

<b>Bath &amp; North East Somerset Council</b>	
MEETING:	Cabinet
MEETING DATE:	10 <sup>TH</sup> April 2013 <span style="float: right;"><b>E2538</b></span>
TITLE:	West of England Local Enterprise Partnership (LEP) : Revolving Infrastructure Fund (RIF)
WARD:	
<b>AN OPEN PUBLIC ITEM</b>	
<p><b>List of attachments to this report:</b></p> <ul style="list-style-type: none"> <li>Appendix A : Summary of RIF Projects Cashflow and repayment</li> <li>Appendix B : Decommissioning &amp; Decontamination of Windsor Gas Station BWR</li> <li>Appendix C : New Destructor Bridge at BWR</li> <li>Appendix D : Flood Mitigation with Enterprise Area</li> </ul>	

## **1 THE ISSUE**

- 1.1 The West of England Local Enterprise Partnership (LEP) has been awarded a total of £56.7m from the Government's Regional Growth Fund (£39.8m) and Growing Places Fund (£16.9m). The LEP is utilising the funds to create a single Revolving Infrastructure Fund (RIF) to promote economic and employment growth in the sub-region.
- 1.2 Earlier this year the LEP invited Expressions of Interest for the RIF and is now seeking to allocate funds to specific projects. A second call for projects has been invited to increase the utilisation of the RIF funding in the short-medium term. As a revolving fund the expectation is that RIF allocations will be in the form of a repayable grant.
- 1.3 Bath and North East Somerset Council has submitted a package of outline bids to the WoE LEP RGF to support a programme of work to remove obstacles to the progress of the Bath City Riverside Enterprise Area in the amount of £13m in aggregate. The Council included these projects within the 13/14 capital programme for provisional approval.
- 1.4 To ensure schemes are state aid compliant, all infrastructure funded through the RIF will be publically procured in line with the Councils Contract Standing Orders either directly or jointly between the Council and the private sector.
- 1.5 Repayment of the RIF loan will be via a combination of Section 106 and contracted Development Agreement obligations but failing these, Community Infrastructure Levy (CIL) or City Deal business rate retention within the Enterprise Area. Although each project has a defined mitigation against repayment risk, there is a theoretical risk that the repayable grant may not be repaid in full by the

project, either as a result of market failure or potential default. The Council therefore should be aware of the small risk to the Authority in acceptance of a RIF repayable grant.

## **2 RECOMMENDATION**

Cabinet is asked to agree that:

2.1 The Strategic Director for Place in consultation with the Cabinet Member for Sustainable Development and Strategic Director for Resources is authorised to;

2.1.1 Enter into contracts with the LEP for RIF funding agreements, including drawdown and repayment schedules subject to the Council's Capital Governance approval process for the first 3 priority scheme bids:

- (i) Decommissioning and decontamination of the Windsor Gas Station: to enable removal of the HSE restriction on development at Bath Western Riverside and other sites in the Windsor Bridge area.
- (ii) The construction of a new road and pedestrian bridge to replace the Destructor Bridge at BWR: to provide access to the BWR western site.
- (iii) The provision of flood mitigation works for the enterprise area, comprising river and landscape works between Churchill Bridge and Midland Bridge.

2.1.2 Enter into Contract with Crest (by extending the current Corporate Agreement) to use RIF for decommissioning of the Gas Holder on the basis of a policy based loan at an appropriate market rate for a maximum of five years on the grounds of economic development.

2.2 That the schemes set out in 2.2.1 are now approved by Cabinet as Capital Projects in the 2013/14 Capital Programme to covert from in-principle to fully approved now the business case for the investment has been completed.

## **3 FINANCIAL IMPLICATIONS**

3.1 Before any RIF funding can be drawn down from the Accountable Body each approved scheme must have a Scheme Investment Schedule prepared by the Sponsoring Authority and agreed with the LEP. This must include a Draw Down timetable showing when funding from the RIF will be required (by Quarter) and a repayment timetable showing the period over which the funding will be repaid back to the RIF. Refer Appendix A.

3.2 Failure to meet the repayment time table could result in the Authority being asked to fund the repayment from other sources, exclusion from the RIF programme and further programmed funding being withdrawn. There is a theoretical risk that if the RIF Strategic Investment Programme becomes seriously compromised then the Government Department of Business Innovation and Skills may require repayment of some or all of the funding drawn down from the RIF funding account. It is therefore important that the repayment methods and level of risk are carefully assessed for each bid.

3.3 In entering contract with the LEP for RIF funding the Council is signing up to the scheme delivery programme set out in Appendix A. Any significant delay to scheme

delivery which significantly impacts upon the drawdown of RIF funding or job creation will put the RIF funding at risk.

