<u>Transform Leatherhead – Funding</u>

Purpose

1. The purpose of this note is to:
   - explain the context of the Transform Leatherhead 'Funds Flow Forecast' and;
   - outline the Reserves that MVDC has set aside in anticipation of MVDC wishing to fund some of the Transform Leatherhead costs itself.

Funds Flow Forecast

2. The Funds Flow Forecast is a very high level model which attempts to identify the order of magnitude of the costs which are likely to be associated with major regeneration projects such as those which make up Transform Leatherhead. It also identifies which parties might be most likely/willing to fund different elements of a project, (at some point in the future), but does not assume budgeted commitments from any individual party at this stage.

3. It is simply contextual information intended to assist MVDC in thinking about how it wishes to manage the programme going forward, as well as providing other parties, (including the public), with some understanding of the scale of the Programme.

4. The model looks at the costs from the perspective of a hypothetical developer who may wish to regenerate each of the individual sites. So, taking the Swan Centre, (medium term regeneration), as an example the model suggests that:

   - The build cost of such a regeneration could be up to say £20m;
   - However, the developer would also have to pay for the land, maybe £4m.
   - A Scheme of that size might incur professional fees of say £2m before construction commences, (feasibility, planning application) and £1m during the construction phase, (project management, construction management).
   - There are significant risks associated with such a project, particularly in relation to obtaining the appropriate planning permission, and later in relation to the actual construction, (ground pollution, water, wildlife). A developer taking on these risks would expect a heathy return to compensate for the risks, maybe say £4.05m, (15%).
   - Consequently, adding these costs together, the model suggests that, under the above assumptions, the resulting development/asset would need to be 'sold' for a value of £31.05m to make the project worthwhile financially.

5. Understanding the 'shape' of this development has enabled the Council to think about its approach to managing and funding this project. There are two extremes of how the Council could approach this project, and a wide range of hybrid approaches, between the two extremes. The two extremes are:

   - Sell the site outright to a developer. Simple capital receipt to MVDC and no further costs. Developer pays for the construction and associated fees, takes all the risk, and consequently all the profit. MVDC retains only minimal control over the outcome, (i.e. what gets built)

- MVDC retains the site, directly engages a 'builder', pays for all the construction costs and fees, takes all the planning and construction risks, and keeps all the profit. This extreme gives MVDC maximum direct control over the outcome.

6. To date, MVDC has taken the view, partly informed by the FFF model that it would attempt to follow a hybrid approach, by seeking to fund and keep direct control of each individual project up to the point of planning permission, (providing some certainty of the outcome to be delivered), accepting the planning risk and associated costs, but then seeking a Development Partner who would fund and manage the construction and sales element of the project, accept the associated construction costs, but also take the lion's share of any profit.

7. Consequently, the Council, (formal Executive/Cabinet decisions), has made a number of major decisions, to fund:

   - The purchase of Claire House and James House, (£3.4m, £1.7m funded from capital reserves and £1.7m from the LEP);
   - Pre-construction feasibility and planning application fees for Claire House and James House, (£0.82m funded from the Council's 'Regeneration Reserve' – see below);
   - A package of immediate improvements to the Swan Centre, (£1.215m, funded from capital reserves);
   - Production of a Development Strategy/Viability Study for the Swan Centre, (£0.19m, funded from the 'Regeneration Reserve' – see below);
   - 'Housing Ready', affordable housing options report, (£30k, approved by Council Feb 2017, funded from 'Regeneration Reserve' – see below);
   - Transport Data Collection and Modelling Study, (£84k, approved as officer delegated decision on grounds of urgency, as needed for Local Plan. Funded from 'Regeneration Reserve' – see below);

8. In addition two smaller pieces of work, (High Street Economic Study and Bull Hill Spatial Mapping Study), have been commissioned by Officers, totalling £50k).

9. It is only at the point that a decision is made to spend a particular sum of money that these become part of the Council's budget. Prior to that they are simply ideas/options/possibilities.

