



9 March 2020

HOMES FOR ALL THE REGION – FULL BUSINESS CASE FOR A CCR HOUSING INVESTMENT FUND

REPORT OF CCR CITY DEAL DIRECTOR

AGENDA ITEM 6b

Appendices 1a, 1b, 2 and 3 to this report are exempt from publication because they contain information of the kind described in paragraphs 14 (information relating to the financial or business affairs of any particular person) and 21 (public interest test) of parts 4 and 5 of Schedule 12A to the Local Government Act 1972 and in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Reason for this Report

1. To seek Regional Cabinet's formal approval to establish a Housing Investment Fund entitled 'Homes for all the Region' via endorsement of a Full Business Case (FBC).
2. To set out details of how the £45M Housing Investment Fund will be structured, operated and the associated timescales in respect of the Fund's two proposed inter-connected sub-funds – £35M Viability Gap Fund and a £10M SME Finance Fund.
3. To set out the next steps and timescales, including the necessary delegations required, in order to operationalise the two sub-funds.

Background

4. The concept of creating a Housing Investment Fund was first considered and approved by Regional Cabinet at its meeting of the 12th February 2018. However, there are already a number of interventions in place to address the shortage of quality housing in the region, including Housing Funds operated by Welsh Government (through its commercial arm – Development Bank Wales (DBW)), and other commercial operators. It was therefore essential that Cardiff Capital Region (CCR) took some time to carefully scope out its requirement through a clear articulation of its 'Problem Statement'. In addition, there was a need to

ensure that CCR's solution worked collaboratively alongside existing products, minimising duplication and maximising complementarity.

5. Having invested the necessary time in undertaking detailed market research and analysis, carrying out extensive collaborative discussions with Welsh Government, DBW and other commercial operators, CCR has moved quickly and decisively through a detailed 3 stage HM Treasury Green Book compliant business case development process. Regional Cabinet approved the first stage, Strategic Outline Case (SOC) at its meeting of the 21st October 2019, with Outlined Business Case (OBC) (stage two), being approved on the 19th December 2019.
6. This report considers the third and final stage – Final Business Case (FBC), which is attached at Confidential Appendices 1a (FBC) and 1b (Technical Annex) and which seeks to provide Regional Cabinet with a thorough and robust assessment of how its proposed Housing Investment Fund meets HM Treasury's 5 Case requirements in respect of:
 - **Strategic Case:** Makes the case for change, demonstrating synergy, holistic fit and strategic alignment in supporting the overall aims of objectives of CCR's Investment & Intervention Fund (IIF).
 - **Economic Case:** Through the identification of a proposal that delivers best value for money including, wider social and environmental benefits and in particular delivery against CCR's Economic Inclusion objectives.
 - **Commercial Case:** Demonstrates that the preferred option is effectively procurable and that a well-structured deal with the market can be achieved. Key to this is demonstration of a clear understanding of the services, outputs and milestones required to be achieved and associated risk management.
 - **Financial Case:** Demonstrates the affordability and funding of the proposed Fund, within the parameters of the Annual and 5 year JWA Business Plans. Providing Regional Cabinet with the necessary assurance that the investment would indeed adequately fund the stated options set out in the Economic Case.
 - **Management Case:** Demonstrates that robust arrangements have been considered and will be in place for delivery, monitoring and evaluation of the Housing Investment Fund. Furthermore, demonstrating the Housing Investment Fund will be managed in accordance with best practice, subjected to independent assurance and rigorous project management.

Issues

7. The OBC confirmed that the key problem to be solved in respect of CCR intervention in the regional housing market, is that of 'stalled sites' – sites left vacant as a result of deindustrialisation that are unviable for housing delivery.

Closing this viability gap is vital, as left unaddressed, development will be pushed onto alternative sites that do not address some of the sustainability and resilience issues important to creating cohesive communities that are capable of thriving. Given the location of many of the sites within the region, there are important gains to be made in respect of CCR's economic inclusion objectives.

8. The proposed principal fund set out in the OBC is a Viability (marginal) Gap Fund. This fund seeks to provide very patient continuity finance – or gap funding – to tackle the issue. In-built is the principle of overage / gain-share at the point the site is developed and achieved an agreed level of return with the support of the CCR intervention. The OBC outlined that this fund will operate via a 'Block of Finance' arrangement pursuant to which the nominated Accountable Body (i.e. Cardiff City Council) will hold the funds within a ring-fenced provision in accordance with its financial management arrangements. The Accountable Body will release such funding directly to the relevant local authority sponsor once a decision to award has been made by the CCR Cabinet. All such funding will be subject to the funding terms and conditions detailed in the FBC. As such, there is no immediate requirement to appoint an FCA accredited fund manager to oversee the operation of the fund but CCR will keep this under review as the fund develops and moves into the implementation phase.
9. In addition, the OBC also identified a second potential fund which could run in parallel with the principal Viability Gap Fund – a SME Finance Fund. This would address a further imperative around engaging SME house-builders which are currently under-represented in the region. Based on the available evidence on SME house-building in the region, the level of deal-flow and site suitability, this would be a much smaller fund and given the need for FCA accreditation, would require an external professional fund manager.
10. Since the approval of the OBC, further discussions have taken place with Welsh Government and the Development Bank of Wales (DBW) to ensure that there are clear differentiators between existing products and the proposed SME Finance Fund. In addition, soft market testing has been undertaken to further test the level of deal flow that may be originated, alongside a re-assessment of the costs associated with fund set-up, management and operation. The work has concluded that a sustainable and value for money SME Finance Fund could be delivered, providing Regional Cabinet with necessary confidence to approve the commencement of a public sector compliant procurement process asap.
11. The FBC sets out the extensive road-testing and soft market testing undertaking to support both funds. In respect of the deal-flow in particular for the Viability Gap Fund, over 170 sites have been appraised by commercial experts. This shows that there is significant potential around deliverability across all ten LA areas. However a proposed fund straddling both Viability Gap and SME Finance Funds of £30m – as previously proposed – will not be sufficient in making the impact needed.
12. The FBC therefore concludes that the overall fund value is increased from £30m (£15m CCR and £15m WG) to at least a £45m Fund (£30m CCR and £15m WG) leaving the door open to potential further WG and other co-investment as the

scheme progresses and outcomes are achieved. It should be noted that whilst this is the suggested split and the basis upon which the approval is sought, this will need to be kept under review in order to ensure optimal use of resources over the life of the programme.

