Report To:	Greater Cambridge City Deal Executive Board	28 January 2015
Lead Officer:	Chris Malyon, Chief Finance Officer Cambridgeshire County Council	

Funding of City Deal Non Project Costs

1. Purpose

To gain agreement, to the pooling of local authority resources in order to provide the necessary funds to support the delivery of necessary City Deal activities that cannot be capitalised through individual projects.

2. Recommendations

It is recommended that: -

(a) The pooled NHB resource, as set out in this paper, be used to fund the non-projects costs required to support the successful delivery of the City Deal programme;

(b) The Executive Board note that funding from this source is a commitment for 2015/16 only and that any further funding will be subject to a formal budget statement that will be presented to the Board prior to the start of each financial year;

(c) A detailed budget for 2015/16 be considered by the Executive Board at the next meeting;

(d) The three local authorities be requested to make initial budgetary provisions within their respective medium term financial strategies in line with the contents of this report, subject to the on-going availability of New Homes Bonus; to the levels set out in this report;

(e) The Chief Finance Officer of the County Council be given delegated responsibility to incur any essential expenditure pending the agreement of a detailed budget appertaining to the functions contained in this report subject to a cap of £150,000 for the financial year;

(f) The Executive Board consider additional opportunities for the use of pooled resources at a future meeting.

3. Reasons for Recommendations

The Executive Board are requested to agree the recommendations in this report in order to ensure that programme commencement does not encounter any delays. A budget proposal for 2015/16 will will be considered at the next meeting of the Board. This will set out the non-project proposals that require funding for the forthcoming financial year.

4. Background

The City Deal Submission included a proposal that resources of the three local authorities would be "pooled" in order to support the delivery of the Programme and to maximise the opportunities for delivering successful and sustainable communities.
The submission did not set out a definitive schedule of the resources that would be pooled; the scale of the pooling that would take place, or the projects/activities that would be funded from the pool. In June 2014 the Shadow Board received an update on the issue and this paper is attached as an Appendix to this report.

5. Pooling Agreement

Since the aforementioned report was considered, the three local authorities have considered what should be the best starting position for pooling. It is believed that in the short term at least, and until a definitive programme of resource requirements has been agreed, that the pooling of resources should be restricted to New Homes Bonus (NHB) derived from the Greater Cambridge area. As NHB is generally used by the three local authorities to support the delivery of core services, and given the continued effect of austerity measures, the consequence of this commitment should not be understated.

This commitment must therefore be on the back of a set of activities that clearly require additional funding and that support the overall delivery of the programme and its associated outcomes.

Agreement has been reached between three local authorities that sums up to the following NHB gross receipts could be made available.

- 40% for the financial year 2015/16
- 50% for future financial years

Based on current projections of receipts that will be derived from this source the following sums could be made available for pooling purposes: -

Authority	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Cambridge City Council	£1,986	£3,009	£3,085	£3,352
South Cambridgeshire District Council	£1,683	£2,727	£2,960	£3,219
Cambridgeshire County Council	£917	£1,434	£1,511	£1,643

The allocation of these sums will be subject to the ratification of the respective Council's during their forthcoming budget deliberations and approvals. The actual amount that can be pooled from NHB will need to be adjusted annually when the actual grant allocations are known.

The achievement of these levels of New Homes Bonus contributions by each of the three councils is dependent on several factors

- projected housing completion numbers being delivered

- the government continuing to fund NHB to at least the current amount

- priority being given to existing commitments should NHB be significantly reduced.

Each council has already committed some of their projected NHB for a range of activities and posts which support economic growth. This means that if the government changes the basis of NHB allocations in future then the priorities for NHB funding would need to be reassessed. If those allocations reduce, partners will need to reassess what funding will be available to the City Deal, as the first call on this funding will be for the existing commitments in each organisation. If there is no NHB available at all, then the planned future NHB contributions to the City Deal outlined in this report will obviously not be feasible. There may be another income stream should NHB be replaced and discussion on its use would then depend on what shape that new funding takes.

6. Planned Expenditure

There will undoubtedly be a number of potential alternative uses for the resources created from pooling NHB resources. The decision to use this for City Deal purposes should only be undertaken where there is a clear set of outcomes that can be achieved from this resource that will benefit either the programme directly, or will improve the new communities that support this growth. Using this resource for City Deal activity is re-directing the funding from supporting other vital council services.

To date the following costs have been identified as non-project related activity that requires funding to ensure the successful delivery of the City Deal Programme.

- Central coordination
- Strategic communications
- Economic assessments/triggers

The City Deal Agreement also contained a commitment to support the delivery of an extended Skills Programme for the Greater Cambridge area. No funding has yet been identified to support the delivery of this programme. The skills programme and funding options will be set out in a future report to both the Assembly and Executive Board.

