

CITY OF PLYMOUTH

Subject: Plymouth Growth Fund
Committee: Cabinet
Date: 29 March 2011
Cabinet Member: Deputy Leader and Portfolio Holder for Planning, Strategic Housing and Economic Development
CMT Member: Director for Development and Regeneration
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Ref: DR/GF1
Key Decision: Yes
Part: I

Executive Summary:

This paper proposes the establishment of a Plymouth Growth Fund which will be built up over time to make the best use of available regeneration resources including government initiatives, Council and wider public assets as well as private sector investment. The fund will be used to lead a step change in action to address economic rebalancing and delivery of growth and regeneration in Plymouth.

This recyclable fund will be built up incrementally from a range of available funding. In the first instance it is proposed to ring fence the New Homes Bonus to create the fund. The Council will also consider if a transfer of RDA assets is appropriate into the growth fund (this will be a separate decision of Council). Once created, the Council will review a wide range of available funding sources and initiatives, to further build the fund over time.

In addition and to ensure delivery of the New Homes Bonus, all the sites previously agreed by Cabinet to support the creation of a Local Housing Company are to be used to support Registered Providers Bids to the government's new Affordable Homes Programme 2011-2015, the deadline for which is 3rd May 2011.

Taken together, this range of measures should generate the capacity to lever in investment and provide essential funding for regeneration projects to be realised to enable the city's growth agenda to be delivered on the ground.

Corporate Plan 2011-2014 as amended by the four new priorities for the City and Council:

This report focuses on the delivery of growth in the city which is one of the four key priorities adopted by the council and its partners and is central to the Corporate Plan of the council.

**Implications for Medium Term Financial Plan and Resource Implications:
Including finance, human, IT and land**

The proposition of developing a growth fund from resources such as the new homes bonus will build capacity both in staff and in the ability to lever in external funding. The use of earmarked Local Housing Company sites in supporting bids for funding new homes will in turn generate the new homes bonus to help fund the capacity.

Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment, etc.

No specific implications.

Recommendations & Reasons for recommended action:

The Cabinet is recommended to:

1. Agree to the establishment of a Plymouth Growth Fund from the financial and land resources outlined in the report with appropriate procedures agreed with Portfolio Holders for Planning, Strategic Housing and Economic Development, and Finance, Property, People and Governance, to be administered by the Director for Development and Regeneration.
2. To ring fence the New Homes Bonus as part of the Growth Fund and to undertake necessary due diligence into the proposed RDA asset transfer.
3. Agree the use of all of the Local Housing Company allocated sites in support of Registered Provider's bids for the new affordable housing funding framework , to be delegated to the Assistant Director Strategic Housing in consultation with the Portfolio Holders for Planning, Strategic Housing and Economic Development, and Finance , Property , People and Governance .

Alternative options considered and reasons for recommended action:

To take no action would lead to our inability to resource the capacity to drive inward investment and a clear strategic vision for growth in the city.

Also bids for the new government framework pot for new housing would not be competitive against other parts of the UK, and potentially we could see new homes delivery shrinking.

This would have an immediate negative effect on the new homes bonus that the council could achieve over the next six years.

Background papers:**1. The Growth Agenda.**

Plymouth has set out an ambitious and radical economic growth and regeneration agenda to increase its population by 50,000 create 42,000 new jobs and build 30,000 new homes.

Delivering growth is also key to achieving the City's vision to become one of Europe's finest, most vibrant waterfront cities. It is only through this large scale transformational change that Plymouth will rebalance its economy, reduce dependency on the public sector and increase productivity.

This paper directly responds to this agenda and sets out the concept of creating a new Growth Fund for Plymouth, which can be used both to provide the necessary professional capacity to enable growth and to directly address issues of development viability in the City for major strategic projects. It also suggests the use of city council housing sites to capture national housing funding and lever in additional private sector investment to kick start house building in support of economic growth. The creation of a Growth Fund will create the necessary impetus and (when combined with existing initiatives) will have appropriate scale to enable the step change in delivery that is required to deliver against the City's transformational economic and spatial aspirations.

2. Current Delivery.

Growth is identified in the corporate plan as one of the City Council's 4 strategic priorities and the Council's capacity to deliver growth and regeneration will be vital to the city's future prosperity. The city already has a strong strategic framework set out in the Local Development Framework, Local Economic Strategy, Local Transport Plan and existing and emerging new Housing Strategy.