3.4 It is important that the Council takes a proactive role in facilitating residential and commercial development as income from Business Rate Retention, New Homes Bonus and Community Infrastructure Levy will become an increasingly important element of the Council's finances in the future. The RIF funds are interest free and can be used to cash-flow the associated capital projects to avoid the Council incurring revenue costs.

3.5 The tables below summarise the benefits associated with each bid against the potential repayment methods and level of risk: level 1 being more certain / level 3 being the default of Council repayment. The table 3.1 provides an overview of scheme costs and benefits, repayment methods and potential draw down and repayment schedules. Each scheme is summarised in the report and covered in more detail in Appendices B-E.

**Table 3.1 Scheme costs, benefits and repayment methods**

BIDS	TOTAL	BENEFITS	RISK/REPAYMENT
<b>FLOOD MITIGATION</b>			
Strategic Flood Mitigation (Phase 1)	<b>£5.1m</b>	Provides mitigation for 5 key Enterprise Area sites and enables £325m of development – in particular Bath Quays South and Bath Quays North – Council owned sites able to deliver 43,200sqm of commercial development, 180 residential units & up to 12,460 jobs, 780 by 2018/19.	Level 1: S106 on development sites + other Grant funding OR Level 2: 'City Deal Business Rate uplift*' OR Level 3: CIL/Repayment by Council
<b>BATH WESTERN RIVERSIDE</b>			
Decommission & Decontamination of Windsor Gas Station BWR	<b>£4.1m</b>	Enables a total of 1900 residential units including 25% affordable housing, a primary school, 7,500sqm of commercial floor space and key infrastructure joining the north and south of the city. Will also facilitate the development of adjacent sites currently lying within the HSE's Exclusion Zone, including Bath Press and Stable Yard. This in turn could allow the BWR East site to be brought forward. In total these sites are capable of delivering 450+ homes, 44,000sqm of office and commercial space and over 2,000 jobs.	Level 1: £650k from secured land + £3450k from contracted obligation on developer or upon sale of acquired land within BWR by Council OR Level 2: 'City Deal' Business Rate uplift* OR Level 3: CIL Level 3: Repayment by Council
Destructor Bridge BWR	<b>£1.8m</b>	Accelerated development of balance of 1550 residential units and early delivery of 48 affordable units	Level 1: S106 – no liability
<b>TOTAL</b>	<b>£11m</b>		

\* Any additional funding from City Deal will be subject to a bid being submitted at the appropriate time.

<sup>1</sup> Job figures are stated in gross terms (jobs protected plus jobs created).

3.6 For each project, an assessment of quantified repayment risk has been calculated in table 3.2 below.

- (1) Flood mitigation assumes that some grant funding from the Environment Agency is provided alongside S106 development contribution to the associated highway works
- (2) BWR gas holder decommissioning is structured to be underwritten by the value of land taken into Council ownership. On sale of the land in accordance with S123 of LGA Act '72 proceeds will repay any residual. If land fails to achieve value of the outstanding RIF fund, other finances such as City Deal would need to be explored.
- (3) Destructor Bridge replacement is a contracted S106 obligation on BWR development and can be contracted to repay upon the 650<sup>th</sup> occupation on site.

**Table 3.2 Repayment Risk**

<b>PROJECT</b>	<b>TOTAL</b>	<b>Level 1 – Repayment Certain</b>	<b>Level 2 – Repayment Probable</b>	<b>Level 3 – Repayment Uncertain</b>
<b>Flood Mitigation</b>	£5100k	£4300k	£800k*	0
<b>BWR Gas Holder decommissioning</b>	£4100k	£4100k	£0	0
<b>Replacement Destructor Bridge</b>	£1800k	£1800k	0	0
<b>TOTAL</b>	<b>£11000k</b>	<b>£10200k</b>	<b>£800k</b>	<b>0</b>

\* Reliant upon Grant funding for flood defence works by EA.

#### **4 CORPORATE OBJECTIVES**

- *Building communities where people feel safe and secure*
  - *RIF funding will assist in creating new residential and commercially led mixed use quarters in and on the edge of the city centre, utilising vacant and under-used brownfield sites, improving pedestrian access into and out of the city centre and to the river, strengthening communities.*
- *Sustainable growth*
  - *Bringing forward the Bath City Riverside E.A. is key to addressing the objectives in the Economic Strategy for B&NES and the policy objectives set out in the Core Strategy*
- *Improving the availability of Affordable Housing*
  - *Enabling the development of 3000+ residential units will facilitate the delivery of 750 – 1000 affordable homes*
- *Improving transport and the public realm*

- *The developments which the bids are seeking to enable will bring back into use vacant and underused brownfield land and improve public links and access*
- *Improving access across the city*

