the revenue that is generated in their area.

The scheme seeks to offer Councils a strong financial incentive to promote economic growth.

Where Councils have greater needs than their business rates income, they will receive a top-up payment from Government.

Councils can increase their business rates revenue by incentivising businesses to either relocate to the area, or encourage them to expand their existing business.

In Halton, whilst consideration has been given to developing a discretionary scheme, it is now considered more appropriate to consider applications for Business Rates Relief on a case by case basis and where there are exceptional reasons for doing this.

Again, a 'speculate to accumulate' model may be the approach the Council wishes to take in the future.

c) Changes to Capital receipts

It is worth noting that within the Comprehensive Spending Review, money raised from the sale of capital assets could be made more flexible. Whereas under previous rules money raised could only be spent on capital, there is a proposal that this money could be spent on revenue, albeit for one year and could not be used for continuous spend.

d) Community Infrastructure Levy,

The community infrastructure levy is a new levy that local authorities in England and Wales can choose to charge on new developments in their area. In areas where a community infrastructure levy is in force, land owners and developers must pay the levy to the local council.

The charges are set by the local council, based on the size and type of the new development.

The money raised from the community infrastructure levy can be used to support development by funding infrastructure that the council and local community want.

e) Venture Capital Loan Funds including 'JESSICA'

Earlier in this report, reference was made to the need to fund new and innovative ways of funding regeneration.

A recent "phenomenon" has been the emergence of public sector "co-investment fund structures".

In practice, a number of public bodies combine funding streams and sometimes assets into a particular area. A good example of this would be the "Chrysalis" fund which was originally an urban development fund under the snappy title Joint European Support for Sustainable Investment in the City Area (JESSICA) scheme. With the emergence of Single Local Growth Plans and Combined Authorities the structure and remit of this approach could be broadened to include other funding streams and agencies. However, it should be noted that loans are not popular and this is evidenced by the fact that the Chrysalis fund is set to return £10m of unused ERDF.

4.0 POLICY IMPLICATIONS

As outlined above, there are a number of options for the delivery of a large, complex programme of Borough wide regeneration. The Mersey Gateway does provide Halton Borough Council with an opportunity to create an LABV to deliver such large scale regeneration.

There would be sufficient regeneration projects and assets within the Mersey Gateway Impact areas to be included in a LABV type model.

Equally, the LABV provides the opportunity for partnership working and attracting appropriate expertise to the programme of regeneration.

The risk with such a delivery method is that it can become difficult to manage due to the size of the vehicle and the lock down of assets means a loss of flexibility for the Council.

Alternatively the skills, knowledge and expertise are available within the Council to develop and deliver the impact areas as a series of distinct programmes, each delivered using either Development Agreements or joint ventures.

In conclusion, there is no reason why the Council should be committed to one particular model over another. The successful regeneration of the Borough has been as a result of deploying a regeneration model according to the individual requirements of a site or project.

We can take the best of the above models. One approach might be to use the PSP process outlined in Appendix 2 alongside the 'using the Council as a developer model' as a way of capturing the main ingredients for developing our key strategic assets.

There is also recognition that the preferred bidder has committed to allocating 'time bank' resources to supporting the delivery of the Mersey Gateway Strategy, and the next steps and actions below would be a useful starting point for prioritising where the preferred bidder's input can offer maximum impact.

Next Steps

In regard to next steps, it would be worth setting out a number of key questions which could be used to choose the best model to drive maximum value out of Halton's regeneration programmes and projects.

These key questions are taken from work undertaken by Price Waterhouse Coopers and Centre for Cities. Although they relate to Local Asset Backed Vehicles, they have a wider resonance.

- 1) What do we want to achieve? Our vision.
- 2) Do we have the asset portfolio needed to seek investment?
- 3) What types of investment and partners can we attract?
- 4) What Governance structures should we propose for the LABV. This question has been considered in more detail in section 2.0 of this report.
- 5) Once established how can specialist delivery partners be brought in?

Appendix 3 provides a template for capturing information on the above.

It is proposed that the above questions would be considered in more detail at the inaugural meeting of the Regeneration Operations board outlined in section 4.0 of this report.

Key Actions

Key actions that the Regeneration Board would commission are as follows:

- Develop Baseline Position for each site identified;;

- Preparation of Respective Masterplans for each site;
- Preparation of Delivery Plan for each site identified;
- Development of an Investment Plan for Halton;
- Economic Impact Assessment Toolkit to include jobs and rateable value

5.0 FINANCIAL IMPLICATIONS

Section 3.4 of the report sets out potential financial models that have been used or that could be applied in the future. Although grants for regeneration are still available to the Council, for example, Regional Growth Fund, and European Funding, the Council has applied other innovative financial packages to deliver its regeneration priorities.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

The proposals outlined in this report provide a framework for ensuring that the Borough's continuing economic prosperity has a positive impact on all the Council's priorities.

