

TELFORD & WREKIN COUNCIL

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COUNCIL - 3 MARCH 2016

THE TELFORD LAND DEAL

REPORT OF ASSISTANT DIRECTOR: BUSINESS, DEVELOPMENT & EMPLOYMENT

LEAD MEMBERS CLLR SHAUN DAVIES AND CLLR LEE CARTER

PART A EXECUTIVE SUMMARY OF TELFORD LAND DEAL

- 1.1 While the legacy of the New Town is an ample supply of development land which is a key component of the Borough's growth strategy - ownership of this land is dominated by the Homes & Communities Agency (on behalf of DCLG) leaving the Council comparatively asset poor with limited potential for capital generation. In addition the Borough's core infrastructure, all developed at the time of the New Town's establishment, is ageing, creating budgetary pressures and also threatening to constrain the Borough's potential as an inward investment destination.
- 1.2 For the first time, under the Telford Land Deal, the Borough is set to receive a share of the receipts from the sale of Government owned land in Telford to invest in our Borough.
- 1.3 This is a unique Deal between TWC and HCA/DCLG – testament to the success TWC is already achieving through its pro-business approach to winning investment and delivering new homes.
- 1.4 **Over a ten year period the Deal aims to generate:**
- **2,800 new homes**
 - **8,500 new jobs**
 - **300,000 sq ft new employment area**
 - **Up to £44.5m investment into the local area for new infrastructure to support growth**
 - **A potential £6m pa in Council Tax and Business Rates by the end of the programme**
- 1.5 The Deal will see TWC take responsibility for marketing and selling all HCA's housing and employment land in Telford for the next 10 years. The Government have committed to allow the Borough to share in the receipts from the sale of this land on the basis that by investing into preparing these sites for the market they are sold at a higher market value than anticipated by HCA.
- 1.6 Table 1 in the Main Report sets out the financial principles of the 10 year funding model – in summary this includes:

	Total (10 years) £,000
Net Expenditure funded from land receipts to be spent in Telford & Wrekin on site preparation and infrastructure to bring HCA sites to market (A)	19,225

Net expenditure – HCA and TWC resource costs (B)	3,676
Gross capital receipts from sale of HCA employment & residential land	(76,472)
Less: HCA 2015 asset valuations	30,880
Capital receipts available to fund the model (C)	(45,592)
Net uplift on capital receipts(A+B+C)	(22,691)
Profit Share to HCA (15% of the total profit share)	(3,404)
Local Profit Share (includes £2m that has to be spent on HCA 'constrained sites' and 15% to be shared with the LEP)	(19,287)

- 1.7 As the table above illustrates of the £44.5m the Borough can benefit from, roughly half will be invested into site preparation making land in the Borough more attractive to investors and developers. If we are successful the Borough will then also benefit from a share in the profits when land is sold.
- 1.8 The share of profits earned through the Deal will be invested into capital infrastructure which could include highways, employment estates or to provide further opportunities for local businesses to expand or new investors to choose to locate in the Borough – bringing more homes and jobs.
- 1.9 As TWC has worked in partnership with the Marches LEP to deliver this Deal the LEP will also benefit from a percentage of any profit share that is achieved from land sales. The LEP will invest this into the Marches Investment Fund. This is open to public and private sector organisations to bid into for gap funding to unlock development sites in Telford & Wrekin, Shropshire and Herefordshire.
- 1.10 The land deal development sites are all in line with the new Telford & Wrekin Local Plan and the new homes form part of the 15,500 homes to be delivered through that Plan.
- 1.11 As with all previous City Deals agreed by Government TWC must share in the risks of delivering this Deal as well as the potential rewards. Two key areas of risk include:
- TWC will cashflow the investment into preparing sites for the market with receipts from land sales achieved above HCA's anticipated values for sites repaying this investment. The Council will be able to manage the delivery of the programme and investment decisions to manage this risk but will be responsible for driving land sales
 - In addition over the next 12 months TWC and HCA must also reach agreement on a further deal to transfer ownership of HCA owned land which is not developable (liability sites), to the Council's ownership. Some of this land could incur costs to manage and remediate and a funding package will form part of the negotiation.
- 1.12 This is understood to be the first time this type of Deal has been done where Government land receipts can be invested into the local area rather than just into Government owned land or being retained by Treasury.
- 1.13 The Deal is a key part of the Borough's Enterprise Telford strategy to attract inward investment, increase job opportunities and strengthen existing businesses supply chain links. Being able to determine when sites are sold will allow the Borough to consider opportunities for regeneration, ensure the infrastructure required to drive growth is in place and benefit local communities through job opportunities and new homes.

- 1.14 The Deal also follows the Borough seeking non-constituent membership of the West Midlands Combined Authority and places the Borough in a stronger position to negotiate further investment linked with accommodating businesses, particularly in our main sectors e.g. automotive manufacturing, that our combined authority neighbours cannot.
- 1.15 The Main Report, that follows, provides details of the Land Deal and seeks approval to finalise the Deal and make the necessary changes to the Council's budget strategy.