13. In relation to wellbeing goals – it is clear that for sites that have sat fallow and will continue to do so without targeted action – strong intervention is needed. This is not the easiest intervention CCR could perform, but it is the right one and tied in with promoting economic inclusion and linking homes, jobs, infrastructure and connectivity. In terms of the SME Finance Fund, again, there are similar funds that operate, however these are not fulfilling gaps around pre-planning support, modern methods of construction and up-front pre-start costs. Addressing some of these issues will contribute to building better local resilience and ensuring benefits can be re-circulated into local economies.
14. CCR has clear ambitions to move beyond implementing activity that mitigates risks and consequences to more proactively engaging in the kind of localised activity that is important for sharing prosperity. This focus on ‘Place’ and ensuring every area can feel the benefits is key to creating resilient economies than can provide good standards of living for local people, using and recycling local resources and distributing benefits at a ‘whole place’ level.
15. The FBC provides an update only in respect of the SME Finance Fund – albeit the rationale, shape and structure of the Fund is made clear and basic approvals sought – the business case cannot be completed until the procurement of a fund manager is complete. Therefore and subject to Regional Cabinet’s approval, the next steps are to commence the detailed preparation of a full commissioning strategy, timetable and documentation to facilitate the procurement of a FCA Regulated Fund Manager. Once complete, the final stages of the SME Finance Fund business case can be concluded and reported back to Regional Cabinet for consideration and approval. This will include developing all necessary legal protection measures for Cardiff Council, as the nominated Accountable Body, in entering into loan contracts with WG for Financial Transactional Capital funding, such as back to back agreements.
16. For these reasons, the rest of this report largely focuses on the conclusions reached, proposed way forward and next steps for the Viability Gap Fund.

Key Features of the Viability Gap Fund

17. In view of the proposed overall Fund increase to £45m, as the principal fund, the FBC makes the case that the Viability Gap Fund size is £35m. This will comprise £30m CCR funding and £5m WG cap-ex. Over 170 sites have been tested and appraised by commercial experts to inform this. The Fund will be LA-led and co-ordinated at the local level by Councils, which are best placed to take a strategic overview of the housing needs and requirements of their areas. There is an expectation that to maximise and leverage investment, that close working relationships with RSLs and home-builders will be developed.

18. Programme minima has been developed to ensure that at least 50% of the fund will be targeted at the areas of lowest economic competitiveness in the region – as informed by the UK Competitiveness Index 2019. This will ensure the investment criteria is focussed on driving levels of economic inclusion. In addition, industry-accepted definitions of viability, overage and value for money have been adopted. This will be important in demonstrating that minimum thresholds can be met as set out in the FBC, whilst complying with local planning policy and the requirements of Welsh building regulations. The FBC details a range of outcomes, with the ‘Upper Levels’ suggesting the:

- Potential to deliver up to *2,800 additional homes;
- Potential to leverage an additional *£870M of additional economic output (GVA uplift);
- Potential to secure up to *£490M in additional Private Sector Leverage;
- Need to focus on compliance with local planning policies to enhance quality and delivery;

** Note: These Upper Levels of outcomes are based on the full £35M fund delivering units that are local planning policy compliant and no more. We await details of Welsh Government’s Funding Terms & Conditions in respect of its £5M contribution, which may place a ‘reasonable endeavours’ requirement to deliver units which exceed local planning policy requirements, in which case (as demonstrated by the FBC scenarios) the range of outcomes delivered will reduce.*

19. This shows real potential to make a significant contribution to core City Deal Requirements around jobs, growth and leverage and importantly, spreading and distributing growth in bold ways across the entire region.

20. It is important to be clear that the fund will target marginally unviable sites within the region that have a requirement in the range of £1M to £8M, primarily linked to the number of units to be delivered and the value for money criteria set-out in the FBC. The fund will target sites of between 40-350 units (albeit flexibility will apply to larger schemes where phasing may be appropriate, subject to discussion with Welsh Government). These are recognised as mid-sized sites in the region which could make a significant impact on housing delivery rates – but which would demonstrably not otherwise be able to come forward.

21. This ‘sweet spot’ will complement other funds such as WG’s proposed ‘Strategic Stalled Sites Fund’ which seeks to target the most unviable larger sites (greater than 350 units) and others that currently operate on a different but complementary basis. This means the funds can interact and leverage off one another where needed and this offers potential for integrated marketing across the funds in order to provide signposting and clear access points.

22. Sites that meet the Fund and Eligibility Criteria (and where the assessment criteria demonstrates non-viability), will be prioritised. This will be defined in accordance with industry-accepted definitions. The scheme will run on a competitive basis and will be subject to application and a prioritisation process, which will be principally based on the extent to which they can prove and optimise value for money. For the purposes of the fund, value for money is defined as:

- The number of homes delivered per £ of public investment
 - Weighted for connectivity of homes to economic opportunity
 - Accounting of inclusivity of economies outcomes
23. Cardiff Council will act as the nominated Accountable Body and will be the recipient for all WG funds with the relevant legal safeguards put in place to balance risk across all 10 LAs.
24. Given the patient finance needed, realisation of any Return on Investment (ROI) might be long-term and this would have to fit with WG funding conditions. Whilst a draft set of conditions have been discussed with WG, details of the final conditions are expected imminently.
25. In relation to implementation, investments will only be allocated on a State Aid compliant basis, which will be the responsibility of LAs to determine in accordance with guidance provided by CCR's legal advisers, Pinsent Masons. In the main, capital investment must only be allocated towards either:
- general public infrastructure investment required to bring forward a development (connections or infrastructure upgrades), or
 - remediation and preparation of sites (land reclamation, readying brownfield sites etc).
26. As per the Investment and Intervention Framework, this Fund is compatible with the infrastructure component which requires 'creating the conditions for private sector success and civic benefit'. This is thus enabling and promoting investment in the region that is not always capable of being measured on a conventional and somewhat 'blunt' direct Financial ROI basis. ROI in this case is more about 'net additionality' and unlocking future benefits.
27. However, returns to the fund will still be important. Where housing developments deliver a positive outturn (profit) – this will be shared between developers and CCR via an agreed overage arrangement – and recycled to the Fund. A profitable scenario will be one in which outturn sales are above the (current price) forecast values within the original viability-assessment. This will form a trigger point at which a pre-agreed overage arrangement will commence. There will be strict caps on developer profits and any upside shared on a 50-50 basis.
28. As stated above, the Viability Gap application process is Local Authority-led and CCR will provide resource support to LAs which will act as site sponsors. Council teams have been engaged extensively throughout the process along with RSLs and the HBF. They have been informed about the 'Call for Sites' process and timeframes and the need for development appraisals. LAs will be required to consider:
- the need to work with delivery partners as some sites will be in LA ownership and others in private ownership;
 - the strategic sites that are likely to perform best against the Fund objectives and Eligibility criteria;
 - routes to planning and delivery of proposed sites;

- design and delivery risks.

Resourcing, Technical Support and Programme Co-ordination

29. Levels of capacity and resources within LAs are variable. This cannot be an impediment to engagement in the programme. In order to address this and ensure a level playing field, a series of resourcing measures will be implemented to support the key stages of fund operation. Match funding of £500,000 will be made available to LAs to support the development process with the expectation that further delivery support will be leveraged from key partners associated with each site.
30. CCR will also procure external expertise in relation to a Fund Co-ordinator and Technical Advisors and will also make available a level internal resources in order to deliver a 'blended approach' to capacity and capability. This blend of resources will provide:
 - Support, clarification and guidance to LAs completing applications;
 - Scrutiny and challenge of applications received;
 - Ranking and prioritising schemes according to value for money and inclusivity outcomes;
 - Providing investment advice to CCR Team, Investment Panel & Cabinet who will sign off packages;
 - Ongoing monitoring of delivery outcomes and out-turn on sites, including recommendations on funding drawdown, scheme implementation (ensuring sites progress against plan), assessment of overage sums due and support to CCR in respect of benefits realisation.
31. The intention is to procure these services from one provider. To this extent soft market testing has been carried out to ensure such an approach is deliverable by the market. This confirmed that there are specialist 'one stop shop' organisations capable of delivering the package of services required. In addition, market testing suggested the need to put in place a level of internal CCR resource to work alongside the appointed advisors. This 'blend' would maximise the operation of the fund in value for money terms, but critically ensure that fund knowledge was transferred and retained in-house. This is an important consideration given that the Fund could be in operation for a period of at least 4 years.
32. Information gathered as part of the soft market testing has been used to develop the resource scheduled set-out at Confidential Appendix 3, and which is in-line with industry norms for this type of fund. An illustrative Service Specification for the procurement of Technical Advisor Panel is attached at Confidential Appendix 2. Finally, it should be noted that whilst these resources are available to LAs to answer queries and questions, to assist them in completing their applications, LAs will need to identify internal resources of their own. In addition, supporting site information e.g. site surveys etc. will need to be procured separately to maintain independence and avoid any perceived conflicts of interest.

Approach Co-funding

33. 'Homes for the Region' is a CCR brand under which the current two funds (and potential future funds) will operate. The Viability Gap Fund and the SME Finance fund will be initially funded by a £30m contribution from the CCR infrastructure component of the Wider Investment Fund and a £15m contribution from WG comprising £5m cap-ex and £10m Financial Transactional Capital. Standard HMT/ WG Terms and Conditions as previously set out for CCR will apply. Cardiff Council, as CCR's Accountable Body, will perform the role of Accountable Body for the fund to facilitate the 'block of finance' funding model. Arrangements to support this, such as legal back-to-back agreements will be put into place to support this across the 10 LAs and ensure that any risk and exposure is borne across all partners and appropriately underwritten such that Cardiff Council does not assume any additional risk and is placed in no worse position than any other LA partner.
34. As outlined above, whilst draft funding Terms and Conditions have been discussed with WG regarding their injection of capital, final details are expected imminently, as WG need to transfer the funds no later than the 31st March 2020. For this reason, the recommendations propose that Cabinet delegate the authority for these to be reviewed and if deemed appropriate, be accepted once received.
35. This approach to co-funding and seeking up-front investment leverage is consistent with the principles of the Investment and Intervention Framework approved by Cabinet in May 2019. This enables CCR to demonstrate it is maximising delivery impact for every £1 invested from the Wider Investment Fund.

Role of the Accountable Body

36. Related to the above is the co-ordination role to be played by the Accountable Body. As stated earlier in the report £10 million of WG funding is Financial Transactional Capital, which is proposed to be ring-fenced as part of the operation of the SME Finance Fund. This is effectively a Loan from WG to a Local Authority which is repayable at a set date in future. The loan must be passed on to third party recipients and is not for use by public bodies. The loan is repayable in full, irrespective of whether sufficient funds are available from the recycling of the SME Finance Fund over the period of its operation.
37. Cardiff Council has agreed to be the recipient of the WG transactional funding in this case in order to meet the tight timescale of WG to release the funds by 31st March 2020. In undertaking this decision, Cardiff Council is supportive of the outcomes from the Housing Investment Fund for the region, but it should be noted that the detailed terms and conditions of this funding from WG have not been received at the time of writing.
38. In respect of the FTC, Cardiff Council will need to undertake its own due diligence over the course of the next few months which will be supported by CCRCD as part of the further development of the proposed operation of the SME Finance

Fund. This is to ensure that the impact on its own performance measures is understood and the financial position of Cardiff Council's rate payers and financial resilience is protected by all other partner local authorities via an agreed 'back to back agreement' of the loan liability. This may be either via existing agreements in place or further agreements to be developed and approved by respective Councils with the clear intent and purpose that Cardiff Council does not assume any additional risk and is placed in no worse position than any other LA partner.