The creation of the Growth Board along with the CDC legacy programme and the developing Devon & Somerset LEP will provide a clear framework to build up a variety of initiatives to support and grow the City's economy. The Development Directorate has already delivered a number of important enabling initiatives over the last 12 months that will provide sector support, drive inward investment and marketing, deliver infrastructure and create new jobs. These include:

- Destination Plymouth
- Growth Acceleration Investment Network (GAIN)
- East End Transport Scheme
- Stock Transfer and record new affordable housing delivery
- Positively Plymouth
- Local Investment Plan (LIP)
- Urban Enterprise
- Planning approval for £1.16bn development value of projects

These elements are part of a cocktail of ideas and initiatives that when combined will play their respective part in supporting future investment in the City over the next 5-10 years. They will provide some of the building blocks to support the city's growth plans but on their own will not provide all the answers.

3. Delivering Growth – What are the Priorities?

The LIP (approved March 2010) sets out the investment priorities for the City in driving forward the growth agenda. Put simply these can be characterised as follows:

- A. City Centre and waterfront redevelopment – this focuses upon the creation of a new retail quarter and new business quarter for the city centre as well as ensuring the delivery and completion of current regeneration projects, most notably Millbay.
- B. Private sector/housing led regeneration schemes such as Sherford, Plymstock Quarry and Derriford.
- C. Community and neighbourhood led regeneration – the first phase of North Prospect, later phases of Devonport and affordable / mixed tenure housing led development across various parts of the city.
- D. Economic led growth – supported through CDC legacy, priority sector support, inward investment and Destination Plymouth.

- E. Infrastructure led growth – growth cannot be promoted without the necessary investment in infrastructure such as road, digital, educational and service infrastructure. There is a clear recognition of the need to ensure that the necessary services are provided in advance of development wherever possible.
- F. Green infrastructure – the city possesses a unique green landscape and neighbouring attributes. The growth and regeneration of the city needs to build upon those assets.

4. Delivering Growth - The Viability Gap.

The delivery of economic development initiatives, physical development and regeneration has become much more difficult since the recession. A collapse in land values driven by low levels of demand, combined with a lack of development finance has created a significant viability gap for many major regeneration projects across the UK. 60% of all new homes last year in Plymouth were grant/ affordable housing delivery, which is not sustainable. At the same time the traditional sources of public sector gap funding have begun to dry up and it is clear that moving forward the availability of funding for pump priming support of growth and regeneration will be significantly reduced compared to the past decade. Housing capital funding has been significantly reduced for the next four years. Councils across the country are also facing a challenge to protect the essential in house professional capacity required to deliver and enable growth and regeneration. If this professional capacity is lost then growth cannot be delivered.

It is against this background that the City Council needs to look very carefully at how it can work to bring forward and help enable large scale regeneration schemes which are essential if the growth agenda is to be realised. If the City waits for the private sector and market to deliver these major interventions we will wait a long time before sufficient value exists. If we wait for public sector funding to return to high levels there is a real risk that Plymouth's ambition for growth will wither and momentum will be lost.

The creation of a dedicated growth fund is therefore proposed as a mechanism to address (i) the issues of development viability and (ii) the issues of professional capacity to enable growth.

5. Funding Regeneration

It is clear that the City Council and its partners will have to be creative and work together to bring forward growth and regeneration. An officer working group drawn from Development and Corporate Support has been looking at national best practice and exploring options. Across the UK Councils are facing similar challenges and are bringing forward initiatives to address issues of viability and professional capacity.

The creation of a new growth and regeneration fund could be the solution to drive the step change in delivery of the growth agenda that we are seeking, especially given the fragility of the current Plymouth economy following the impact of the recession and the likely strategic challenges facing the City Council in the next 3 years.

What is a Growth Fund?

- A ring fenced and recyclable fund that can be used to address the issues of development viability, enabling activity and professional capacity in delivering the growth agenda.
- A fund used to intervene against clearly agreed priorities and projects with specific outputs.