PART A – TELFORD LAND DEAL - MAIN REPORT

1. SUMMARY OF MAIN PROPOSALS

- 1.1 While the legacy of the New Town is an ample supply of development land which is a key component of the Borough's growth strategy - ownership of this land is dominated by the Homes & Communities Agency (on behalf of DCLG) leaving the Council comparatively asset poor with limited potential for capital generation. In addition the Borough's core infrastructure, all developed at the time of the New Town's establishment, is ageing, creating budgetary pressures and also threatening to constrain the Borough's potential as an inward investment destination.
- 1.2 Following submission by TWC of a Business case and Funding Model, as part of the Marches Local Enterprise Partnership (LEP) Growth Deal, the Government have given their in principle agreement to the Telford Land Deal (the Deal), which will see up to **£44.5m land receipts from the sale of agreed Homes & Communities Agency (HCA) assets in Telford recycled back into the local area, supporting the delivery of up to 2,800 homes, 8,500 jobs and 300,000 sqm of commercial floorspace**. The Deal also offers the opportunity for the Council to take responsibility for the stewardship, marketing and disposal of all HCA land holdings in Telford. **This would see the Borough benefit from expenditure into site preparation, a share of land value uplift delivered over and above HCA profiled receipts plus council tax and business rates revenue from the additional homes and employment land.**
- 1.3 The Deal is based on a risk and reward model which will require TWC to make investment into site preparation up front, at risk, with this investment recouped from land receipts. As receipts are not guaranteed, while TWC will manage the delivery programme and be able to influence investment decisions through an established Land Deal Board, the level of upfront investment represents an element of risk to the council. TWC will also be required to invest £2m of locally retained share of the uplift in land receipts on HCA sites defined as constrained i.e. sites where the cost of remediating the sites will exceed the land receipts achieved for these sites.
- 1.4 As part of the Deal TWC will also be required to take freehold responsibility for all HCA liability sites i.e. those sites considered to have no development value and/or to incur potential costs. The Deal sets out a timeframe of 12 months to enter into a detailed dialogue around the transfer of liabilities and establish an agreed payment mechanism to support revenue and potential capital implications of sites. In the event agreement cannot be reached regarding the terms of the transfer this will trigger a review of the Land Deal and potential termination of the agreement.
- 1.5 The scale of capital and revenue benefits to the Borough over the next 10 years is significant. **It is projected that the Borough will benefit from c.£38.5m investment into de-risking and bringing residential and employment sites forward**. Of this sum £19.3m of infrastructure works will be funded using Local Growth Funding allocated to TWC from the LEP as part of the approved Growth Deal. The commitment of this funding forms part of the Council's contribution to the Deal. **In addition the Council will receive a projected c.£19.3m share of the uplift in land receipts over the 10 year programme**. This is based on TWC taking an 85% share of any uplift of which 15% will be allocated to the LEP to be distributed to LEP wide projects through the Marches Investment Fund. HCA will retain the remaining 15%. The local benefit from the Deal is capped at £44.5m, however the split between investment into infrastructure and uplift, is not prescribed. The capital investment required by site will be kept under review and where sites can be delivered at lower capital investment a greater proportion of uplift in land receipt may be delivered. **The new homes and employment land could see a further revenue benefit of c.£6m pa from additional Council Tax and Business Rates** assuming full build out, by the end of the programme.

This may be supplemented by a further income from New Homes Bonus at least in the initial years of the programme, subject to the outcome of the current consultation on changes to the New Homes Bonus scheme

- 1.6 The Report sets out how the Deal will be managed through a 3 year rolling Investment & Disposal Plan which details the sites for disposal, investment requirements and estimated uplift achieved as a result. The overall Programme is dynamic and the order of land sales may change and investment required and receipts may vary with market. The 3 Year Plan provides much greater certainty and will be reviewed annually by the Land Deal Board. **At this point the first Investment and Disposal Plan, which covers the financial years 2015/16 to 2018/19 is projecting investment of £11m (the majority of which is Local Growth Funding which TWC is receiving via the LEP) and a potential local uplift of £5.2m over this period.**
- 1.7 In addition to the direct financial benefits, the agreement gives TWC influence over the preparation, advertising and delivery of all public land to the market enabling this to be managed on a programme basis to address opportunities for regeneration, maximise opportunities to attract inward investment and deliver new homes, ensure infrastructure required to support growth is in place and sustain and enhance local services and facilities.
- 1.8 The Report provides details of the Land Deal and seeks approval to finalise the Deal and make the necessary changes to the Council's budget strategy. This will ensure that HCA's March 2015 land values are used as the baseline. As many of these sites now have greater planning certainty through the Local Plan and planning approvals giving rise to increases in asset values, if 2016 values were used this would significantly reduce any uplift achievable. Failure to complete the Deal this financial year may also require HCA/Government to seek additional approvals to continue negotiations and would mean TWC do not benefit from land sales achieved in 2015/16.

2 RECOMMENDATIONS

- 2.1 **That Full Council grant delegated authority to the Assistant Director: Business, Development & Employment, in consultation with the Assistant Director: Finance & Human Resources and the Cabinet Members for Finance & Service Delivery and Business, Neighbourhood & Customer Services to finalise the terms for the Land Deal.**
- 2.2 **That Full Council grant delegated authority to the Assistant Director: Business, Development & Employment, in consultation with the Assistant Director: Finance & Human Resources and the Cabinet Member for Finance & Service Delivery to enter into an agreement for the transfer of HCA liability sites to the Council's ownership where costs are within the changes to the capital programme and revenue budget sought by this Report, this includes £18k towards revenue costs of managing liability sites**
- 2.3 **That Full Council approves the Council entering into the Land Deal and all the implications of this including the approval of necessary changes to the capital programme and revenue budget to facilitate the Land Deal as outlined in this report**
- 2.4 **That Full Council delegates authority to the Assistant Director: Legal, Procurement & Commissioning to seal or sign any documents required to give effect to the recommendations contained in this report.**

2.5 That Full Council notes that TWC will be represented on the Telford Land Deal Board by the Leader of TWC and Cabinet Member for Business, Neighbourhood & Customer Services.