39. It should also be noted that the WG £5 million grant to be used towards the Marginal Viability Gap Fund is a direct grant award to Cardiff Council, acting as the Accountable Body, rather than to CCRCD. A mechanism will need to be put in place to ensure this can be transferred and held on behalf of CCRCD, without significant implications on Cardiff Council, for the funds intended purpose.

Governance Arrangements

40. In principle the governance arrangements for the Viability Gap Fund will mirror those agreed for the Investment & Intervention Fund. Regional Cabinet will be the ultimate decision maker in respect of the site prioritisation exercise, the detail of which will be developed by the Technical Advisor Panel once appointed and scrutinised, assessed and validated by the Investment Panel prior to Cabinet decision making.
41. In respect of the SME Finance Fund, details and the structure of the governance arrangements will be explored through the procurement exercise, but it is expected that regular monitoring reports will be received from the Fund Manager which again, will be presented to Investment Panel for scrutiny prior to being submitted to Regional Cabinet for review and approval.

Revenue & Capital Resource Requirements

42. The Financial Case within the FBC clearly sets out key assumptions in respect of the quantum and profile of Revenue resources need to set-up and operate the Viability Gap Fund. As outlined above, this information has been derived from soft market testing of organisations that have carried out similar roles for other Housing Funds, both in England and Wales. Given that CCR are about to undertake a commercial procurement for these services, the sums being requested for approval at this time are fully set out in Confidential Appendix 3.
43. In respect of the Capital resources, the Financial Case within the FBC sets-out a total requirement of £45M, with £35M being initially allocated to the Viability Gap Fund and £10M of Financial Transaction Capital being fully allocated to the SME Finance Fund. An indicative profile of fund utilisation over the next 4 years, along with the proposed financing arrangements are set-out in Table 1 below.

Table 1. Capital Resources and Indicative 4yr Profile

Capital Resource Requirements					
	2020/21	2021/22	2022/23	2023/24	Total
	£Ms	£Ms	£Ms	£Ms	£Ms
Viability Gap Fund	0	10	15	10	35
SME Finance Fund	0	2	4	4	10
Total Capital Resource Requirements	0	12	19	14	45

Funded by:

WG General Capital Grant	0	5	0	0	5
CCR Capital Funding	0	5	15	10	30
WG Financial Transactional Capital	0	2	4	4	10
Total Funding	0	12	19	14	45

44. The FBC confirms that the sums (and associated profiles) set-out in Confidential Appendix 3 and in Table 1 above, can be accommodated within the allocations included within the current Annual and 5 Year JWA Business Plans. Further details are set-out within the Financial Implications section of this report.

Assessment Risks & Issues

45. The Commercial and Management Cases set-out details of the Risks and Issues that have been captured as part of the business case development process. Whilst these are summarised at Appendix 4, the Financial and Legal Implication sections of this report also sets out the key risks and issues under each sub-heading.

Compliance with CCRC D Assurance Framework

46. The Investment & Intervention Fund (IIF) outlined the need to comply with the Joint Working Agreement (JWA) and in particular with the Assurance Framework appended as a key schedule to that agreement. This represents a condition of the City Deal funding 'passported' down from HM Treasury via the Welsh Government funding terms and conditions. The key requirement is to complete a Green Book compliant 5 Case Business Case as part of the process of approving City Deal monies being allocated to approved projects.
47. The IIF introduced the concept of 'Proportionality' in respect of the Green Book approach, acknowledging that there will be instances where the value of funding requested and/or complexity of the proposal may allow a 'lighter touch' approach to the 3 stage, 5 Case iterative development of the business case. However, in this case the approach adopted is to apply the Green Book requirements in full.
48. To this extent (and building on the work completed at the Strategic Outline Case) Local Partnerships have undertaken a high-level review of the draft FBC. Their

comments and findings have been incorporated within the final version of the FBC attached at Confidential Appendices 1a & 1b.

Investment Panel

49. Investment Panel met on 28 February 2020 and considered the draft FBC and Technical Annexes comprehensively. Investment Panel recommended that the conclusions drawn were appropriate and acknowledged the significant contribution the Housing Fund could make towards the City Deal targets of Jobs, Private Sector Leverage, GVA and Economic Inclusion. This was further endorsed by both the Regional Economic Growth Partnership and the Programme Board/Chief Executives group which also met on the same day. In summary, the key points noted included:
- Sites to be submitted with Planning permission attached, however, where Planning permission has not been secured: (1) an explanation as to why this is the case and (2) a credible Project Plan setting out how Planning permission could be secured within the Fund's timescales;
 - Clarification of Welsh Government's Funding Terms & Conditions and in particular any requirements they may stipulate in respect of 'recycling their funds';
 - Once developed, the Prioritisation Framework and detailed Evaluation Methodology, Criteria, Weightings and Scoring Guidance to be agreed by the Investment Panel;
 - Regarding the Viability Gap Fund profit sharing credentials should be emphasised and reinforced;
 - Investment Panel to be presented with the prioritised list of sites following the completion of the prioritisation exercise by the Technical Advisor Panel ahead of onward recommendations to CCR Regional Cabinet.

Reasons for Recommendations

50. To seek Regional Cabinet's approval of the Final Business Case in respect of its Housing Investment Fund entitled 'Homes for all the Region', comprising of two parts: a Viability Gap Fund and a SME Finance Fund, as set out in this report.
51. In respect of the Viability Gap Fund, to approve a fund value of £35M, comprising £30M of CCR capital resources and £5M of Welsh Government General Capital Grant. Furthermore, to approve the revenue resources required to set-up and operationalise the fund over an initial 4 year period.
52. In respect of the SME Finance Fund, to provide Regional Cabinet with a progress update on the work done since the approval of the Outline Business Case. To seek approval of a £10M fund value, wholly funded by Welsh Government

Financial Transactional Capital and the revenue resources needed to progress the formal procurement of a FCA regulated fund manager.