## **5 THE REPORT**

### **BACKGROUND**

- 5.1 The Council's Regeneration and Development agenda as set out in previous Cabinet and Council papers and the Economic Strategy 2010, responds to the need to deliver jobs and housing in accordance with the Draft Core Strategy.
- 5.2 The Council's regeneration agenda is particularly focussed upon the development of brownfield sites and in Bath especially on previous industrial sites that have challenging viability issues due to a combination of factors. These include infrastructure constraints (flooding, access, connectivity etc), contamination, the need to address affordable housing needs and educational requirements as well as Community and leisure facilities.
- 5.3 The Council has in the past entered into agreement to encourage and enable development either by the use of Development Agreements such as Southgate or via Corporate Agreements such as Bath Western Riverside where public funds have been utilised to facilitate public works as part of the development.
- 5.4 The ability to bring forward regeneration in order to provide the required housing, leisure and educational facilities has been severely curtailed by the recent economic environment. The need for infrastructure investment and the restrictions on the availability of capital financing in the private sector has caused a market failure situation in most sectors of the development and regeneration industry and has impacted upon the ability to deliver housing and commercial space especially on challenging urban sites.
- 5.5 One of the Government's responses to this situation has been to provide cash flow funding via the Regional Growth Fund and the Growing Places funds which have been consolidated in a Regional Infrastructure Fund within the West of England LEP.
- 5.6 The Regional Growth Fund, (RGF) is a Government initiative launched in 2011 as a Challenge Fund to stimulate economic growth and employment. The RGF is now a £2.4 billion fund operating across England from 2011 to 2015. It supports projects and programmes with significant potential for economic growth that can create additional, sustainable private sector employment.
- 5.7 The West of England LEP secured £39.8m in Round 2 of RGF for a Revolving Infrastructure Fund programme
- 5.8 Also in 2011 the Government allocated £500m to a Growing Places Fund to enable the development of local funds to address infrastructure constraints, promoting economic growth and the delivery of jobs and houses. The LEP was again successful in securing a further £16.9m under this fund.
- 5.9 At its meeting in March this year the LEP Board agreed that these funds should be utilised to create a single Revolving Infrastructure Fund with a common

governance arrangement and approved a provisional Strategic Investment Plan Programme.

## REVOLVING INFRASTRUCTURE FUND BIDS

- 5.10 The initial focus of the RIF Strategic Investment Plan is the Bristol EZ and the four EA's which have been agreed across the West of England including the Bath City Riverside Enterprise Area ( EA ).
- 5.11 The Council have submitted a package of five potential bids to support a programme of work to remove obstacles to the progress of the Bath City Riverside Enterprise Area (EA). Together the bids would facilitate the development of a number of key sites in the EA which could deliver in total over 3,000 homes including up to 1,000 affordable homes, 78,000sqm of office and creative workspace, 40,000sqm of leisure and retail space, a new school and community facilities, with a total development value in excess of £1billion, and in excess of 6,000 gross new jobs. In contracting with the LEP for RIF funds, the Council is signing up to the employment growth outputs on those projects enabled by the RIF.

### **(i) Decommissioning & Decontamination of Windsor Gas Station – BWR (Appendix B)**

- 5.16 There is an HSE exclusion zone in place around the Midland Rd Gas Station which will curtail development at BWR (and other sites) until it is de-commissioned ( see Section 6 Risk Management ). The timely decommissioning of the residual gas tower and decontamination of the gas station will enable the future phases of the BWR Development to be implemented, beyond the initial 400 residential units.
- 5.17 This will open the way for the delivery, over the next 12-15 years, of a further 1900 residential units including 475 affordable homes, a new primary school, the potential resolution of the Refuse Transfer site re-location and 5,000+sqm of commercial mixed-use space. An early commitment to de-commission the Gas Station will also allow HCA funding to be drawn down to deliver an additional 48 affordable homes in the current phase.
- 5.18 B&NES RIF bid for the Bath Enterprise Area includes £4.1m funding to decommission the Gas Station, decontamination and demolition. This will be funded from CLG Growing Places funds within the RIF.
- 5.19 Crest Nicholson will be leading the delivery of the project working with statutory authorities and Wales & West Utilities, the owner of the gas infrastructure. The provisions of the Corporate Agreement between Crest Nicholson and Bath & North East Somerset Council will be extended to cover this proposal. Use of RIF will be structured as a policy based loan with an appropriate market rate for a maximum of 5 years. Repayment is being underwritten by the Council's ability to own land providing a future potential for a receipt. The Council also has the potential to secure contributions through Sec106 Agreements generated from other sites caught by the HSE Exclusion Zone and within the existing BWR SPD area.