3 SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT	Do these proposals contribute to specific Co-operative Council priorities?	
	Yes	<ul style="list-style-type: none"> • Protect and create jobs as part of a “business supporting, business winning council.” • Regenerate those neighbourhoods in need and work to ensure that local people have access to suitable housing • Ensure that neighbourhoods are safe, clean and well maintained
	Will the proposals impact on specific groups of people?	
	Yes	Local Growth Fund and EU funding will have a positive impact across the Borough, helping to delivery new infrastructure, reduce unemployment, open up access to training, support businesses to grow and address social inequality.
TARGET COMPLETION/ DELIVERY DATE	The Deal has a commencement date of the 1 st April 2015. Government wish to sign a Deal by 31st March 2016.	
FINANCIAL/ VALUE FOR MONEY IMPACT	Yes	<p>There are significant financial implications of the HCA Land Deal and these are detailed throughout the report and specifically in section 10.</p> <p>In summary: The Business case and Financial Model has been reviewed and received initial approval by DCLG and The Treasury. The headline figures from this 10 year model are set out below. It should be noted that this is a dynamic programme and expenditure may vary as more detailed work is undertaken on investment required into sites and this may deliver a greater, or lesser, proportion of profit share to the local area:</p> <ul style="list-style-type: none"> • Gross expenditure of £43.635m will be invested to prepare the sites and bring them to market. This sum includes costs incurred by TWC and HCA to manage the programme of investment and disposals. Gross expenditure will be part funded by £19.28m of Local Growth Fund funding. • Gross capital receipts of £76.47m will be realised by the HCA of which £30.88m (which equates to the 2015 land values for sites included in the programme) will be retained by the HCA prior to any profit sharing. • Net capital receipt incomes after expenditure will be shared 85% to TWC and 15% to HCA as Profit Share • TWC’s share of the Profit Share over the 10 years is modelled to total £19.3m – of which £2m will be ring fenced to support the bringing forward of constrained sites owned by HCA and an estimated £2.6m will be payable to The Marches LEP Investment Fund over the 10 year programme as their 15% share of net uplift • The total financial benefit that the local area can achieve from the Deal (i.e. investment into infrastructure plus share of uplift) is capped at £44.5M. A review of the Deal

		<p>which may lead to an extension, will be triggered when profit share reaches £40m or at year 6 of the Deal.</p> <ul style="list-style-type: none"> • TWC will be required to take transferred ownership of HCA residual non developable land in Telford (Liability Sites). The agreement sets out a timeframe of 12 months to enter a dialogue around transfer of liabilities to TWC subject to more detailed information on costs and an agreed funding mechanism. An initial assessment of between £3m and £3.5m has been made of the potential costs to the Council should the Liability Sites require remediation. The revenue costs of monitoring and managing the sites to mitigate the risk of remediation are estimated at £18k pa, and a budget allocation to meet these costs is requested in this report. • The development of the sites within the Deal will deliver a revenue benefit to the Council from retained council tax and business rates subject to any Finance System reset in 2019/20. This revenue benefit is not included within the figures presented within this report and so any additional income received will be a benefit to the approved revenue budget. • TWC are required to cashflow expenditure through prudential borrowing where the total expenditure in the year is more than the total uplift on land receipts. The expenditure plus borrowing costs will be carried forward to be recouped in future years. This risk will be mitigated through the programming of works through a three year Investment and Disposal Plan which will allow expenditure to be managed to ensure there is sufficient income received to meet these costs. • TWC resource costs to manage and deliver the programme are estimated to be £200k pa. Of this sum £100k pa will be funded via the model and is included in the expenditure figures above with the balance of £100k pa to be funded by TWC from existing base budgets. A diminishing figure for HCA resource costs are also included within the model. <p>Further details of the financial elements of the Deal are included throughout the report and in section 10. JAC 150216</p>
LEGAL ISSUES	Yes	<p>A formal legal agreement is required to establish the arrangement described in this report between the HCA and the Council; this is described as the Funding and Cooperation Agreement. As would be expected with any agreement of this nature a number of obligations are placed on each party; the more fundamental of which are detailed in this report. In addition though it should be noted that due to the timescales required to meet the DCLG deadline the agreement is not yet finalised and therefore there may be some amendments prior to signature.</p> <p>The Council has the power to enter into the Funding and Cooperation Agreement as detailed in this report and also has the power to undertake the activities described within it. As with any contract there are two main potential risks to consider; procurement and state aid implications. Either of these would</p>

		<p>have a significant effect on this agreement and would be likely to result in forced termination if a successful challenge was made. Both HCA's and the Council's legal advisors have and will continue to provide advice in these respects and will continue to keep the advice under review. The risk regarding procurement is primarily a risk for HCA and is not felt to be significant due to fact that it is considered a cooperation agreement rather than any kind of services or works contract and is therefore not subject to the EU procurement requirements of any works or services contracts.</p> <p>As the negotiations have not yet been finally concluded there may be other legal issues and risks which will need to be addressed as the matter progresses and legal advice will continue to be provided. In addition, legal support and advice will be required during the negotiation of the liability land transfer.</p>
OTHER IMPACTS, RISKS & OPPORTUNITIES	No	<p>The outcome of the Land Deal provides the opportunity for strategic and local infrastructure improvements to be delivered, accelerating the delivery of new homes and jobs. The retention of a share of the land receipts from HCA land assets offers the opportunity for reinvestment into the delivery of further sites driving the delivery of growth. The Deal also provides the opportunity to ensure sites brought forward meet the needs of local communities and the Borough as a whole, and provides greater certainty that sites identified within the Local Plan for residential development will be delivered.</p> <p>Local management of land disposals offers the opportunity to attract more investors/business expansions and linking land deals with the Enterprise Telford offer. However while there is a commitment by HCA in the Funding & Cooperation Agreement to review the application of their current procedures through the Land Deal Board (TWC/HCA), at this point TWC's role will have to accord with many of HCA's current policies.</p> <p>The Land Deal is based on the devolution to the local area (TWC), of both risk and reward. HCA will receive the 2015 book values for all sites sold before net receipts are shared. On the majority of sites the actual land receipt achieved will be higher than the HCA book value due to investment into infrastructure.</p> <p>A further risk is the failure to dispose of the sites in accordance with the anticipated values or phasing as agreed in the IDP after the Council has incurred significant capital expenditure. This could for example arise should local or national economic factors impact on the demand for developable land.</p>
IMPACT ON SPECIFIC WARDS	No	Borough wide impact.