Financial Implications

53. The report proposes the setting up of a Viability Gap Fund (£35m) and a SME Finance Fund (£10m), with the detailed operating requirements of the latter to be the subject of detailed financial implications as part of a further report to Regional Cabinet. The Full Business Case as well as Strategic and Outline cases have been prepared with input from a range of professional property, legal and financial advisors and has have been the subject of review by Investment Panel as part of the Investment and Intervention Framework. The Business case sets out the principles for site assessment and prioritisation of the viability gap fund, with detailed evaluation methodology, criteria and weightings to be determined by a Technical Advisor Panel.
54. The level of CCR investment proposed from the Wider Investment Fund approved by Welsh Government (WG), HMT and Local authorities is £30m, rather than the £15 million previously proposed and this can be accommodated within the 5 year Joint Working Agreement Business Plan. This represents a significant investment as part of the £200m infrastructure indicative allocation based on the CCRC Joint Working Agreement and the core aims and objectives (Jobs, Private Sector Leverage, GVA and Economic Inclusion).
55. In approving the proposals, Joint Cabinet must have regard to the outcomes identified in the final business case to ensure these are proportionate to the core objectives and key performance indicators set and required to be met as part of HMT / WG grant funding. Processes will need to be put in place to measure and capture the outcomes and performance of the funds against stated outcomes in this business case, as well as financial monitoring and accounting processes to manage distribution and recovery from both funds.
56. Funding of £15m is from WG (£5m cash grant and £10m loan). The detailed terms and conditions are not yet confirmed or accepted, but initial discussions suggest that this will require one local authority to accept the key terms and conditions on behalf of the CCR. The report sets out the further due diligence and requirements indicated by that local authority prior to the grant and loan identified in this report being accepted and available for use for the purposes set out in this report.
57. Where WG funding is accepted, the terms and conditions in respect to the operation of that fund will need to be considered, and any funding agreed for projects will need to be provided to CCRC and project sponsors on the terms that reflect obligations as a result of external funding.

58. The two funds identified will incur revenue costs. The first element of this is cost of managing and operating the fund such as additional staff costs or services and advice to be the subject of external procurements. A detailed revenue resourcing plan is set-out in Confidential Appendix 3. The second element is £500,000 to match fund applicants' own funds for supporting the development and submission of bids for funding. These costs will need to be met from the Wider Investment Fund revenue top slice set aside for such costs. Ongoing costs and proportionality to outcomes need to be reviewed periodically as part of the overall performance monitoring of the funds.

Legal Implications

59. External legal advice has been sought from Pinsent Masons in relation to the establishment of the 'Homes for the Region' Fund and is summarised as follows:
1. the proposed establishment of the Fund is consistent with the terms of the Joint Working Agreement;
 2. the preferred option would be to set up the Fund as a 'Block of Finance' pursuant to which the nominated Accountable Body (i.e. Cardiff City Council) will hold the funds within a ring-fenced provision in accordance with its financial management arrangements. The Accountable Body will release such funding directly to the relevant local authority sponsor once a decision to award has been made by the CCR Cabinet.
 3. CCR should retain the option to evolve / transition the Block of Finance into a corporate Limited Partnership structure if justified in the future once the Fund has gained traction and additional sources of co-investment;
 4. the Councils have the requisite legal powers to set up the Fund as a Block of Finance and to invest in approved projects;
 5. the governance structure will mirror those arrangements agreed for the IIF in June 2019 such that the Regional Cabinet will remain the ultimate decision maker for each decision to make an investment into a site (acting on the recommendation of the Investment Board and advice of the Technical Advisor Panel);
 6. the SME Finance Fund will require an FCA regulated Fund Manager to be procured via an open tender procedure (ie. under the Public Contracts Regulations 2015);
 7. an overarching funding agreement will need to be prepared once the WG funding conditions are confirmed and such agreement shall substantially be in the form agreed for the IIF and shall, amongst other matters, recognise that Cardiff Council is acting for and on behalf of itself and the other LA partners and shall not assume any additional liability or be placed in any worse position by virtue of accepting this role;

8. the Fund shall be financed, initially at least, via public funds with no private sector investment made directly into the Fund. Parallel private sector investment may be directly invested into individual projects or via a subsidiary public private joint venture;
9. The State aid analysis here is somewhat complex and has been set out in detail in the Technical Annexes to the FBC. Whilst it is not possible at this stage to present definitive conclusions in relation to all potential categories of beneficiary, our preliminary conclusions are that:
 - (a) provided that any such profits generated by the Fund are recycled / reinvested into the Fund then there would be no aid to the Accountable Body;
 - (b) State aid to any Fund Manager could be avoided if it were selected via an open public procurement process;
 - (c) State aid to contractors building any works could also be avoided in this way;
 - (d) In relation to developers, Viability Gap Funding may be given on a no-aid basis if:
 1. it is used to construct general infrastructure (unless the construction of that infrastructure were the obligation of the developer, e.g. under a s106 agreement);
 2. if it is made in compliance with the *German Land Scheme*; or
 3. it satisfies the Market Economy Operator Principle ("MEOP").
 - (e) In relation to the SME Fund, there will be no aid to the SMEs if the loan or equity finance were made in accordance with the MEOP;
 - (f) However, apart from loan finance, where the Reference Rate Communication may be relied upon to establish a proxy for the market rate, applying the MEOP requires a case by case expert analysis;
 - (g) For that reason, it may be more practical to rely upon a block exemption such as the GBER or the *de minimis* regulation, though again in the case of the GBER a case by case analysis would be required to ensure that the relevant conditions were complied with;
 - (h) It will be for the LA sponsor to satisfy itself and assume any risk associated with State aid as part of the application process for any Viability Gap Funding or SME Funding and the funding terms shall expressly pass such risk to the LA sponsor (as is standard practice for any public sector funding application).

