

## **Interim Vehicle Programme & Budget 2021/22 Options & Scenarios Paper**

### **1. Introduction & Background**

- 1.1. This paper concerns the funding options for the set up and initial operation of an Interim Vehicle for the EM Dev Co to advance proposals for the development and associated infrastructure of three critical sites at the heart of the East Midlands. The vehicle is necessary to pave the way for a new type of a locally led urban development corporation (LLUDC), which will require primary legislation. That process is likely to take at least 18 months from now. The Interim Vehicle is therefore required to progress the work ahead of the incorporation of the LLUDC and then to establish the LLUDC.
- 1.2. At its meeting in July, the Alchemy Board for the Development Corporation programme agreed to the establishment of an Interim Vehicle to be established. This was in principle and subject to the 5 directly affected authorities agreeing the details. Concurrently, the emerging business case for the work programme, which is sponsored by MHCLHG, includes a proposition for an initial tranche of work that will require funding from the UK Government. This led to a submission to government made in September 2020 as part of the Midlands Engine CSR proposition. That submission includes a request for £18.6m of funding to support the establishment and operation of the Interim Vehicle for up to three years ahead of any statutory development corporation. These costed proposals were subject to an indicative budget worked up by the team with the support of Grant Thornton.
- 1.3. In the absence of any confirmed funding support from Government, the local authority partners are contemplating how the Interim Vehicle might be supported in the meantime. There is recognition of the need to maintain momentum and there is much work for the Interim Vehicle to do. This is recognised by the local authority partners who remain keen to progress and need to consider options in the absence of funding commitment from Government. This would be for the five local authorities to finance the work and the £18.6m costs. That would have involved an initial allocation of £5.5m for the first fifteen months and it was clearly outside the means of the local authority partners to fund. Consequently, the programme team have been asked to assess options for a more restricted initial budget working within the constraints and affordability of local authority finance.
- 1.4. Concurrently, the post Covid situation means that less funding may be available than originally thought, particularly in light of the deferment of CSR 2020.
- 1.5. This paper sets out the proposed programme and budget for the Interim Vehicle during 2021/22 based on a much-reduced budget. It also sets out the associated workstreams that will be required. The programme and budget will be the first one for the Interim Vehicle whose purpose will be to establish the Locally Led Urban Development Corporation (LLUDC). It does not in itself extinguish the ask of Government for the full £18.6m but has been developed

on the assumption that funding is not realised. It aims to demonstrate that significant positive progress can be made towards realising the value and benefits envisaged, although these will be at a reduced pace and level. As such it will demonstrate that the programme can adapt on a sliding scale of funding above a certain minimum level, which the paper aims to establish.

- 1.6. The following assessment is based on the original optimal indicative budget and programme sitting behind the £18.6m.

## 2. Objective

- 2.1 The objective of this programme and budget is to undertake the work required to get approval for the LLUDC, including the following key elements:

- **Outline Business Case (OBC):** support Midlands Engine in progressing the HM Treasury five case analysis to produce an OBC that sets out why and how a LLUDC can deliver development and infrastructure working in partnership with the market (oversight by the Midlands Engine/Alchemy Board)
- **Vision:** establish and obtain wider stakeholder agreement on the long-term vision, objectives and principles for the East Midlands sub regional 'corridor';
- **Planning strategy:** undertake strategic masterplanning for the key growth sites to establish the development (red line) areas and infrastructure required;
- **Commercial/Delivery strategy:** develop a strategy and high-level programme for the land acquisition and infrastructure provision for each site which are critical to the progression of landowner/developer relationships;
- **Funding & Finance strategy:** establish long term cash flows of the delivery strategy and identify sources of finance required to deliver the programme;
- **LLUDC establishment:** develop a medium-term programme and budget for 2022/23 onwards including key delivery and approval milestones.

- 2.2 How does this differ from the original £18.6m proposition?