PART B – ADDITIONAL INFORMATION

4. TELFORD LAND DEAL

- 4.1 On 7 July 2014 Government announced the first Growth Deals agreed with each of the 39 LEPs. As a result Telford has been allocated c. £19.3m of capital investment into strategic transport and on site infrastructure.

In addition the Government made a commitment to explore the potential for sharing land receipts from the sale of HCA assets between the HCA and Telford/Marches LEP and to the extension of the current stewardship arrangements to cover residential land disposals. This commitment represented a significant opportunity for the Borough to pursue a long held goal and reflects Government's recognition of the growth potential of Telford and its delivery track record particularly since the introduction of the Stewardship Agreement with HCA in 2011/12. The Governments commitment was further strengthened by their approval of the Business Case submitted in March 2015 and their letter of in principle agreement to the Deal dated 29 April 2015.

The offer letter set out a number of in principle commitments which have been subject to negotiation between Officers of TWC, HCA (Local and National) and DCLG/Treasury:

- To allow Telford, over the 10 years of the Deal, to recycle up to a maximum (cap) of £44.5m in land value uplift over and above the agreed minimum market value of HCA assets, back into Telford and Wrekin. This to include investment into infrastructure works on HCA sites facilitating quicker disposal for higher receipts and a share in any uplift (profit share) achieved
- To allow Telford to use profit share to support strategic infrastructure projects with £2m of this investment to be used to facilitate delivery of HCA constrained sites (see below)
- To deliver up to 2,800 homes, 8,500 jobs and 300,000 sqm of commercial floorspace.
- TWC to cashflow the model through prudential borrowing where necessary
- Establishment of a Telford Land Deal Board under which land assets would be sold through an agreed rolling Investment and Disposal Plan plan
- Local financial contribution of £19m (Local Growth Funding) to kick start the programme and a £1m resource contribution over the programme to meet staff costs

The Government also set a number of conditions including establishing a time period for a further agreement to be established (following agreement to the Deal) on the transfer of HCA liability sites to Telford and agreement around governance, to be completed prior to the deal being agreed, which have been met.

- 4.2 The Government also agreed to the principle of the LEP creating a Marches Investment Fund providing a mechanism to recycle funds from one investment into the next creating a sustainable investment model to drive further growth. This to be funded from a proportion of the locally retained profit share from the Land Deal alongside business rates uplift from the Hereford Enterprise Zone and Growing Places Fund. Under the Deal TWC has agreed to share 15% of locally retained profit share, net of £2m to be invested into HCA constrained sites, with the LEP to be paid into the Marches Investment Fund (MIF). The MIF is open to bids from across the Marches including Telford & Wrekin.

5. STRUCTURE OF THE DEAL

- 5.1 The Deal is governed by a number of key documents – to be formally signed by partners:

Funding & Cooperation Agreement signed by TWC and HCA – setting out legal and financial arrangements including aspects of costs that each party can include in the model, the approach in event of early termination and exit and the profit share mechanism – as detailed below. Linked with this are:

- **Operational Management Agreement** which sets out in detail how the investment into and disposal of land will be undertaken by TWC and, where still required, HCA.

This is based on HCA's current procedures in the main but with a commitment to the Land Deal Board (see Governance below) agreeing changes to streamline these and a reducing sum in HCA staff costs included in the funding model

- **3 Year Rolling Investment & Disposal Plan** which sets out the investment to be made into sites and site disposals and the outputs including receipts and profit share anticipated. This document will be approved on an annual basis by the Land Deal Board and form the main basis for monitoring and reporting on delivery

An Accountability & Assurance Framework signed by TWC, HCA and DCLG – setting out governance, monitoring and reporting arrangements and methodology for determining usage of local profit share.

6. THE FUNDING AND CO-OPERATION AGREEMENT (FUNDING MODEL)

Funding Model

Fundamental to the HCA Land Deal is the agreement to a Funding Model which projects over a 10 year period; what investment will be made site by site, what land receipts will be achieved, and the outputs (residential units, jobs and employment land) which will be delivered. This Model illustrates greater value for money to the Treasury than continuing with the HCA's current disposal programme due to acceleration of delivery and enhanced outputs.

For each site a detailed analysis has identified the expenditure required to mitigate developer risk and bring the site to market. Expenditure includes costs such as site preparation, addressing abnormalities e.g. geotechnics, establishing on site and some off site infrastructure and fees associated with planning. These costs would normally fall to the developer increasing their costs, reducing land values and impacting on the attractiveness of the site to the market. The removal of these costs to developers also has the effect in some cases of increasing site viability and therefore the potential contributions that may be realised through S106/CIL.

For each year of the 10 year programme the Funding Model projects the land receipts to be delivered through sales of residential and employment land. The model includes HCA 2015 land values which have been fixed for the term of the programme, for each site. Under the Funding Model these will be required to be paid prior to any use of receipts to recoup any TWC or HCA expenditure. In the majority of cases the investment into mitigating risk and site preparation accelerates and/or increases the market value of the site.

The Local Growth Funding (for the Telford Growth Package and Eastern Gateway) contributes c. £19.3m towards the costs of investment in the sites. The difference between this and the total expenditure required forms the investment that TWC will be required to fund and cashflow, and which should be recouped from the distribution of land receipts in accordance with the Agreement. There is, however, no guarantee that all costs incurred by TWC will be recouped in full if costs exceed land receipts, although this risk will be mitigated through the phasing of works throughout the 10 year programme.