- A fund built up from a wide range of sources that is capable of utilising and maximising the benefits of new government regeneration funding initiatives such as New Homes Bonus, Regional Growth Fund (RGF), balance of the New Growth Points funding and Tax Increment Financing (TIF).
- A fund that is closely aligned to a commercial asset strategy and capital programme.
- A fund that seeks to maximise the value from our estate, consistent with the City Council's planning policies and the specific objectives set out in its Area Action Plans, and Housing Strategy
- A fund to support physical and economic regeneration as well as infrastructure and housing.
- A fund that seeks to maximise the investment from the private sector.
- A fund that seeks maximum leverage from public sector partners and government.
- A significant marketing and inward investment opportunity for the City.
- An organic and flexible approach that can be built up over time.
- An approach that incentivises success and encourages profits to be re-invested.
- An approach that puts place-making at the heart of delivery.

6. Plymouth Growth Fund

New government announcements provide a unique opportunity for Plymouth to establish the principle of a Growth Fund which can then be built upon incrementally from a wide range of sources. In particular the New Homes Bonus which rewards Councils for delivering new homes will provide a strong basis and impetus for the establishment of an initial fund over the next 5 years. Discussions have already started with key public partners including the HCA and RDA to maximise public sector regeneration funds for Plymouth and this will be crucial if the Growth Fund is to succeed.

For the New Homes Bonus to factor significantly in Plymouth's plans, a steady pipeline of housing projects needs to be in place to guarantee the funding stream.

There are a number of elements that could potentially contribute towards the establishment of the growth fund over time and these will need to be carefully considered on an individual basis. These can be described in the following broad areas:

- (i) Government initiatives
- (ii) Council Assets
- (iii) Government Assets
- (iv) Private investments

There are a wide range of issues still to be explored in the process of establishing a growth fund for Plymouth including management arrangements in light of emerging structures such as LEPs, the appropriateness of LABVs, a review of the commercial estate, a review of the capital programme, other possible income opportunities, and the opportunity for invest to save. These issues can be split into short and medium term actions. In the short term we are seeking to establish the concept of a growth fund which can ring fence new government regeneration initiatives (New Homes Bonus, RGF, TIF etc) working with public sector funding partners. Once established and in the medium term we will need consider some of the wider options set out above. A detailed list of actions and next steps is set out below.

7. RDA Assets

Government has now directed RDAs to dispose of their assets before March 31st 2012. Assets must be disposed for market value but this can be offset against the cost of regenerating land and assets. The SWRDA has indicated a preference for an asset transfer to Plymouth City Council which includes both income generating assets and key regeneration sites. The basis for the transfer would be to enable the City Council to continue the work of regenerating the City and delivering growth at key strategic sites including Derriford and the Waterfront. It is likely that any transfer would be for £1 and in the return the City Council would undertake to meet set milestones and obligations to deliver defined regeneration and growth outcomes. The City Council needs to consider the merits of a transfer set against our objectives for growth through a formal process of due diligence, and subject to this due diligence, securing control of these important land assets, many of which are within existing prioritised regeneration areas, will help enable the City Council to drive future growth and deliver regeneration more effectively. The Council will now undertake this detailed due diligence and make a further recommendation to Council once the exercise is complete.

8. City Council Assets

The City Council agreed in 2009 to allocate a number of housing sites as part of a Local Housing Company pilot. However, the funding environment and delivery mechanisms now set out in the new Affordable Housing funding framework require a more responsive and flexible approach if the city is to secure Plymouth's share of inward investment to deliver the homes needed to support the growth agenda. The national grant funding pot has shrunk significantly, and individual grant per property by two thirds, with a greater reliance on private sector funding.

A national bidding round for the whole four year period of the Comprehensive Spending Review (2011-2015) closes on May 3rd 2011, and we need to support our registered providers in achieving competitive bids to maximise our share of the pot. The government expects the use of public land to support this programme, and we therefore need to factor in batches of sites from the Local Housing Company pot which would:

- Ensure the bids of our partners are competitive and can deliver housing completions within the four year target with our input into what is delivered
- Leverage in the inward investment from the much reduced national pot to drive new house building in Plymouth to meet local needs and priorities
- Ensure the pipeline of new homes continues to deliver and maximise the New Homes Bonus to support the growth fund

- Achieves a potential capital receipt , and also utilises sites which have nil or a negative value
- Meet the very challenging deadline for bids in May, after which there is currently no other opportunity for the next four years

9. Priority Areas and Potential interventions

In considering how the growth fund might work in practice the City Council must consider those project areas in which the growth fund will intervene and what the nature of those interventions might be.