- a. The original objectives involved setting up a fully functioning shadow company with associated capability and capacity and some of this will need to be deferred with the Interim Vehicle being more reliant on the client internal infrastructure and an intelligent client approach utilising in house/secondment and likely to require a more flexible way of using external expertise.
- b. Years 2/3 including the establishment of commercial delivery arrangements and detailed planning may need to be deferred to be part of the transition to the statutory Development Corporation budget i.e. post Interim Vehicle, but this will be subject to annual review.

- c. A critical objective of the IV will be leveraging additional funding for the programme at an earlier stage in order to progress, whereby the £18.6m in terms of some of the expertise costs enabled the IV to progress elements of work at an earlier stage of the process e.g. Ratcliffe masterplanning significantly reduced cost and no allowance for planning/design fees in this scenario.

### **3. Options/Scenarios**

3.1 In putting together an alternative programme with a significantly reduced budget, consideration has been given to the following options or scenarios for the Interim Vehicle activities:

- a. LLUDC business case only (i.e. base case): this option would entail delaying any work relating to the development sites and infrastructure until later;
- b. Match funding from Government: seek and obtain match Government funding;
- c. Prioritise specific development sites: this option would entail identifying and prioritising the site or sites where the work can be progressed earlier;
- d. Prioritise activities across all three sites: this option would identify the activities that can progress the LLUDC work across all three sites;
- e. Contributions from other parties: understand the scope for contributions from wider partners e.g. Homes England, land owners, universities, LEP etc);
- f. Abandon the project: this would entail local authorities to work with the private sector to take forward the development of the sites in a traditional manner.

3.2 An analysis of the pros & cons of the above options/scenarios has identified that a combination of 2, 4 & 5 is the preferred or optimum approach because:

- further work to enable and position the sites for development will be required to progress the approval of the LLUDC, including bringing forward strategic infrastructure funding;
- building on the work to date, continued momentum will be critical in developing the commercial relationship between the public and private sector in a complex delivery landscape;
- undertaking work only for a or some specific sites would create an opportunity for the private sector to pursue its own plans and undermine the overall vision with little certainty to drive delivery across all the sites;
- contributions from partners and match funding from Government should be sought as the work to be undertaken would provide benefits for them as demonstrated through the outline business case;
- abandoning the project would be a lost opportunity to grow the East Midlands.

### **4. Interim Programme, budget & risks**

4.1 This section outlines the key programmes and the associated budget for this plan.

a) Programmes

The proposed key programmes together with milestones during 2021/22 are as follows:

**Table 1: Year 1 Interim Vehicle Programme Deliverables**

	<b>DELIVERABLES &amp; MILESTONES</b>	<b>DEPENDENCIES/ CRITICAL ISSUES</b>
	<b>CORPORATE DELIVERABLES (Across all 3 sites)</b>	
1	Outline High Level Plan (part 1)	Progression and approval of IV budget and LLUDC business case
2	Support LLUDC Business case coordination external advice (across 3 sites)	Continued Support of Government
3	Financial, Legal, Structuring/Fund Raising advice (across 3 sites):	Year 1, soft market testing, and alignment with commercial and public sector financial requirements
	<b>TOTON &amp; CHETWYND</b>	
4	Approval by Broxtowe BC of Strategic Masterplan /SPD	Establish the policy parameters for progressing development and infrastructure Q2/ 2021
5	HS2 Hybrid Bill alignment with Toton and Chetwynd strategic masterplan	Decision critical for progression towards type of infrastructure and development aspirations, particularly the innovation and UK Biodiversity hub (Q1 2021)
6	Toton & Chetwynd Technical and feasibility studies and site investigations to inform the development brief	Ongoing work programme and budgets for tranche 2 funding for highway scheme progression of land strategy, and HS2/strategic rail review
7	Feasibility for a skills academy (alongside development of ZERO, commence feasibility as part of Business plan/CSR)	Agreed scope and brief for OBC - (early ask through CSR OF £200K in Y1)
8	Land strategy and acquisition/agreement/land equalisation (inc CPO strategy), negotiations & commercial/ financial structure – ongoing and align negotiations/HOT with emerging commercial strategy	Pre discussions with landowners inc allowance for technical work - critical progression of agreements with HE/DIO on Chetwynd barracks being fully incorporated as part of a comprehensive integrated approach
9	Revised Business case for early infrastructure ask for Toton & Chetwynd link road alongside feasibility design requirements aligned with the emerging masterplan	Agreed gateway approved by Government for a reshaped funding bid through CRS/ SHIF for the Toton & Chetwynd link road, assuming technical information and feasibility work enough to develop masterplan into business case suitable for a funding bid. Review link through Swinney Way alongside revised business case.
	<b>RATCLIFFE ON SOAR</b>	