7. Detailed Budget Provision

At this point the detailed resource requirements for the above functions have not been fully evaluated. A detailed set of budget proposals will be developed and set out in a future report. Until the point that the Board agree the budget required to support these activities it is requested that delegation be given to the County Council's Chief Finance Officer to agree to any necessary expenditure should this be essential to avoid any delays in the commencement of the programme.

This approach was agreed by the Assembly when considering this report earlier this month subject to a cap being established. The proposal of the Assembly was to set this cap at £150,000 for the financial year. This is therefore included within the recommendations to the Board.

8. Pooling Administration

At this point in the evolution of the use of pooled resources there seems little benefit in the physical transfer of resources ahead of the expenditure being incurred. The level of expenditure that will be incurred in the short term is limited and therefore the County Council as the 'Accountable Body' can cover the cash flow implications of this approach.

The Assembly and the Joint Committee will receive regular financial monitoring statements, which will also be used as the mechanism for recovering contributions from the respective local authorities.

9. Considerations

Only activities that are directly related to, and contribute to the delivery of, a project can be treated as capital costs and therefore charged directly to individual projects that are funded from the City deal capital programme. Whilst the maximum flexibility will be maintained in this interpretation there is a boundary that cannot be crossed. In addition to the direct project costs there will always be cross-programme costs that need to be resourced in order to ensure the smooth and effective running of the programme. It will always be an objective to keep this to a minimum but some investment is inevitable to ensure successful delivery.

Other costs are already being, and will continue to be, absorbed by the three local authorities as the cost of governance is being supported by those organisations. The respective local authorities have subsumed the costs associated with the following activities: -

- Democratic Governance
- Legal and Audit Services
- Financial Services
- Programme Leadership

Given the current financial climate and the cuts to services that all the local authorities are facing, the allocation of resources to any new pooling arrangement should not be taken lightly. Therefore the expected outcomes should be clear to all. To date a number of non-project programme activities have been identified for which no specific funding exists but that are paramount to successful delivery of the programme. These will need to be resourced and without any other funding stream available to the Board the use of the pooled resource is proposed as the logical solution.

The key consideration for the Assembly will however be the next stage of resource pooling. A broader discussion over potential further utilisation to achieve the maximum outcomes will need to be undertaken over the coming months. Any such deliberations will need to be undertaken against the background of the public sector financial landscape.

10. Funding Options

There are very few other options for the funding the non-programme costs of this project. These can be summarised as: -

- An equal contribution from all partners
- Some form of proportionate contribution (no potential allocation methodologies have been considered at this point)
- As above excluding the University or LEP
- Use of the New Homes Bonus generated within the Greater Cambridge area.

This report is recommending the last of these options on the basis that the City Deal will facilitate housing developments leading to the generation of additional NHB. A key risk however is that this source of funding will be under scrutiny as part of the Comprehensive Spending Review next year and this source of funding may need to be re-visited should this result in the integration of NHB into the main grant distribution mechanism.

11. Implications

In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered: -

Financial
The financial implications are set out in body of the report.

Legal
The agreement of a funding methodology does not set a legally binding agreement. This can therefore be reviewed and adjusted at any point by agreement of the Joint Committee.

Staffing
There will be some staffing implications in relation to the specific proposals set out in this paper. This relates to the recruitment of staffing to support the central co-ordination and communication functions.

Risk Management
There is a risk that the New Homes Bonus will not exist after the 2015 Spending Review. Furthermore if NHB does continue in its existing form the pressures arising from continued austerity measures may necessitate the three local authorities to review the level of funding that is allocated to this activity.

Equality and Diversity
None

Climate Change
None

Consultation responses
The three local authorities that will be contributing NHB should the recommendations set out in this report have been fully engaged in the drafting of this report

12. Background Papers

None

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Appendix

GREATER CAMBRIDGE CITY DEAL

Use of pooled funding for infrastructure development

Introduction

The City Deal agreement represents a significant opportunity for the Greater Cambridge partners to provide a sustainable transport infrastructure to support the next phase of the Cambridge phenomenon. The delivery of both commercial and residential development to the scale set out in the Greater Cambridge City Deal application will require much more than just improved transport infrastructure in order to deliver sustainable and socially acceptable communities that provide a good quality of life for our residents.

Whilst the ability of local authorities to invest in high quality community infrastructure is constrained, due to the pressures on public finances, it is important that the limited resources that are available are used to the maximum effect. The County Council and the two district councils have worked collaboratively for many years in order to maximise the contributions from developers in order to deliver robust community infrastructure within new communities.