## **(ii) New Destructor Bridge – BWR (Appendix C)**

- 5.20 A new road and pedestrian bridge is required to provide access to the later phases of the BWR development. Without the new bridge in place development at BWR will be halted prior to the occupation of 650 residential units (see Section 6 Risk Management).
- 5.21 The RIF bid is for £1.8m to forward fund the new bridge so allowing the completion of the first phase of 800 dwelling units and earlier delivery of subsequent phases including affordable housing.
- 5.22 The Section 106 Agreement on BWR secures delivery of the bridge and the Corporate Agreement between Crest Nicholson and B&NES stipulates that the Destructor Bridge (a new bridge supporting a two lane road with pedestrian movements to cross the River Avon) needs to be completed prior to the occupation of the 650th Unit. This is currently forecast for 2018 but with funding, the bridge construction can be brought forward to 2013 allowing the rate of development to be accelerated and the early delivery of affordable homes

## **(iii) Flood Mitigation Works for EA sites in city centre (Appendix D)**

- 5.23 The project will release the key strategic development sites of Bath Quays and Manvers Street currently identified with Flood Zone 3 of the River Avon flood plain. Loss of Flood Plain as a result of development will require compensation by engineering the River Avon channel to improve the flow characteristics of the river between Churchill bridge and Midland Bridge.
- 5.24 Working with the Environment Agency, the Council has agreed a technical solution capable of delivery. A scope of works comprising flood mitigation by means of permanent and temporary flood defence structures to the south bank alongside improvement to flood defences on the river facing buildings, storm water pumping station and site level raising will mitigate flooding to the Lower Bristol Rd. Works to the north bank comprising widening and bank re-profiling downstream of Churchill Bridge, including landscape enhancement works to Green Park and the river bank and towpath.

## **6 RISK MANAGEMENT**

- 6.26 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.
- 6.27 In contracting to use RIF, the Council is signing up to employment growth on those projects benefiting from RIF funding. There is a risk that failure to achieve the employment growth will risk repayment of the funding back to BIS (the department for Business Innovation & Skills).
- 6.28 There is a repayment risk that each scheme does not repay the loan in full. Each project has a clear mitigation for this risk;
- 6.28.1 Destructor Bridge has a S106 obligation to mitigate non-repayment risk

6.28.2 Gas decommissioning will enable land to be transferred to the Council which has the potential to generate a receipt

6.28.3 Flood compensation costs can be contracted into Bath Quays redevelopment

6.29 There are a range of risks emerging in the event these schemes are not progressed including:-

(i) Decommissioning & Decontamination of Windsor Gas Station

- Failure to achieve the timely removal of the Gas Station would jeopardise the delivery of the current and future phases of the BWR scheme including :
  - the delivery of 1900 residential units including 450 affordable homes
  - the provision of a new primary school with the capacity to serve both BWR and central Bath
  - the loss of the opportunity to accelerate the provision of 50 affordable homes currently funded by the HCA
  - the loss of HCA funding and the consequent loss of affordable homes
  - the potential to resolve the Waste Transfer site relocation and re-provision

(ii) Destructor Bridge

- Early delivery of the new bridge will bring forward affordable housing delivery ( see above ), assist in committing HCA funds and along with the removal of the Gas Station open the way for the accelerated delivery of future phases of the BWR scheme

## 7 EQUALITIES

5.2 A separate EqIA has not been completed as the RIF bids are seeking to address objectives contained in the Council's Economic Strategy, Core Strategy and Regeneration Delivery Plans each of which have been through the EqIA process.

## 8 CONSULTATION

8.26 The report has been prepared in consultation with : relevant Cabinet Members; Other B&NES Services; Stakeholders/Partners; Section 151 Finance Officer; Chief Executive; Monitoring Officer

8.27 The report has been the subject of formal internal consultation. The RIF bids have been developed in consultation, through meetings and discussion, with other Council Services, including Planning, Property and Resources and with the Local Enterprise Partnership

## **9 ISSUES TO CONSIDER IN REACHING THE DECISION**

9.26 The following issues should be considered in relation to the report recommendations: Social Inclusion; Sustainability; Property; Corporate; Other Legal Considerations.

## 10 ADVICE SOUGHT

10.26 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	Simon Martin : Operations Manager 01225 477407 John Cox : Business Support & Development Manager
<b>Sponsoring Cabinet Member</b>	Sustainable Development: Cllr Cherry Beath
<b>Background papers</b>	<b>Cabinet 9<sup>th</sup> November 2011 : Delivering Sustainable Economic Growth in B&amp;NES</b> <b>Cabinet 13<sup>th</sup> September 2012: Item 10</b> <b>Report to LEP Board 7<sup>th</sup> March 2012</b> <b>Report to LEP Board 7th November 2012</b> <b>RIF – Operational Overview</b> <b>BIS Offer Letter</b> <b>Joint Agreement between WofE UA's</b>
<b>Please contact the report author if you need to access this report in an alternative format</b>	