

29 NOVEMBER 2021

HOMES FOR ALL THE REGION – UPDATE AND FINAL SHORTLIST FOR HOUSING VIABILITY GAP FUND

REPORT OF THE CARDIFF CAPITAL REGION DIRECTOR

AGENDA ITEM 9

Appendices 2, 3, 4, 5 and 6 of 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. 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 provide Regional Cabinet with an update on progress made in respect of the Homes for all the Region Programme, following the approval of the indicative shortlist of schemes to progress to the next stage of the Housing Viability Gap Fund in March 2021.
2. To report on the outcome of the pre contract and further due diligence phase of the programme and seek Cabinet's approval to sign off the final shortlist of schemes to progress to the next stage of the process, along with next steps and associated timescales.
3. To seek Cabinet's approval to increase the Housing Viability Gap Fund budget to take into account the increased number of schemes and meet prospective future needs as they emerge.
4. To provide an update on the outcome of the stage gated review in relation to additional 'ring fenced' schemes for Local Authorities (LAs) whose applications were considered for additional CCR support, as part of a 'secondary list' to sit alongside the final shortlist and seek approval for them to move to the next phase of the fund.
5. To seek Cabinet's approval to commence detailed due diligence on the Reserve List schemes.

6. To seek Cabinet's approval for a delegation to the CCR Director, in conjunction with the Portfolio Holder to sign off all documentation relating to final funding agreements and ensure Cabinet is apprised, via Quarterly Performance reports, of the ongoing and overall financial status of the programme and any developments therein.
7. To seek approval for the next steps in respect of the SME Finance Fund.
8. To note the funding requirement of all schemes progressing to delivery exceeds the current allocation, however, it is accepted that not all schemes are likely to be delivered and there is considered to be enough headroom within the overall allocation. Should all the schemes reach the delivery phase, CCR is in discussion with Welsh Government to consider additional funds and the potential for repurposing of existing funds to support future funding requirements

Background and key principles

9. At its meeting of 15th March 2021, Regional Cabinet approved the indicative shortlist of schemes to progress to the next stage of the process following an independent evaluation assessment by CCR's technical advisors (CBRE). The evaluation was conducted using the Evaluation Framework, which was agreed at Regional Cabinet in September 2020 and is attached at Appendix 1.
10. CCR's advisors carried out an independent evaluation of all submissions received, alongside initial due diligence. Once the evaluation was complete, those schemes which passed the Gateway Criteria and met the minimum threshold requirements were ranked according to their score. Schemes which had the same overall score were prioritised based on the 'Deliverability' component of their respective scores. The results of the evaluation were subject to a moderation process with the moderation team being made up of two Senior Directors from CBRE and two Officers from CCR.
11. The ranked schemes were then allocated funding based on the fund structure, noting that variant bids were allocated to the Welsh Government fund in-line with agreed CCR policy. The agreed indicative shortlist of schemes that were selected to progress to the next stage is set out in Exempt Appendix 2.
12. CCR's Viability Gap Fund has been structured to target the areas of lowest economic competitiveness in the region. Five LA areas, north of the M4 corridor were identified as representing parts of the region where the delivery of new homes would deliver significant benefits against CCR's Economic Inclusion objectives (Sub-Fund 1).
13. Two LAs falling within this area put forward schemes which, at the time of evaluation, did not meet the minimum threshold requirements to make the final ranked list of schemes. For this reason, these 2 LAs did not feature in the proposed shortlist or even the reserve list, despite their location making them eligible for CCR's Sub-Fund 1. It was assessed however that these schemes had the potential to meet minimum requirements and deliver quality schemes if given further time.

14. It was therefore agreed by Regional Cabinet on 15 March 2021, to provide a ring-fenced option wherein the 2 LA schemes were provided with a fixed period extension to develop their respective bids further and to a point where quality schemes could be delivered and thus, enacting on and maximising the central purpose of the Fund.