Delegations

60. The recommendations seek that delegated authority be granted to the City Deal Director in respect of a number of specified matters. The JWA provides that the Joint Committee may delegate any of the powers which are conferred on them under the JWA to such person (which would include officers), to such extent, in relation to such matters and on such terms and conditions as they think fit.

Well-Being of Future Generations (Wales) Act 2015

61. The Well-Being of Future Generations (Wales) Act 2015 ('the Act') is about improving the social, economic, environmental and cultural well-being of Wales. The Act places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales - a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible. In discharging their respective duties under the Act, each public body listed in the Act (which includes the Councils comprising the CCRC) must set and published wellbeing objectives. These objectives will show how each public body will work to achieve the vision for Wales set out in the national wellbeing goals. When exercising its functions, the Regional Cabinet should consider how the proposed decision will contribute towards meeting the 'wellbeing duty' and in so doing assist to achieve the national wellbeing goals.
62. The wellbeing duty also requires Councils to act in accordance with a 'sustainable development principle'. This principle requires Councils to act in a way which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. Put simply, this means that the Regional Cabinet must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Regional Cabinet must:
- look to the long term;
 - focus on prevention by understanding the root causes of problems;
 - deliver an integrated approach to achieving the seven national well-being goals;
 - work in collaboration with others to find shared sustainable solutions;
 - involve people from all sections of the community in the decisions which affect them.
63. The Regional Cabinet must be satisfied that the proposed decision accords with the principles above.
64. To assist the Regional Cabinet to consider the duties under the Act in respect of the decision sought an assessment has been undertaken, which is attached as an Appendix to this report (Well-being of future generations assessment) for Member's consideration.
65. In preparing reports due regard must be given to the Statutory Guidance on the Act issued by the Welsh Ministers, which is accessible using the link below:

Equality Act 2010

66. In considering this matter, regard should be had, amongst other matters, to the Councils' duties under the Equality Act 2010. Pursuant to these legal duties the Regional Cabinet must in making decisions have due regard to the need to (1) eliminate unlawful discrimination (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. Protected characteristics are:

- Age
- Gender reassignment
- Sex
- Race – including ethnic or national origin, colour or nationality
- Disability
- Pregnancy and maternity
- Marriage and civil partnership
- Sexual orientation
- Religion or belief – including lack of belief

RECOMMENDATIONS

67. It is recommended that the Cardiff Capital Region Regional Cabinet endorse the recommendations of Investment Panel, as ratified by Programme Board and REGP in respect of:

- a) approval of 'Homes for the Region' and the FBC for the establishment and operation of a CCR Housing Investment Fund, which shall be structured in two parts: a Viability Gap Fund and a SME Finance Fund (in accordance with the terms of the FBC);
- b) approve, on account of the evidence presented in the FBC, increasing the fund envelope to £45M (£30M CCR and £15M WG) noting the potential to seek further co-investment as the scheme progresses;
- c) in respect of the principal Viability Gap Fund, to approve the set-up of a £35M capital housing fund, along with the revenue resources as set-out in Confidential Appendix 3 to facilitate scheme operationalisation through a third party technical panel and co-ordinator and for which procurement is currently underway and to provide match funding to support to Local Authorities through Phase A and Phase B stages of the process (as detailed in the FBC);
- d) note the timescales in respect of fund launches and the process that will need to be concluded to operationalise the fund, with the proposed prioritised list of sites being brought back to Regional Cabinet for consideration and approval;

- e) approve the decision to nominate Cardiff Council as the Accountable Body for the Fund and, if approved, delegate authority to the City Deal Director (in consultation with the Chair/Vice Chairs of the Regional Cabinet, the Section 151 Officer and Monitoring Officer for the CCR Regional Cabinet) to put in place a suitable 'back-to-back' funding agreement (principally in the form of the Overarching Funding Agreement agreed for the IIF) to recognise that Cardiff Council is acting for and on behalf of itself and the other LA partners and shall not assume any additional liability or be placed in any worse position by virtue of accepting this role (noting point (f) below); and approve entry by the Councils into such agreement;
- f) note that details of the final Welsh Government Funding Terms & Conditions are yet to be received and agree to delegate authority to the City Deal Director in consultation with the Chair/Vice Chairs of the CCR Regional Cabinet, the Joint Committee's Section 151 and Monitoring Officers to review and accept these, in conjunction with these being acceptable to Cardiff Council;
- g) note that appropriate monitoring and evaluation arrangements will be put in place, which amongst other matters will include annual reports to Regional Cabinet, through the advice/ auspices of Investment Panel;
- h) in respect of the SME Finance Fund:
 - I. To approve a £10M capital fund along with revenue resources as set-out in Confidential Appendix 3 (in respect of Recommendation hll below);
 - II. To agree to delegate authority to the City Deal Director in consultation with the Chair/Vice Chairs of the CCR Regional Cabinet, the Section 151 and Monitoring Officers of the CCR Regional Cabinet to commence the detailed preparation for the commissioning of a FCA Regulated Fund Manager and once complete, the final stages of the SME Finance Fund business case can be concluded and reported back to Regional Cabinet for consideration and approval.

Kellie Beirne
Director, Cardiff Capital Region City Deal
9 March 2020

Confidential Appendices

Appendices 1a, 1b, 2 and 3 to this report are exempt from publication because they contain information of the kind described in paragraphs 14 (information relating to the financial or business affairs of any particular person) and 21 (public interest test) of parts 4 and 5 of Schedule 12A to the Local Government Act 1972 and in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

EXEMPT Appendix 1a Homes for the Region - Full Business Case (FBC)

EXEMPT Appendix 1b Homes for the Region – FBC Technical Appendices
EXEMPT Appendix 2 Illustrative Service Specification for Technical Advisor Panel
EXEMPT Appendix 3 Revenue Resource Requirements for Viability Gap Fund and SME Finance Fund
Appendix 4 Assessment of Risks
Appendix 5 Wellbeing of Future Generations Evaluation

Homes for all the Region – Assessment of Risks

1. Commercial Risk allocation

Within both the development of applications to the fund, and the terms and conditions attached to the receipt and deployment of Viability Gap Funding, all commercial and delivery risk associated with the development of the approved scheme will be assumed by the LA Partner sponsor. It will be a matter for the LA Partner to contractually pass down the funding conditions and risks to the relevant third party developer to the extent considered necessary. The following table summarises this risk allocation.