7.0 RISK ANALYSIS

There is a risk that the Council could deliver its regeneration schemes in isolation. However, the framework approach identified in the report removes this possibility.

There is also a risk that the Council takes a short-term view to bringing forward the Borough's sites for development. However, the governance arrangements proposed in this report would assist in ensuring that the Council continues to take a longer term view of regeneration opportunities in the Borough.

8.0 EQUALITY AND DIVERSITY ISSUES

There are no equality and diversity issues arising from this report.

9.0 REASONS FOR THE DECISION

In regard to the regeneration governance proposals set out in the report, it enables to the Council to maintain a coherent and structured approach to how it manages and delivers on its existing and future regeneration initiatives. Regarding the delivery models outlined in the report, the approach advocated allows the Council to 'pick and choose' the delivery model best suited to the development.

10.0 ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

Consideration has been given to establishing a Regeneration Company. However, this would be time consuming and would still require the Council's Human and Financial resources to be factored into the development of such a company.

Consideration has also been given to entering into a long-term arrangement with one 'preferred' developer/partner, but this might reduce the Council's flexibility and rate of return on some developments.

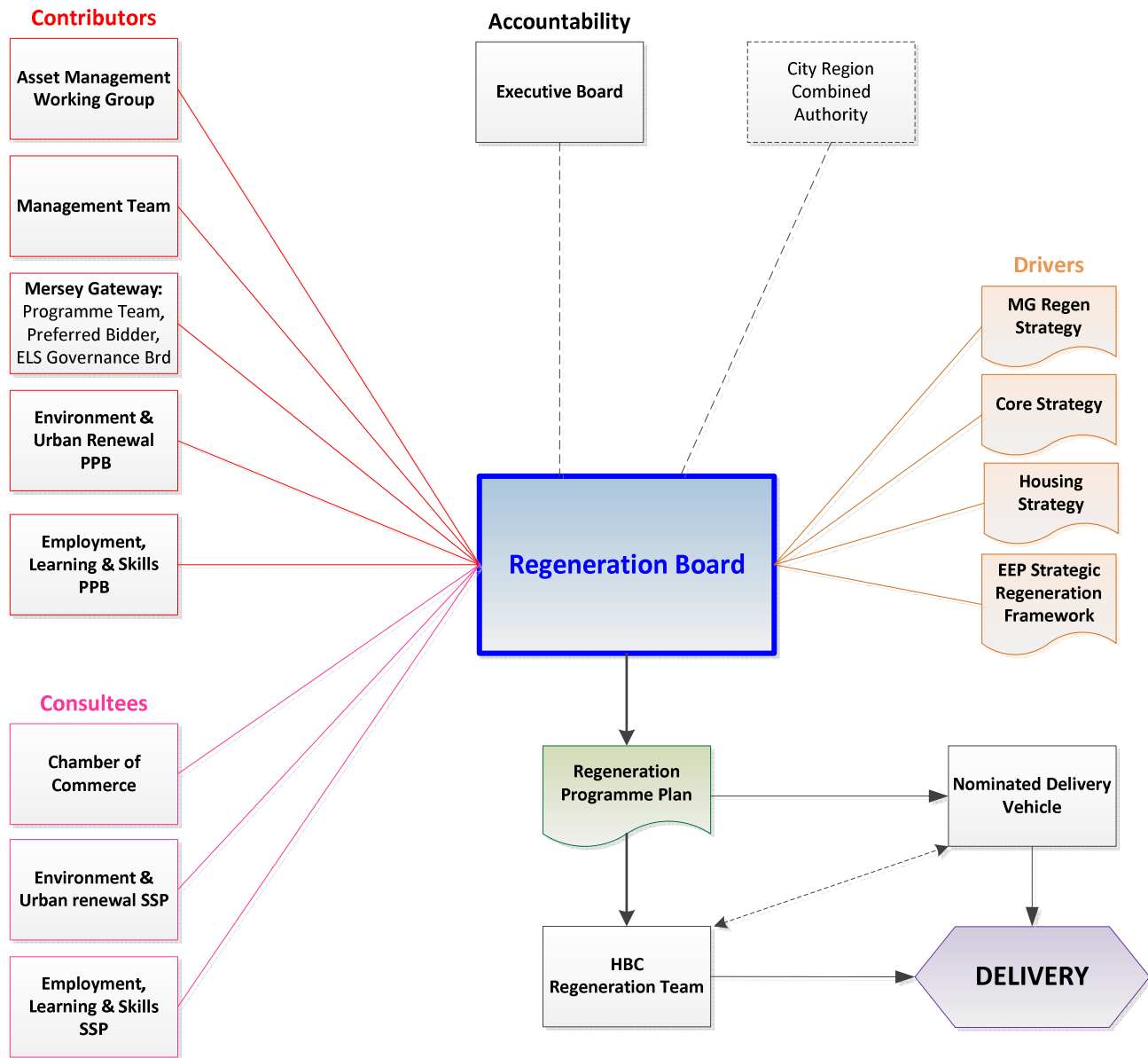
11.0 IMPLEMENTATION DATE

1st October 2013

12.0 LIST OF BACKGROUND PAPERS

None

PROPOSAL – REGENERATION BOARD



PURPOSE:

A one-stop forum for consideration of Regeneration proposals / projects within the borough.