The pooling of some local funding is therefore the natural next step along the pathway to more integrated planning and delivery of new or developing communities. This was the logic for the inclusion within our collective City Deal submission to the Government that we would:-

"

- Pool local resources to form an infrastructure investment fund
- Invest in the schemes that deliver the greatest economic impact in line with the assurance framework"

Whilst the extent of this pooling was not defined, and no definitive commitment was provided, we did share with the Cabinet Office and Treasury the anticipated level of local resources that would be used to support the delivery of community infrastructure. Resources and priorities will obviously change during the period of the City Deal and therefore this could not be seen as a definitive commitment on the part of the partner organisations but was a clear statement of intent.

This paper sets out a brief overview of a potential framework which if agreed will be used as a basis for a more detailed set of proposals that will be developed for the consideration of one the early meetings of the Joint Committee.

Rationale for pooling funding

The rationale for working collaboratively is quite clear. Both the planning authorities and the County Council already does so in negotiating Section 106 contributions. This process is a fine balance to ensure that contributions are maximised without making the development unaffordable. The pooling of resources is therefore the next step in collaborative working between the partners. This should facilitate even greater success in our objective to deliver a good quality of life for our new communities.

Furthermore if a Combined Authority were set up in future, this would take responsibility for certain statutory functions currently sitting with partner authorities. The expected arrangement would be for the Combined Authority to take over responsibilities for transport.

Pooling of resources is therefore a natural precursor to the more formalised approach that will need to be adopted for a combined Authority.

In addition, it is likely that a Combined Authority would also receive certain responsibilities that would be exercised concurrently with partner authorities (under an agreed protocol).

One reason for pooling funding would be to recognise the expected future shift of responsibilities and clarify as soon as possible the level of funding that the Combined Authority would have to exercise its responsibilities.

More broadly, the use of pooled funding would recognise the potential benefits to the community of working in partnership to deliver improvements.

What funding should be pooled?

The underlying principle should be that the Joint Committee seeks to maximise the level of pooling that is undertaken. There are, however, a number of funding streams where there would be little, or no, benefit in pooling as the nature of the funding is prescribed to a specific activity and therefore leaves no discretion for its use.

Such funding streams should nevertheless be visible to the Joint Committee and it is therefore recommended that these sources of finance and associated programmes be reported to the Joint Committee to ensure that it has visibility of the complete infrastructure programme associated with developing new communities.

The Chief Finance Officers of the respective Councils have produced a schedule of the potential funding levels that would be generated over the life of the City Deal. This has not been included within this report at this stage as the focus should be on the principles of pooling rather than the specifics.

The funding sources can be categorised as follows: -

- Resources that should be pooled
- Those where the Joint Committee is a 'super consultee'
- Those that the Joint Committee should have sight of

The funding sources have been categorised as follows: -

<u>Pooled Resources</u>
New Homes Bonus (NHB)
Section 106
Community Infrastructure Levy
Any other funding committed to the City Deal through the agreement with government

<u>Super Consultee Resources</u>
Local Transport Plan Grant
Local Transport Body Grant

<u>Visible Funding</u>
Other Specific transport grants (Schools)
Basic Need (Schools)
Capital Maintenance Grant (Schools)
Devolved Formula Grant (Schools)
Housing Revenue Account

For the purposes of clarity any pooling of County Council resources would be restricted to those derived from within the Greater Cambridge City Deal area.

New Homes Bonus (NHB)

NHB is calculated based on the estimated council tax due on housing completions each year – this is paid for a period of 6 years. Of the total calculated NHB 80% would go to the District and 20% to the County Council.

The pooling calculations would show the total NHB generated each year, but the sum available would be reduced by agreed commitments in respect of the City and South Cambridgeshire. The NHB remaining after these commitments, together with the NHB attributable to the County, would be available as pooled funding.

There is some significant doubt over the future of this funding stream. Many councils have used it to fund core services and therefore have been future projections within their council revenue medium term financial plans. Each councils approach will differ based on the Chief Finance Officers (CFO's) perception of the ongoing nature of the funding stream.

It is proposed that, whilst this funding stream is retained, any new NHB funding that is derived from new completions from 1st April 2015 from properties within the Greater Cambridge area the funding will be pooled to support the delivery of community infrastructure by agreement of the Joint Committee. The original discussions with the City Council did not go as far as this and there was a limited commitment to this pooling concept. Whilst the partner organisations can agree a hybrid to full pooling of this resource it is important that this is a transparent decision. If this was the case then it is important that South Cambridgeshire and the County have the opportunity to also restrict their pooling commitments or to continue with full pooling irrespective of this if they so wish.

Section 106

Section 106 funds are normally negotiated where the size or nature of developments requires specific infrastructure changes. The need for such specific infrastructure means that s106 contributions will tend to be considerably higher than CIL would have been for a development.