Table 1. Risk allocation between CCR and scheme promoters on the design, build, and sale of homes through the Viability Gap Fund

Commercial Risks		Responsible	
Type	CCR	Scheme promoters and delivery partners	Description
1. Application risk		✓	LA Partner scheme promoters will be responsible for the development of applications to the fund at risk, under the knowledge that CCR provides no guarantee that funding support will be provided and any investigative work undertaken may prove abortive.
2. Construction and development risk		✓	Funding awards shall be provided on a fixed sum basis and shall be conditional on the achievement of agreed milestones; all cost overruns are the responsibility of the LA Partner scheme promoters, and they will need to setup the appropriate commercial, risk and contractual arrangements necessary with their delivery partners in order to mitigate.
3. Transition and implementation risk		✓	LA Partner scheme sponsors will be responsible for ensuring that funding awards are spent strictly in accordance with the agreed milestones to achieve completion of the development outputs
4. Operating performance risk	✓	✓	LA Partner scheme sponsors are responsible for ensuring that delivery partners have the necessary skills and experience to fully complete projects to plan

			CCR will be aware that the scheme places a number of resource and capability requirements on scheme applicants and that reputational, relational and commercial risks could occur if these are not monitored closely and with appropriately resourced management, support and oversight by its internal team and external advisors
11. Financing risks		✓	LA Partner scheme sponsors and delivery partners are responsible for ensuring that all other funding and financing requirements are in place throughout the duration of the project

2. Risk Management Strategy

Risk is a central consideration for CCR in the set up and operation of the Viability-Gap fund.

Public sector funding needs to be managed in accordance with HMT principles set out in Management of Risk. Safeguards must be maintained to protect against theft and fraud.

Necessarily, as the range, type and complexity of funding and finance approaches managed is increased, so does the risk to which CCR will be exposed, and CCR needs to have a clearly defined risk appetite for and financial investments which are made through its capital funding allocation.

The risk framework set out will be reviewed on a bi-annual basis by City Deal senior management, led by the project officer.

Identified risks in general for the Viability-Gap Fund are set out in the table below. This is a live risk management framework, which will be added to as the project moves towards implementation and delivery.

Table 2.

Risk	Impact	Mitigation
High interest in the fund	Ability to process applications	Limiting the number of applications per Local Authority
Large number of high cost impact schemes put forward, limiting ability to spread benefits throughout the region.	Benefits not shared proportionately across Local Authorities.	Extension of fund to smaller sites sized if required (i.e. less than 40 units). Clear communication to Local Authorities of the programme balance principles, and that lower

		overall cost sites may well score better for programme-balanced Value for Money
Use of public funds not as specified	Reputational risk, risk that expected outcomes are not achieved.	<p>Clear written process for Local Authority responsibility and ownership of detailed project management arrangements, with private sector partners as required.</p> <p>Local Authority due diligence and State Aid investigation on individual propositions, and commitment to ongoing internal audit</p> <p>Ongoing monitoring arrangements of project outcomes</p>

Future Generations Assessment

Name of the Officer completing the evaluation: Kellie Beirne Phone no: 07826 919286 E-mail: kellie.beirne@cardiff.gov.uk	Please give a brief description of the aims of the proposal Development and operation of a Housing Viability Fund and a SME Finance Fund
Proposal: Homes for all the Region	Date Future Generations Evaluation form completed: 2 March 2020

1. Does your proposal deliver any of the well-being goals below? Please explain the impact (positive and negative) you expect, together with suggestions of how to mitigate negative impacts or better contribute to the goal.

Well Being Goal	Does the proposal contribute to this goal? Describe the positive and negative impacts.	What actions have been/will be taken to mitigate any negative impacts or better contribute to positive impacts?
A prosperous Wales Efficient use of resources, skilled, educated people, generates wealth, provides jobs	Genuinely shared prosperity is feature of the funds with a focus on programme minima for economic inclusion, viability analysis and prioritization of low competitiveness areas that can show connections with public transport, jobs and regeneration opportunities	The scheme seeks to move beyond creating wealth – to spreading wealth. The SME Finance Fund has also been introduced as a secondary fund to stimulate local house-building, promoting local skills growth and development and ensuring local benefits and retained and recycled back into local areas.
A resilient Wales Maintain and enhance biodiversity and ecosystems that support resilience and	The scheme sets the conditions only for unlocking sites and the weight of responsibility around	Resilience is embedded through the focus on areas of lower competitiveness and productivity and the need for demonstrations of connections to jobs,

Well Being Goal	Does the proposal contribute to this goal? Describe the positive and negative impacts.	What actions have been/will be taken to mitigate any negative impacts or better contribute to positive impacts?
can adapt to change (e.g. climate change)	delivering on core objectives will be through local-led delivery	public transport and community infrastructure. Independent additional work has been undertaken with CHC, RSLs, home builders federation, CBRE, DBW and Savills to comprehensively tests assumptions and deliverability and contirbutions to sustainability and resilience.
A healthier Wales People's physical and mental wellbeing is maximized and health impacts are understood	The focus on connections to multi-modal public transport is front and centre as well as the SME Fund which seeks to maximize local benefits and effects	
A Wales of cohesive communities Communities are attractive, viable, safe and well connected	Improving regional infrastructure and building homes for all the region will make a key contribution to travel to work modes, denser labour market creation and development of human connections	This wil feature as a core part of the viability assessment and VFM checks Local planning policies will need to be complied with Procurement is underway for a skilled Technical Advisory Panel to implement, monitor and review such conditions
A globally responsible Wales Taking account of impact on global well-being when considering local social, economic and environmental wellbeing	CCR could have prioritized easier-commercial led development. However the evidence base points to the need to solve the problems wrought by market failure.	
A Wales of vibrant culture and thriving Welsh language Culture, heritage and Welsh language are promoted and protected. People	Our City Deal is uniquely Welsh – but pitches towards being world leading in areas of competitive strength. This enables a strong reflection on our rich culture and heritage.	The fund will be accessible by all LAs and for all communities.