Issues

15. Since approving the indicative shortlist, ring-fenced schemes and noting the reserve scheme list in March 2021, work has continued on scheme contracting and further due diligence.
16. Regular engagement sessions have been held with LAs to make progress. During this period the provisional funding award letter, Heads of Terms, draft funding agreement, recovery schedule, monitoring framework and a conditions tracker have been finalised for each submission. These have been shared with LA partners and feedback and comments considered with review work ongoing, including updated appraisals and provision of information to support discharge of contract conditions.
17. Each scheme carries its own set of individual risks and has therefore, been issued with a bespoke set of conditions. CCR and its advisors have also identified several key risks common to all schemes, which also have to be resolved prior to contract. These include:
 - State Aid/UK Subsidy Control Regime – each applicant has provided a full written declaration confirming the Qualifying Expenditure is State Aid compliant. Each of these legal opinions have either been undertaken by CCR’s legal advisors or reviewed by CCR’s legal advisors in order to ensure compliance;
 - Cap on Land Values – a consistent approach in line with CCR requirements, ensures fairness and that any inflated land values can be identified. Independent valuations have been carried out for each of the shortlisted schemes. The basis of valuation has been applied consistently and the independently advised values have been utilised and fixed in the viability calculation and recovery schedule. Due to extenuating circumstances a second opinion was instructed for 3 of the schemes in order to inform incidences of significant variation;
 - Cap on Developer’s Profit - a consistent approach in line with policy has been demonstrated in respect of Developer’s Profit and included within the viability calculation. The delivery of the scheme and any profit (and other costs) will fall within market parameters and the permitted limits set out in the funding agreement. Additional profit will be subject to recovery by CCR with the recovery schedule forming part of the contract. The agreement allows for a maximum profit level of 20% on cost and, in situations where the profit levels exceed this, the recovery schedule requires excess profit to be repaid to CCR in full.
18. The list of potential risks above is not exhaustive and there are added complexities and specific issues, which could still see some schemes, fall away.

As with all development, there will be risks that are unforeseen and outside of partner's direct control. However, there is confidence that the further diligence undertaken will limit CCR's exposure and the post contract monitoring arrangements will ensure regular oversight and the ability to monitor progress of all contracted schemes. A short report for each of the indicative shortlist of schemes is attached in Exempt Appendix 3.

Base Fund and WG Fund Shortlist schemes (£35M)

19. CCR and its advisors have concluded the further due diligence and the proposed final shortlist of schemes progressing to the next stage are set out in Tables 1 and 2 below.

Table 1: CCR £30M Base Fund Proposed Final Shortlist

Local Authority Partner	Scheme Ref.	Estimated no. of Homes	Total Viability Funding
Blaenau Gwent CBC	Scheme 1	77	£1,175,000
Rhondda Cynon Taf BC	Scheme 1	280	£2,040,000
Rhondda Cynon Taf BC	Scheme 2	85	£1,514,000
Rhondda Cynon Taf BC	Scheme 3	800	£8,000,000
	Sub-Fund 1	1,242	£12,729,000
Newport City Council	Scheme 1	149	£1,650,000
Cardiff Council	Scheme 2	500	£3,000,000
Monmouthshire CC	Scheme 1	139	£5,210,000
Bridgend CBC	Scheme 1	186	£3,500,000
	Sub-Fund 2	974	£13,360,000
	CCR Base Fund	2,216	£26,089,000

20. In line with Table 1, it is proposed that 8 of the 9 original schemes which received an indicative allocation are approved for final sign off. The viability gap funding requested by these 8 schemes amounts to £26.1 million and is within the £30 million envelope.
21. One scheme (Caerphilly CBC Scheme 2) is no longer able to be recommended for final sign off within this Base Fund and is subject to further diligence and discussion. It is proposed that this scheme retains a ring-fenced indicative allocation and will be further considered over the coming months as due diligence progresses. Further details of the proposed CCR Base Fund final shortlist are set out in Exempt Appendix 4.

Table 2: Welsh Government £5M Fund Proposed Final Shortlist

Local Authority Partner	Scheme Ref.	Estimated no. of Homes	Total Viability Funding
Newport City Council	Scheme 2	157	£1,200,000
Caerphilly CBC	Scheme 1	153	£3,680,000
Cardiff Council	Scheme 1	50	£556,700
	WG Total	360	£5,436,700

22. In line with Table 2, it is proposed that 3 schemes are approved to progress to the next stage. The viability gap funding requested by these 3 schemes amounts to £5.4 million. Further details of the proposed Welsh Government Fund Indicative Shortlist is set out in Exempt Appendix 4.
23. Regional Cabinet will note that the value of the proposed schemes outlined in Table 2 exceeds the £5 million funding approved by Welsh Government. Therefore, it is proposed that the additional £436,700 outlined in Table 2 is funded from the shortfall from Table 1 as agreed by Regional Cabinet in March 2021. Importantly this will ensure that the value of Welsh Government funding is fully utilised.
24. One of the key criteria assessed as part of the evaluation process was the potential 'Contribution towards CCR Targets' that shortlisted schemes could make in addition to the number of homes delivered. The assessment considered the potential in respect of jobs created, Gross Value Added (GVA) and Private Sector Leverage (PSL). These can be summarised in table 3.