The Funding Model will be reconciled at the end of each financial year, and if there is a deficit – i.e. the costs incurred by TWC and HCA in accordance with the Agreement exceed the total land receipts in the year, the deficit sum will be rolled forward to the following year in the Model. The borrowing costs of cashflowing the deficit sum will be met by TWC but can be recouped in the following year via the Funding Model. Any cashflow costs incurred in managing the programme during the year will be payable by TWC.

If the end of year reconciliation demonstrates that the Funding Model is in surplus i.e. the total land receipts net of the HCA budgeted land values is more than the expenditure incurred by TWC and HCA in accordance with the Agreement, this surplus (Profit Share) will

be distributed 15% to HCA and 85% to TWC. TWC will then enter into a separate agreement with The Marches LEP to enable them to receive 15% of TWC's profit share net of £2m required to be spent on HCA constrained sites.

Profit Share

The local benefit from the Deal (expenditure plus profit share) will be received as capital funding, and will be capped at £44.5 m over the 10 years of the Deal. TWC will be required to invest their element of Profit Share into schemes that will support and/or deliver growth within the Borough, including a requirement to invest £2m of TWC Profit Share into HCA owned 'constrained sites' i.e. sites where the level of investment required will exceed the market value which will be achieved from the sale of that site. The Marches LEP will be required to invest their element of profit share via The Marches Investment Fund into schemes which meet the investment criteria of the fund and deliver outcomes in homes and/or employment contributing to the total homes/employment outcomes set out above.

Co-Investment

Government have been clear that they expect TWC to invest their own land through the Model including investing any receipts over and above budgeted values into driving growth within the Borough. It is therefore proposed that TWC will co-invest by including TWC owned sites within the Funding and Co-operation Agreement and any outputs from these sites will be attributable to the HCA Land Deal. However, all expenditure on TWC sites will be funded by the Council and not included within the Funding Model. TWC already budget for assets at market value therefore no uplift on budgeted land values is anticipated and therefore, there will be no sharing of receipts from land sales of TWC sites through the model.

Termination & Exit

The HCA Land Deal will be effective for an anticipated maximum of 10 years. The Agreement allows for the early termination of the Deal by either party in certain circumstances – such as policy changes, lack of funding for investment, changes in the market - which mean that the outcomes of the Deal can no longer be delivered. As this is a 'risk and reward' Agreement, there is no guarantee that the amount invested by TWC into HCA assets will be recouped under the terms of the Funding Model if land receipts net of the HCA budgeted values during the period of the Agreement are insufficient to cover costs. Therefore, there is a risk that at the end of the 10 years of the Agreement, or at early termination, the council will have incurred costs which cannot be recouped and may be seen as abortive as the benefit of the investment will be on HCA owed assets.

The Agreement includes an exit strategy which aims to mitigate this risk by requiring a review of the programme so that investment on sites which are unlikely to be sold during the 10 year programme can be curtailed so that costs will not exceed expenditure in the later years of the Agreement and/or consider an extension to the Deal.

The Deal does allow in the event of early termination for outstanding investment/borrowing made by TWC into infrastructure included in the agreed Investment & Disposal Plan, to be repaid by HCA in a lump sum on termination. The Agreement also allows for a 2 year 'tail' period at the end of the 10 years (or earlier termination) during which if investment has been made into sites during the 10 years (or before termination) but they are sold within 2 years of the end of the Deal for land receipts to be shared. Overage will also be shared for 2 years after the end of the 10 years or any early termination date.

The Funding and Co-operation agreement is still being finalised and the draft is subject to amendment.

7. ACCOUNTABILITY & ASSURANCE FRAMEWORK (FRAMEWORK)

The Framework sets out the Governance for the Deal and approach to programme delivery. It also sets out the methodology for determining how locally retained profit share can be invested.

Governance

The Accountability and Assurance Framework which both HCA and DCLG will sign, gives DCLG the comfort to delegate the management of the programme including allowing for planned variations in the programme and decisions regarding use of locally retained uplift to a local Governing Board – the Telford Land Deal Board. Beyond 6 monthly reports DCLG are not seeking involvement in the Board or oversight of individual decisions on expenditure.

The Telford Land Deal Board (the Board) will include 6 voting members – 2 senior representatives from HCA, 2 TWC Cabinet Members and the Chair of the LEP Board and Chair of the Telford Business Board. TWC will be represented on the Board by the Leader of the Council and the Cabinet Member for Business, Neighbourhood & Customer Services with the Deputy Leader & Cabinet Member for Housing, Public Health & Protection and the Cabinet Member for Finance & Service Delivery acting as substitutes. The Leader of the Council will Chair the Board. The Board will be responsible for agreeing and monitoring a rolling three year Investment & Disposal Plan based on the overarching programme. The Board will provide HCA with monitoring information to enable reporting to DCLG and will be used as a forum to review and adjust the delivery programme to ensure that opportunities on all sites are being maximised. The Executive Director of HCA Midlands will be one of the HCA's voting members and will operate his/her delegated land disposal powers within the Board. This is a significant flexibility agreed under the Deal removing the need for separate approvals to be sought through HCA (up to the Exec Director's delegation) on the recommendation of the Board, saving time.

The Board will also determine local investment of uplift retained locally (see below) and receive regular financial and outcomes monitoring reports.

A Land Deal Project Team including Officers from HCA and TWC will meet regularly to monitor and manage the IDP delivery reporting progress, any variations and presenting business cases for use of locally retained uplift to the Board.