Projects would be tested, scrutinised and endorsed (or rejected), resourced and placed into the appropriate delivery vehicle based upon a business case model.

Ensure efficient working / allocation of resources against expected return / benefits

SCOPE:

To oversee all HBC Regeneration activity, including Core Strategy and MG Regeneration Strategy projects. This should form a 'Regeneration programme'

BOARD MEMBERSHIP:

Chief Executive,
SD Policy & Resources,
OD Economy & Enterprise,
Regeneration Manager(s),
DM Employment, Learning & Skills,
OD Planning, Highways, Transportation
Development Control Manager,
Elected Members x 3

ACCOUNTABILITY / GOVERNANCE:

Accountable to Executive Board (by exception)

Accountable for the Regeneration Framework, documented in 'Regeneration Programme Plan' (updated annually)

Governance structure to be developed, to incorporate project methodology and reporting arrangements.

Process



Stage	What	Who	Outcome
e1 Explore	<ul style="list-style-type: none"> Options Feasibility Outline ideas What if's 	<ul style="list-style-type: none"> PSP prepare Ops Board agree Members Board approve 	<ul style="list-style-type: none"> Indication of viability Approval or rejection of opportunity
e2 Examine	<ul style="list-style-type: none"> Initial appraisal Indicative layouts Site assembly options High level strategy Site valuations 	<ul style="list-style-type: none"> PSP prepare Ops Board agree Members Board approve Independent valuers 	<ul style="list-style-type: none"> Forecast returns Agreed project strategy Timetable for delivery
e3 Evaluate	<ul style="list-style-type: none"> Agreement to Success Criteria Demonstration of Value For Money 	<ul style="list-style-type: none"> PSP prepare ACS audit and report to Members Board 	<ul style="list-style-type: none"> Validation report demonstrates achievement of necessary tests
e4 Engage	<ul style="list-style-type: none"> Project delivery Disposal 	<ul style="list-style-type: none"> PSP manage Ops Board oversight of process 	<ul style="list-style-type: none"> Delivery of agreed works Income from disposals

LABV Toolkit

Taken from City Solutions: Delivering Local Growth – Price Waterhouse Coopers and Centre for Cities

Step 1 – What does your authority want to achieve?

It is vitally important that local authorities have a clear focus on why they are setting up a LABV in the first place. They must be able to answer a series of key questions before deciding whether the model is right for them. These include:

- What are our principal economic/regeneration aspirations?
- Could we pursue these goals directly as a council or through some other existing delivery vehicle? (URC, UDC, CDC, Development Agreement, joint venture company, PPP)
- If not, how could a LABV help to deliver aspirations and create additional value?
- Do we have a detailed pipeline of regeneration projects that require additional funding?
- Do we have the right kind of assets to attract private sector partners and investors?

Step 2 – Do we have the asset portfolio needed to secure investment?

Local authorities also need to consider very carefully which assets to place in the LABV. Ensuring a good mix between sites that are attractive to the market and other surplus, under-valued, or under-developed land is critical.

Appropriate assets could encompass any of the following:

- Surplus properties • Sites for development
- Public sector 'brownfield' sites • Operational assets
- Investment properties • Income-producing assets

Step 3 – What types of finance and partners can we attract?

Local authorities must be clear regarding the type of partners required to make a LABV a success. In order to do this, local authorities should:

- Evaluate the resources and skills they require
- Target specific private sector groups that are likely to be interested in their particular

assets

- Ensure the aims of the LABV link well with an existing coherent city development plan
- Be clear on the role of the public sector in the governance of the LABV
- Consider the level of risk they are willing to take on, and expect their partners to share
Display a high level of public ambition, and strong civic leadership, ensuring that there is sufficient cross-party support for the LABV and its underlying aims to be achieved over the medium to long term

Step 4 – What governance structure should we propose for the LABV? Councils and private sector partners must work carefully together to devise the necessary governance structures that will allow all parties to achieve their short and long term aspirations. This will require local authorities and interested financial and delivery partners to consider the following questions:

- What projects will the LABV undertake?
- How will the overall ownership of the LABV be arranged?
- How will the returns and risks be split between different partners?
- Will partners be able to extract profits from the vehicle at different times?
- Will the value of the assets and revenue contained in the LABV be borrowed against?

Step 5 – Once established, how can specialist delivery partners be brought in?

Any number of specialist partners can be introduced once the structure of the LABV is agreed. Delivery partners can include any of the following organisations

- Developers – operational or specialist • Contractors
- Infrastructure delivery companies • Other public/private sector bodies