The pooling calculations will show the total s106 generated each year. However, the sum available for pooling will be reduced by amounts earmarked for specific types of infrastructure that remain the responsibility of partner authorities. As noted above it is currently assumed that this will include shared responsibilities, e.g. funding for new schools would not be pooled.

Any funding earmarked for transport infrastructure would be treated as pooled funding. In addition, s106 funding not earmarked for specific infrastructure would be pooled.

Funding should be pooled where it would be expected to support responsibilities that would transfer to a future Combined Authority.

If the Combined Authority were given shared responsibility for economic development and other functions there could be a case for pooling funding for these as well. This issue would be considered further when drawing up a protocol on how shared responsibilities would be exercised. At this stage, though, it is assumed that funding will not be pooled in respect of such functions. Thus, for instance, basic need and HRA funding would remain under the control of individual partner authorities.

Community Infrastructure Levy (CIL)

CIL is generated on extra floor area produced by housing and certain commercial developments. There is no size restriction on this, i.e. CIL can be calculated and collected on a development of a single house.

An agreed proportion of CIL would be earmarked for use on local priorities. The remainder would be available as pooled funding.

Specific Transport Grants

Pooled funding will include all of the grant allocated under the City Deal. In addition, any other specific grants relating to transport in the Greater Cambridge area will be pooled. The pooling calculations will show the total specific grants allocated to the County Council and use agreed methodology to split this between amounts relevant to Greater Cambridge and amounts in respect of the remainder of the county.

Other Funding Committed To The City Deal

There may be other funding provided by partners to support the City Deal – either to honour the agreement with the government or by local agreement. Any such funding will be pooled.

Over the period of the City Deal it is likely that there will be significant changes made to the way funding streams work. This protocol on the use of pooled funding would need to be reviewed by the partner authorities to agree how best to take account of any such changes.

Application of pooled funding to infrastructure spend

Infrastructure expenditure during the City Deal can be split into the categories shown in the table below. Assumptions for each category about the potential use of pooled funding are included in the table.

Type of expenditure	Assumed use of pooled funding
Projects funded by City Deal grant	Pooled funding used.
Projects falling within the responsibilities expected to transfer to the future Combined Authority, but not funded by City Deal grant.	Pooled funding used.
Projects falling within responsibilities shared by the Combined Authority and partner authorities.	Pooling only used if that is agreed in the protocol drawn up on how best to exercise shared responsibilities.
Projects falling outside the responsibilities of the future Combined Authority.	No pooled funding.

Even for projects that would not normally be subject to pooling according to the above table partners could specifically agree to contribute pooled funding (for instance where it was felt that the project was supporting the wider aims of the City Deal).

Process for determining the use of pooled funding

The table below briefly outlines an annual process for decisions on the use of pooled funding. This would initially be agreed by the Joint Committee but ultimately be carried out through the Combined Authority governance structures.

Frequency	Action
At least annually	Update information on costs and income for the current and future years: ▪ Review the amount of pooled funding available. ▪ Review costs of infrastructure supported by City Deal grant ▪ Review costs of other infrastructure that would be the responsibility of the Combined Authority. ▪ Consider any applications by partners for pooled funding to be used to support other infrastructure developments.
At least 6-monthly	Allocate pooled funding: ▪ For the current year. ▪ Agree a timetable to pass funding on to the Combined Authority. ▪ Indicative allocations for future years.
At least quarterly	Monitor progress: ▪ Quarterly update on expenditure.

Managing cash flow for pooled funding

There will be significant uncertainties about when some funding will be received – this will particularly be the case for s106. Currently these cash flow issues are managed within individual partner authorities and it is proposed that this should continue to be the case, as the Joint Committee will not have the power to borrow.

The above annual process therefore refers to agreeing a timetable for payments – this schedule would be used rather than paying funding over at the point it is received.

Dispute resolution

Where partners are unable to agree on how to apply this protocol on pooled funding the dispute shall be referred to … (Head of Paid Service?) to negotiate to resolve the matter in good faith.

Recommendations

It is recommended that: -

- **The principle of pooling of funding streams derived from infrastructure developments be agreed;**
- **This pooling should cover**
    - **New Homes Bonus**
    - **Section 106 receipts**
    - **Community Infrastructure Receipts**
    - **City Deal Grant Funding**
- **The Joint Committee request that it become a super consultee in the utilisation of other funding sources such as LTP and LTB grants**
- **The Joint Committee retain an oversight of the utilisation of all community infrastructure funding streams**
- **A more detailed paper setting out the framework of the pooling arrangements is considered by an early meeting of the Joint Committee once established.**

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June 2014