Regeneration Reserve

10. Of course, the key consideration, when the Council wishes to commit to a particular spend is where does the funding come from, (assuming that we haven't been able to persuade a third party, e.g. LEP to fund it).

11. This is relatively straightforward when the issue is of a capital nature, (eg the purchase of Claire House and James House, or the package of short term

improvements to the Swan Centre). In this case the spending can be added to the Capital Programme, (assuming it has an acceptable business case), and it will be funded either from general capital reserves, (which are accumulated capital receipts), or by borrowing. In practice, now that the Council has intentionally spent all its capital reserves, such spending will require borrowing, (such that the business case is even more crucial)

12. However, it is more complicated when the spending is of a revenue nature, (such as production of development strategies/feasibility studies/options appraisals/planning applications/transport studies – essentially anything that doesn't guarantee the direct creation of a physical asset). In this case the only available source of MVDC funding is revenue reserves. It is bad practice to have significant revenue reserves because they will generally have arisen from regular and significant underspending on the revenue budget, which in turn implies that the Council has 'overcharged' residents Council Tax, and has banked the excess Council Tax that has been raised.

13. Consequently, local authorities only maintain general revenue reserves at, or close to, a minimum level, necessary to protect the day to day financial activity of the Council, and if reserves rise above that level, consideration is given to how to use those reserves for the benefit of residents/Council Tax payers.

14. In 2016, (Council, 12 July), the Council identified that revenue reserves were sufficiently robust that £1m of them could be set aside into an 'earmarked' reserve to support the sorts of revenue costs, set out above, associated with the Transform Leatherhead programme.

15. As part of last year's budget proposals, the Administration confirmed that this reserve could potentially be used to support regeneration projects in other parts of the District, since when it has been re-titled the 'Regeneration Reserve'.

16. All local authorities struggle with how to identify this sort of revenue funding, but the 2018/19 Budget Report identified the fact that MVDC is in a fairly fortunate position of receiving one-off, but unpredictable, revenue sums as a result of being in Business Rate Pools or the 2018/19 Business Rate Pilot. These can bring a financial 'windfall' of up to possibly £1m pa, but the actual amount of benefit is not known until after the end of the financial year in question, as it is wholly dependent on the actual level of Business rates collected by each of the authorities in the pool/pilot.

17. Equally, there is no guarantee of being in a pool from one year to the next, and as a result it is impossible to account for these pooling/piloting gains in any meaningful way when setting the following year's revenue budget. Pooling/piloting gains simply arrive as a contribution to revenue reserves, after the end of the financial year.

18. Consequently, as part of the budget decisions made in February 2018, Council decided that any windfall gains arising from being in a Business Rates Pool or Pilot would be added to the Regeneration Reserve.

19. MVDC was in a Business Rates Pool in 2015/16 and 2017/18, achieving windfall gains of £541,000 and £261,000. In 2018/19 MVDC is in a Surrey-wide Business Rates Pilot and may receive a benefit of up to £0.8m, but as explained this will not be known until May 2019.

20. If this figure turns out as stated, the current position on the Regeneration Reserve would be:

		£	£
Original allocation from general revenue reserves			1,000
Add:	Benefit from 2015/16 NNDR Pool	541	
	Benefit from 2017/18 NNDR Pool	261	
	Potential benefit from 2018/19 NNDR Pilot	800	1,602
Less:	Cost of Claire/James House viability/planning	-820	
	Cost of Swan Centre development strategy	-190	
	Housing Ready, affordable housing report	-30	
	Transport data collection and modelling study	-84	
	Other minor commissions	-50	-1,174
Remaining reserve			1,428

(NB these are approved budgeted sums: actuals will vary slightly).

21. MVDC is also going to be in a Pool in 2019/20, so will receive a further benefit in May 2020. (It is impossible to predict what will happen to this pooling mechanism, after the new local government funding regime is implemented in 2020/21).

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