10	Establish basis for alignment of proposition for Ratcliffe including, potential private sector partners, government, Dev Co and Rushcliffe BC	Develop alongside Zero business case and Freeport, Public sector agreed position on negotiations with landowners.
11	Strategic policy alignment and negotiations to shape Ratcliffe Policy framework to inform land strategy in addition to Arup's existing commission, but also will require commercial land strategy/ statutory planning alignment	Agreed position with Rushcliffe BC on a strategic planning approach
12	Collaboration agreement as appropriate -- negotiation of commercial Heads of Terms	Alignment of aspirations for Ratcliffe power station and agreed strategy and funding route for progressing ZERO, with partners including universities, industry and Government
13	Concept Masterplan & infrastructure and site investigations early site scoping feasibility/ prep of brief and procurement	Subject to agreed position on policy framework, and collaboration agreement including split of costs.
14	Alignment of infrastructure funding with LLUDC business case	progression of funding bids aligned with LLUDC business case
	<b>EMAA</b>	
15	Parameters for EMMA growth masterplan and policy Framework (developing the vision and potential asks (spatial, infrastructure asks, powers). Initially Develop scope and red line for development area / baseline	Co-ordination with any Freeport proposition, in which the business case is being developed separately through the LEP's.
16	Develop scenarios and strategic masterplan and infrastructure Plan	Agreement of core parameters and aspirations with partners & LPA
17	develop evidence base	To support policy framework
18	Land strategy and negotiations.	LPA agreed position on policy development framework for a Local Plan review

## b) Budget

The high-level outline budget for 2021/22 to deliver key programmes is as follows:

**Table 2: Indicative Budget**

Work streams	Budget	Contingency (5%)	Inc contingency
<b>Corporate team and advisory (all sites split equally)</b>			
Corporate Toton	270,666	13,533	284,199
Corporate Ratcliffe	270,666	13,533	284,199
Corporate EMA	270,666	13,533	284,199
<b>Sub Total 1</b>	<b>812,000</b>	<b>40,599</b>	<b>852,599</b>
<b>Corporate Team deliverables (all sites)</b>			
High level plan across all sites	100,000		
Support LLUDC Business case coordination	100,000		

Financial, Legal, Structuring/Fund Raising advice	180,000		
<b>Sub Total 2</b>	<b>380,000</b>	<b>19,000</b>	<b>399,000</b>
<b>Shared Pool of Expertise</b>			
Toton professional and technical teams	400,000	20,000	420,000
Ratcliffe professional and technical	400,000	20,000	420,000
EMA (professional and technical)	400,000	20,000	420,000
<b>Sub Total 3</b>	<b>1,200,000</b>	<b>60,000</b>	<b>1,260,000</b>
<b>Grand Totals</b>	<b>2,392,000</b>	<b>119,599</b>	<b>2,511,599</b>

4.2 Match funding from Government is being sought as described in paragraphs 1.2 to 1.3 above. For the purposes of this exercise it is assumed a continuation of the existing funding levels from Government for the development corporation programme i.e. a minimum of £1m per annum.