Programme Delivery

Delivery of the programme is dependent on resources to effectively manage site promotion, market and proactively dispose of sites. The Funding Model includes TWC resources of £200k per year, which will be 50% part funded by TWC from base budgets with the remaining £100k per year funded as programme expenditure via the Funding Model. HCA resource costs are also included in the Funding Model, matched by 50% HCA funding through the model.

The TWC Estates & Investment Team will lead on the delivery of the Programme with additional programme management and surveyor capacity added to the team, supported by TWC finance and legal officers. Delivery of the Land Deal will be dependent upon the Council implementing the 'One Telford' approach with teams including planning, highways, engineers etc supporting delivery in a timely and coordinated manner. All opportunities for service delivery teams within TWC to benefit from this extended stewardship role e.g. through site evaluations, planning, design etc, will be maximised.

Investment of Locally Retained Profit Share

The Funding Model projects that c.£19.3m of Profit Share will be available over the 10 year programme for TWC and the Marches LEP to invest. The Government require Telford to

prove value for money from the investment of Profit Share and to show how local investment will deliver further growth in terms of new homes and jobs.

The first, draft, Investment & Disposal Plan projects c.£5.2m of locally retained profit share to be delivered over 2015/16 – 18/19. Further profit share projected at c.£19.3m in total will be delivered over the 10 year programme – but drip fed depending on the disposal programme. On this basis TWC have negotiated the need for local flexibility in the determination of schemes/investment – this will allow for schemes to be identified during the programme to support land sales and address pressures placed as a result on roads and services. The Council also has an Infrastructure Delivery Plan and Strategic Transport Plan which set out a range of investment needs required to drive growth. To enable this flexibility and enable DCLG to ‘delegate’ authority to the Local Board to determine investment the Accountability & Assurance Framework sets out a methodology using a similar value for money assessment as currently applied to proposals put forward for local growth funding, to determine investment of profit share.

Under the methodology the Land Deal Board will have the authority to determine individual business cases for TWC to make this investment. On this basis while the Land Deal Board would be the decision making Board, decisions would not need DCLG or any other Government Department approval making approval significantly quicker than current Local Growth Fund bids. This would also enable a range of investment proposals to be considered where these deliver outputs in terms of homes and jobs.

It is proposed that the £2m DCLG require to be invested from the local profit share into HCA constrained sites would need to follow the same methodology for determining investment. This ensures that all investment of local profit share will have a direct benefit to the borough. Under the Agreement TWC have until the end of year 7 to show this investment has been committed. It is recommended that the £2m is ringfenced from the initial significant profit share (anticipated in 16/17) with the net figure then split between TWC and the LEP. The use of the £2m, in the event investment into the constrained sites is not shown to offer VfM, could be considered as part of the negotiation around the funding package for liability sites or used, in the rare event, that sites are sold below HCA 2015 land values. The use of the constrained pot towards liability sites has not been agreed at this stage with DCLG or HCA.

The amount of uplift (investment plus profit share) that will be returned to the local area is capped at £44.5m. This is to ensure that Government continue to receive value for money from the model in the event that the market were to exceed current projections. In order to ensure there is still an incentive to drive out additional sales and receipts during the programme, a strategic review is built in at year 5 or if £40m uplift is reached (whichever is the soonest) when the level of the cap will be reviewed and may be amended and/or the Programme extended.

Marches LEP Investment Fund

The Telford Land Deal has been initiated as part of the overarching Marches LEP Growth Deal. The LEP will benefit in terms of outputs – homes and jobs – delivered in Telford – and may also derive supply chain benefits. In addition a principle within the Government’s response to this Deal was the establishment of a Marches Investment Fund to receive a proportion of the uplift in land values from HCA land sales retained locally.

TWC are taking all the risk in relation to the model and will also need to address the impact of growth in terms of infrastructure and services arising from the accelerated delivery of the HCA’s land assets. It has therefore been agreed between all parties that the majority of the local share of uplift be retained by TWC with 15% of net TWC Profit Share provided to the LEP to be distributed via the Marches Investment Fund. This share will only happen when all expenditure costs have been paid and £2m has been ringfenced for constrained sites, as outlined above. The Marches Investment Fund will be used to fund infrastructure to drive

additional growth across Shropshire, Herefordshire and Telford & Wrekin. On the basis of the model this is likely to be c.£2.6m over the 10 year of the programme – of which c.£500k will arise over the first IDP period 2015/16 – 18/19.

Liabilities and Clawback Arrangements

Government see this deal including all HCA land i.e. liabilities as well as assets. Initial work has been undertaken to establish the list of liabilities to be transferred and the potential risks and associated costs associated which will also transfer to TWC. The majority of liabilities (c.84%) are sub soils beneath adopted high way. These pose no capital or revenue costs to the Authority. An initial assessment has been undertaken of the remaining sites which total c.12. The list also includes a small number of ransom strips which could realise a receipt. Initial estimates of the potential costs to TWC if the liabilities become unstable and require remedial works total £3m-£3.5m, and the ongoing revenue costs of monitoring and managing the liabilities to ensure that the risks of this happening are controlled are estimated at £18k pa. This does not assume any value from the ransom strips etc. This report requests a budget allocation of £18k pa to meet these revenue costs.

As part of the Deal TWC and HCA are signing up to agreeing a mechanism and funding package for the transfer of all HCA liability sites, within 12 months of signature of the Deal. The funding mechanism may include some dowry. Failure to achieve an agreement will trigger a review of the Deal.