Broadly speaking, two types of intervention are identified. Firstly, there is the need to actively intervene and work with the private sector to make activity happen. This can take many forms and will in all cases need to be compliant with all relevant legislation and guidance including OJEU, State Aid and procurement. The Growth Fund may intervene as follows:

- Equity Investment/Joint Ventures
- Debt Finance
- Rental Guarantees
- Direct Acquisitions
- Gap Funding
- Funding upfront costs e.g. public realm
- Enhancing bids for external / government funding with our assets

Secondly, there is the need to support and enable growth through partnership working and maximizing the use of available funding. Without the professional capacity and funding to develop initial master plans, viability studies, bring in private sector delivery partners or deliver programmes to deliver investment/job creation there is a significant risk that the growth agenda will stall. The loss of over £1m/annum new Growth Point funding will have to be addressed in the short term through the Plymouth Growth Fund if the professional capacity of the Development & Regeneration Department to deliver growth is to be maintained.

10. Positively Plymouth

The establishment of a Plymouth Growth Fund is a superb inward investment tool and provides a major opportunity for marketing the City through the Positively Plymouth branding initiative. Once the fund is established it will be promoted to the private sector nationally through channels such as the Estates Gazette, agents network and local media.

11. Challenges and risk

Notwithstanding the successes in securing regeneration projects over the last 5 years, it is clear that a step change in the scale and pace of delivery is required if the City is to achieve its aspirations for growth. Whilst a great deal of progress has been made, significant external risks remain to Plymouth's economy going forward.

The City Council also needs to respond proactively (with new approaches to regeneration) to the new government’s Localism and Big Society agenda and the emerging legislative framework identified in the Localism Bill, Local growth and Housing White Papers.

It is also clear that a reactive approach to delivering the Growth agenda has very significant risks.

12. Conclusions

The creation of a Plymouth Growth Fund provides an innovative and flexible solution that has the potential to create the step change in delivery that is necessary to deliver the growth agenda. It is an opportunity to capture new sources of funding, lever in private sector investment, deliver stalled projects and create new jobs and homes.

Recent government announcements provide an immediate opportunity to establish the principle of a growth fund based around ring fencing the New Homes Bonus. However we need to ensure that the New Homes Bonus is delivered, and consequently that the pipeline of new homes delivery is strong, hence the proposals on the use of council owned land. The growth fund can then be built on incrementally as new funding opportunities arise.

The growth fund can be used to support the professional capacity required to enable growth as well as addressing issues of viability and deliverability of major schemes. It is vital that the city has clear priorities agreed upfront before the establishment of the fund and the City’s excellent strategic frameworks provides us with a clear competitive advantage in this respect. There is a real opportunity to undertake a full strategic review of the City’s assets to ensure that we are achieving maximum value and to creatively use our estate to enable and facilitate growth.

13. Next Steps

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| Action |
| 1) To establish the principle of a Growth Fund for Plymouth by ring fencing the governments New Homes Bonus and undertaking due diligence on the proposed RDA asset transfer administered by the Development & Regeneration Directorate. |
| 2) To review the 2009 Local Investment Plan to clearly identity and seek agreement on development and regeneration priorities. |
| 3) To undertake an urgent dialogue with public sector funding partners to align funding around the LIP. |
| 4) To commission the Head of Strategic Projects to undertake a strategic review of the Commercial estate including Plymouth Investment Partnership (terms of reference to be formally agreed). |
| 6) To consider the relevance and feasibility of Tax Increment Financing to Plymouth. |

- 7) To agree the use of the Local Housing Company allocated sites in support of RP's bids for the new funding framework , to be delegated to the Assistant Director Strategic Housing in conjunction with the Portfolio Holders for Planning, Strategic Housing and Economic Development, and Finance , property , People and Governance .
- 8) To establish a Devon & Somerset LEP and expand the remit of the Wealthy Theme Group into a Plymouth Growth Board covering the Travel to Work Area.
- 9) To produce an inward investment delivery plan under the Positively Plymouth banner.

Sign off: comment must be sought from those whose area of responsibility may be affected by the decision, as follows (insert initials of Finance and Legal reps, and of HR, Corporate Property, IT and Strat. Proc. as appropriate):

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|------------------------|---------------------|-----|------------|----|--|--------------|--|----|--|---------------|--|
| Fin | djn 1011, 021 | Leg | TH 0011 | HR | | Corp Prop | | IT | | Strat Proc | |
| Originating SMT Member | | | | | | | | | | | |