4.3 Potential third-party contributions will be sought from the following:

- Homes England: revised Toton & Chetwynd link road through a bespoke funding package linked to the Development Corporation e.g. the CSR 2020 investment ask or SHIF submission together with contributions to progress the Toton early development masterplanning<sup>1</sup>, and site preparation work;
- Strategic landowners: contributions to progress with respective masterplanning and site enabling work at Ratcliffe and EMAA and (subject to collaboration/MOU in place); and
- Government, LEP's, Industry partners & Universities/UKRI research and innovation funding: funding to progress the Zero work and attracting inward investment opportunities.

#### Complementary/associated work

4.4 The following complementary or associated work is assumed by this plan to be largely led and undertaken by partners or third parties:

- Connectivity work involving:
  - TfEM and Midlands Connect: wider transport work across the East Midlands corridor;
  - Notts and Leics CC highway authority work;
  - Agencies of Gov't including Highways England; NR and Hs2 Ltd
- Local Authority planning work;
- LEP's
- Midlands Engine & Partners

#### c) Risks

<sup>1</sup> This is different to the Strategic Masterplan that will provide the policy framework through an SPD alongside the Broxtowe BC Local Plan for bringing forward development at Toton & Chetwynd

4.5 The key risks that could affect the delivery of this programme in line with budget are:

- Funding: Contributions from Local Authorities and Government may be lower than the indicative budget and there is uncertainty beyond year one. Year 2 programming will be dependent on annual review and/or successful funding bids. Mitigation: On-going discussions with local authority partners and Government.
- Local Government Funding might be dependent on UK Government providing match funding. Mitigation: as above on-going discussions and seeking agreed funding levels in principle where necessary.
- Reduced budgets subject to annual review will affect the experience, capacity and capabilities of the client team with limited one year fixed-term positions. Mitigation: the application of flexible approaches through procurement, secondments, training and development.
- Reliance on third parties – the reduced intensity of government (national and local) backed activity, when compared to the original programme, will likely increase the reliance on other arrangements and/or reduce the ability of the team to deliver public sector aspirations. Mitigation: continue to seek additional public sector resource in addition to flexible approaches with partners through MoU and JV agreements as appropriate.
- Summary of Key dependencies for the 3 sites in year 1:

**Table 3: Dependencies**

Site	Dependencies
Toton & Chetwynd	Integrated Rail plan for the North
	Approval of the Toton & Chetwynd Strategic Masterplan
	Agreement on the alignment of Chetwynd Barrack with Homes England & the DIO
	Agreed route for the funding of the Toton & Chetwynd Link Road
Ratcliffe	Agreed planning policy position
	Agreed approach with Land owner
	Progression and support of the Zero concept
EMAA	Agreed planning policy approach
	Development of agreed approach for a strategic masterplan and infrastructure plan

	Key landowner and business partner buy in.
General/ Complimentary	Alignment and a coordinated approach to the wider Midland Connect and access to Toton strategy
	Alignment of the Freeport proposals with EMAA and Ratcliffe

## 5. Conclusions

- 5.1 The proposed alternative programme and budget plan for the Interim Vehicle set out in this paper is designed to achieve the objective of progressing the work required to get approval for and put in place the LLUDC. It demonstrates a flexible approach that enables the programme to deliver significant benefits. At the same time, should additional funding be forthcoming from the UK Government some or all the original programme activities can be flexibly applied to deliver additional benefits.
- 5.2 The programme and budget will be reviewed on an annual basis with a second-year budget subject to agreement of a medium-term programme and satisfaction of key milestones being achieved including the continued commitment on the establishment of a LLUDC from Government. The financial realities post Covid mean that this plan might not include enough funding to progress the work required as outlined in this paper if financial contributions cannot be achieved from Government/third parties and if resources/funding is not protected for the complementary/associated work outlined above. However, this options paper has demonstrated that a working budget of £2.5m for the first 12 months would be enough to progress the commercial agreements together with the detailed delivery and infrastructure plans especially with contributions from other partners and third parties.