8. OPTIONS APPRAISAL

This is a significant Deal for the Borough incurring a range of financial and reputational risks and it is appropriate to consider a range of options including 'do nothing'. In 2011 at a point when Milton Keynes was negotiating asset transfer with HCA, TWC and HCA undertook protracted discussions around land disposal/asset transfer options. This included the following options:

- Disposal of the HCA's assets to the private sector
- A formal public/private Joint Venture between HCA, TWC and a private investor
- Transfer of HCA development assets to full TWC control
- Transfer of assets to TWC with shared TWC/HCA control over delivery
- Contractual Asset Partnership between HCA and TWC
- HCA and TWC informal partnership delivery (i.e. current stewardship model)
- Formation of a public sector (HCA/TWC) special purpose vehicle

Following the agreement achieved with Milton Keynes, Government made clear this was a 'one off' and there was no further appetite at that time for land deals with other areas. It was estimated at that time that borrowing of c.£35m net of additional overage payments, would have been required to acquire equivalent land assets to those in the Deal programme.

In preparing the business case for this Deal the options above were reviewed. It should be noted that the acquisition of all land assets is not an option 'on the table'. But even if this option were available any land would need to be acquired at full market value i.e. considerably above the 2015 land values used as the baseline in this Deal. Such values would be significantly higher due to the progression of the new Local Plan and recent planning approvals, and would negate TWC achieving any uplift and would require any investment to bring sites forward to be funded solely by TWC. Overage would also continue to be imposed by HCA. On the basis of the options analysis and 2015 baseline values, the Deal being proposed is considered to out perform the other options.

It should also be noted that HCA are shortly to be subject to a fundamental review and restructure and there are clear pressures on the Agency to dispose of land quickly. A 'firesale' remains a constant threat denying TWC any direct financial benefit and removing

any control on managing land disposals or being able to use this land as part of the Enterprise Telford inward investment offer.

9. THE RISKS AND BENEFITS FOR TELFORD & WREKIN

The Telford Land Deal presents probably a one off opportunity for the Council to influence the disposal of the majority of public sector land assets in the Borough. The deal would see the Borough's communities benefit directly for the first time from receipts generated from the sale of HCA land assets. This includes investment into de-risking and preparing sites for disposal increasing their attractiveness to investors and developers and consequently raising land values and, subject to Board approval, potential to benefit from c.£19.3m of capital investment into infrastructure that directly supports the delivery of jobs and new homes. The Borough will also benefit from income from council tax and business rates from the 2,800 new homes and 300,000 sq m of employment land equating to up to c.8,500 jobs, delivered during the programme. These figures are based upon the agreed Funding Model and are subject to amendment as the programme is developed over the 10 years of the Deal.

Under the deal the Council will be able to manage HCA/TWC land disposals on a programme basis maximising on opportunities to deliver regeneration, ensure investment is made into infrastructure, respond to market opportunities working proactively with investors, local businesses wishing to expand and housing developers. The deal directly supports the Council's 'business supporting, business winning' agenda and increases the Borough's attraction as a destination of choice for business & leisure visitors, new residents and investors and strengthens our ability to potentially negotiate benefits through our non constituent membership of the WMCA for further infrastructure investment where we can deliver investment into the region that Black Country and other neighbours are unable to accommodate. It will also deliver new job opportunities and homes for existing residents as well as investment to support services and facilities borough wide.

The Land Deal is based on the devolution to the local area (TWC), of both risk and reward. HCA will receive the 2015 book values for all sites sold before net receipts are shared. On the majority of sites the actual land receipt achieved will be higher than the HCA book value due to investment into infrastructure. Key risks include a failure to dispose of sites in accordance with anticipated values or phasing as set out in the IDP after the Council has incurred significant capital investment upfront. While the model allows for an additional £100k to be invested into staff resource to drive the programme, other risks may be outside our control e.g. local/national economic factors impacting on demand for developable land. The Council also needs to ensure that the delivery of the Land Deal Programme does not impact on delivery of TWC capital receipts. As the majority of HCA land assets in the Deal are employment sites and TWC's assets are predominantly residential there is no direct conflict in marketing.

The Deal is predicated on delivering accelerated land sales as well as uplift. Although the FCA includes a commitment by HCA to review HCA's procedures for land disposal with the Land Deal Board with a view to streamlining them, at this point the majority of procedures are unchanged. The use of the HCA's Executive Director's delegation to dispose of land within the Land Deal Board is a positive move and HCA/DCLG share the incentive to speed up disposal and maximise profit share alongside TWC. Indications are also that HCA are looking to reduce their direct involvement in Telford as a result of the Deal.

Housing is at the top of the Government's agenda and a number of national housing delivery programmes are being developed. While HCA/DCLG have committed that the Land Deal Board will consider any proposed inclusion of sites in any national programmes to ensure this would benefit the Deal, there is a risk of major policy change e.g. at change of Government, that mean land is taken out of the model or the Deal is terminated. Already during the negotiation of this Deal we have seen 2 residential sites removed from the

Programme in order to pilot new, as yet untested delivery initiatives. Termination and exit arrangements provide some level of protection to the Council in terms of commitment to honour investment made at the point of termination where such circumstances undermine the Deal.

The transfer of ownership of HCA liability sites to TWC and the 12 months to achieve agreement on a funding package is also a risk. The Council have done some initial analysis of the liability sites which has determined some 'worst case scenario' capital costs. However further site by site work is required and there is a risk that TWC/HCA will fail to reach agreement on a funding package to underpin the transfer of liabilities. This could trigger an early review and potential termination. The £2m currently required for investment into constrained sites may, if the business case for these sites fails, provide an opportunity to mitigate this (but this is not agreed with HCA/DCLG at this stage).