Well Being Goal	Does the proposal contribute to this goal? Describe the positive and negative impacts.	What actions have been/will be taken to mitigate any negative impacts or better contribute to positive impacts?
are encouraged to do sport, art and recreation		
A more equal Wales People can fulfil their potential no matter what their background or circumstances	The scheme has a strong 'tilting the playing field' component and is aimed at levelling up provision, accessibility and opportunities in the region	The SME fund management will operate on criteria to open up opportunities that enable and help local providers

2. How has your proposal embedded and prioritized the sustainable governance principles in its development?

Sustainable Development Principle	Does your proposal demonstrate you have met this principle? If yes, describe how. If not explain why.	Are there any additional actions to be taken to mitigate any negative impacts or better contribute to positive impacts?
 <p>Balancing short term need with long term and planning for the future</p> <p>Long Term</p>	The scheme operates over four years and yet, will build legacy for the future around which denser labour markets can be created and access to new opportunities such as Metro and Metro Plus	The scheme viability criteria and VFM credentials will be tested and validated via the Technical Advisory Panel and adopted and signed off by Investment Panel
 <p>Working together with other partners to deliver objectives</p> <p>Collaboration</p>	The scheme is a partnership across public and private and involves all ten councils, RSLs, developers and land owners and agents.	Ongoing co-ordination and support will be offered through a co-ordinator role and the establishment of a dedicated fund to support all LAs
 <p>Involving those with an interest and seeking their views</p> <p>Involvement</p>	TfW and WG are the scheme proposers and there will be opportunities for comprehensive public engagement as part of the full scheme business case	Local planning policies will need to be adopted and adhered to in relation to local consultation and public engagement

Sustainable Development Principle	Does your proposal demonstrate you have met this principle? If yes, describe how. If not explain why.	Are there any additional actions to be taken to mitigate any negative impacts or better contribute to positive impacts?
 <p>Putting resources into preventing problems occurring or getting worse</p>	<p>The evidence base shows such sites have blighted communities. Continuing to 'do nothing' will ensure problems will grow worse and situations that impact communities negatively will not improve</p>	
 <p>Considering impact on all wellbeing goals together and on other bodies</p>	<p>At the front of the FBC is a consideration of wellbeing objectives and the potential of the scheme to maximize contributions towards resilience and prosperity in particular.</p>	<p>Each scheme will need to demonstrate contribution to wellbeing goals as part of investment criteria.</p>

3. Are your proposals going to affect any people or groups of people with protected characteristics? Please explain the impact, the evidence you have used and any action you are taking below.

Protected Characteristics	Describe any positive impacts your proposal has on the protected characteristic	Describe any negative impacts your proposal has on the protected characteristic	What has been/will be done to mitigate any negative impacts or better contribute to positive impacts?
Age	<p>Las will be required to inform the shape, type and nature of provision required including tenure, flexibility, lifetime homes and so on...</p>	<p>None arising at this time – needs to be assessed through scheme delivery and compliance</p>	<p>Relevant criteria to be developed via technical advisory panel</p>

Protected Characteristics	Describe any positive impacts your proposal has on the protected characteristic	Describe any negative impacts your proposal has on the protected characteristic	What has been/will be done to mitigate any negative impacts or better contribute to positive impacts?
Disability	As above – the LA will be required to comply with local planning requirements and to demonstrate the value it is adding through scheme development in accordance with local housing needs assessments	As above	This will be demonstrated at criteria application stage
Gender reassignment	As above As regards any allocation of affordable or social housing, this will be done in strict compliance with adopted lettings policies and procedures for the fair and independent allocation of homes	As above	Ongoing and long-term monitoring frameworks for demonstrating scheme benefits
Marriage or civil partnership	As above	As above	As above
Pregnancy or maternity	As above	As above	As above
Race	As above	As above	As above
Religion or Belief	As above	As above	As above
Sex	As above	As above	As above

Protected Characteristics	Describe any positive impacts your proposal has on the protected characteristic	Describe any negative impacts your proposal has on the protected characteristic	What has been/will be done to mitigate any negative impacts or better contribute to positive impacts?
Sexual Orientation	As above	As above	As above
Welsh Language	As above	Not at this time but the situation will be kept under review.	As above

4. Safeguarding & Corporate Parenting. Are your proposals going to affect either of these responsibilities?

	Describe any positive impacts your proposal has on safeguarding and corporate parenting	Describe any negative impacts your proposal has on safeguarding and corporate parenting	What will you do/ have you done to mitigate any negative impacts or better contribute to positive impacts?
Safeguarding	Not directly relevant –however, building the future economy should have a profoundly positive impact on ability to safeguard the future of our residents	All Councils will have individual adopted safeguarding procedures and policies which must be complied with	
Corporate Parenting	Not directly relevant – however building strength in the economy should create opportunities for all of the young people entrusted in our care	As above	

5. What evidence and data has informed the development of your proposal?

- Evidence of market supply and demand – Savills 2019
- KPMG SOC 2019
- KPMB OBS – 2019
- Testing site viability and deliverability – Savills 2019-20
- Partner data and evidence
- WG evidence on Innovative Housing Fund
- Soft market testing
- Evidence from similar Homes England programmes

6. SUMMARY: As a result of completing this form, what are the main positive and negative impacts of your proposal, how have they informed/changed the development of the proposal so far and what will you be doing in future?

As the ensuring he criteria to be developed and adopted through the Technical Advisory Panel is robustly tested and challenged prior to adoption

7. MONITORING: The impacts of this proposal will need to be monitored and reviewed. Please specify the date at which you will evaluate the impact, and where you will report the results of the review.

The impacts of this proposal will be evaluated on:

March 2021