10. FINANCIAL IMPLICATIONS

- 10.1 As detailed in this report, the Telford Land Deal will be governed by a number of Agreements. The key financial, funding and monitoring arrangements associated with the Deal are contained within the Funding and Co-operation Agreement. (see section 6).
- 10.2 Fundamental to the approval of the Deal is a 10 year Funding Model, which has been reviewed and approved by HCA, DCLG and the Treasury. The financial highlights of the 10 year Funding Model are summarised in Table 1 below:

Table 1 : Summary of the 10 year Funding Model

	Total (10 years) £,000
Gross expenditure- infrastructure (not including £2m on constrained sites)	38,502
Less: LEP Growth Deal funding	(19,277)
Net Expenditure – Infrastructure (A)	19,225
Gross expenditure – HCA and TWC resource costs	5,151
Less: HCA and TWC base budget funding	(1,475)
Net expenditure – HCA and TWC resource costs (B)	3,676
Gross capital receipts	(76,472)
Less: HCA 2015 asset valuations	30,880
Capital receipts available to fund the model (C)	(45,592)
Net uplift on capital receipts(A+B+C)	(22,691)
Profit Share HCA	(3,404)
Profit Share TWC(includes £2m to be spent on constrained sites and 15% share of TWC net profit share to the LEP)	(19,287)

- 10.3 The Deal will be managed, delivered and monitored through the approved multi year Investment and Disposal Plan. The first Investment and Disposal Plan will cover the 4 financial years 2015/16 to 2018/19, and will then be a rolling three year plan, updated annually.

The first draft Investment and Disposal Plan is being finalised and shows the projected summary financial outcomes from the Land Deal by year. The summary is presented in Table 2 below. This document is still being developed and will be amended to reflect the most up to date knowledge of sales and expenditure as these become available. Changes

to the Investment and Disposal Plan will be reported and approved by the Telford Land Deal Board. If the changes to the Investment and Disposal Plan result in changes to the approved TWC capital programme approval to the changes will be sought through the TWC Service and Financial Planning processes.

Table 2: Summary Investment & Disposal Plan 2015/16 – 2018/19

	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000
Gross expenditure- infrastructure (not including £2m on constrained sites)	764	8,008	1,685	560
Less: LEP Growth Deal and LDO* funding	(550)	(6,415)	(50)	0
Net Expenditure – Infrastructure (A)	214	1,593	1,635	560
Gross expenditure – HCA and TWC resource costs	545	611	465	347
Less: HCA and TWC base budget funding	(200)	(200)	(165)	(130)
Net expenditure – HCA and TWC resource costs (B)	345	411	300	217
Gross capital receipts	(3,763)	(15,630)	(5,595)	(2,697)
Less: HCA 2015 asset valuations	3,008	9,757	2,586	871
Capital receipts available to fund the model (C)	(755)	(5,873)	(3,009)	(1,826)
Net uplift on capital receipts(A+B+C)	(195)	(3,869)	(1,074)	(1,049)
Profit Share HCA 15%	(29)	(580)	(161)	(157)
Profit Share TWC 85% (includes £2m to be spend on constrained sites and 15% share of TWC net profit share to the LEP)	(166)	(3,289)	(913)	(892)
£2m to be spend on constrained sites to be set aside		2,000		
Net Local Profit Share -TWC	(141)	(1,096)	(776)	(758)
Local Profit Share - LEP	(25)	(193)	(137)	(134)

*TWC received £150k of Government funding to undertake assessment of 3 HCA owned constrained development sites to establish their viability and potential to establish a Local Development Order (LDO) permitting certain development on the sites. This funding forms part of TWC's investment into the model.

10.4 The Funding and Co-operation Agreement also sets out the financial monitoring arrangements and the payment mechanism for the calculation of the flow of funds between TWC and HCA. Gross capital receipts will be paid to HCA. All infrastructure expenditure will be incurred by TWC. TWC will cashflow expenditure during each year of the programme. There will be an annual reconciliation undertaken by TWC and HCA will retain their budgeted receipt from the sites sold during the year and make a payment to TWC, upon receipt of an invoice from TWC, equal to 85% of the net capital receipts in year (after TWC and HCA expenditure and HCA budgeted receipt has been deducted). If the annual reconciliation shows that there is a deficit – i.e. the costs incurred by TWC and HCA in accordance with the Agreement exceed the total land receipts in the year, the deficit sum will be rolled forward to the following year in the Model. The borrowing costs of cashflowing the deficit sum will be met by TWC but can be recouped in the following year via the Funding Model. Any cashflow costs incurred in managing the programme during the year will be payable by TWC.

10.5 The Agreement will require TWC to take transferred ownership of the residual HCA Liability Sites as set out in section 7. Work to establish the nature and potential costs of the liabilities is ongoing, but initial estimates indicate that an ongoing revenue budget of £18,000 will be required for the management and monitoring of these sites. This report recommends that the revenue budget is increased by £18,000 from 2016/17 to reflect this additional responsibility.

External advice has been received on the correct VAT treatment of the Deal and the transactions between HCA and TWC. This advice is reflected within the Funding & Cooperation Agreement payment mechanism. All VAT transactions incurred by HCA and TWC will be recoverable, as both parties have 'opted to tax' the sites within the Deal.

Following approval of the Deal, TWC will enter into a separate funding agreement with the Marches LEP covering the payment mechanism, approved use and accountability and monitoring framework for the LEP's element of TWC's Profit Share. The funding agreement will aim to streamline processes, whilst maintaining accountability of public funding and ensure that funding is used to delivery employment and/or housing outputs in accordance with the requirements of the Land Deal.

Financial advice and support will continue to be provided to the project as the negotiations of the final agreement continue. Once a deal is approved robust monitoring processes will be established to ensure that the share of expenditure and income between TWC, HCA and The Marches LEP are accurately accounted for. Ongoing financial monitoring and advice will be provided in order to inform the management of the programme through the Investment and Disposal Plan to minimise financial risk, ensure that investment decisions represent value for money and that the income from land receipts is maximised.

11. PREVIOUS MINUTES

Cabinet – 11 January 2011, CB-110

Cabinet – 17 October 2013

Cabinet – March 2015

Cabinet – 25th February 2016

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