Table 3: Forecasted Contribution towards CCR Targets

	Forecasted No. of Jobs	Forecasted GVA (£m)	Forecasted Leverage (£m)
Proposed 11 Final Shortlisted Schemes	3,161	796.32	501.3

NB. Analysis based on March 2021 evaluation

25. Regional Cabinet should note that the forecasted contribution to CCR targets outlined in Table 3 above are largely in line with the figures included within the Full Business Case (FBC) approved by Regional Cabinet back in March 2020.

Ringfenced Schemes

26. At Regional Cabinet in March 2021 an additional allocation of funds totalling £7.8 million was ring-fenced to allow the 2 LAs (Merthyr and Torfaen) whose submissions did not meet the minimum threshold, additional time to work on their submissions.
27. Regular meetings have also been held on with these LAs and their delivery partners and with the allowance of extra time, one LA was able to submit an updated application for evaluation (Merthyr Tydfil CBC Scheme 1).
28. The updated application has been evaluated having regard to the Evaluation Framework and meets the Gateway Criteria and the minimum threshold required with a score of 58%. The information received confirms the requirement for funding and a clear strategy to draw down funding and develop the homes. It is proposed that this scheme progresses to the pre contract and further due diligence phase of the fund. As with the Base Fund shortlist and the WG Fund shortlist, this will ensure that CCR and its advisors have carefully considered the

risks particularly regarding state aid/UK subsidy control, developers profit and land value before entering into contract.

29. Due to complexities of their submission the other LA (Torfaen CBC Scheme 1) requires further time and an updated application for evaluation must be received by CCR in December 2021.
30. Table 4 below sets out the schemes which already have a pre-approved ring-fenced allocation. Regional Cabinet will note that this now includes Caerphilly Scheme 2 which has been removed from Table 1 as further diligence is required before final sign off (and for which an indicative allocation was provided in March 2021). Further details can be found in Exempt Appendix 5.

Table 4: HVGF Regional Cabinet Approved Ring-Fenced Allocation

Local Authority Partner	Scheme Ref.	Estimated no. of Homes	Total Viability Funding
Torfaen CBC	Scheme 1	145	£4,300,000
Merthyr Tydfil CBC	Scheme 1	183	£3,500,000
Caerphilly CBC	Scheme 2	165	£3,546,384
	Total	493	£11,346,384

Reserve List schemes

31. In addition to the indicative shortlist in Table's 1, 2 and 4, 3 other schemes met the minimum threshold's but fell short of £30 million Base Fund and £5 million Welsh Government Fund cut off as both funds were oversubscribed. These schemes formed the reserve list. Further details are set out in Exempt Appendix 5.

Table 5: HVGF Reserve List

Local Authority Partner	Scheme Ref.	Estimated no. of Homes	Total Viability Funding
Monmouthshire CC	Scheme 2	58	£1,447,160
Bridgend CBC	Scheme 2	240	£4,500,000
Caerphilly CBC	Scheme 3	55	£2,049,436
	Total	353	£7,996,596

32. It is proposed that these 3 schemes are progressed to the next stage of the programme as they all have the potential to deliver good quality homes and benefits to the local community and CCR. The schemes are required to go through the scheme contracting and further diligence phase of the fund before final sign off can be given.

Summary of Funding Shortlists

33. Regional Cabinet will note that the value of the proposed schemes outlined in Table 1, 2 and 4 is within the £35 million allocation and the additional £7.8 million,

which was previously ring-fenced and approved by Regional Cabinet in March 2021. This can be summarised in Table 6.

Table 6: Total Allocations Approved and Proposed

Fund Type	Allocation Approved in March 2021	Allocation Proposed in November 2021	Variance
CCR £30m Base Fund	£29,635,384	£26,089,000	-£3,546,384
Welsh Gov. £5m Fund	£5,436,700	£5,436,700	£0
Ring-fenced Allocation	£7,800,000	£11,346,384	+£3,546,384
Total	£42,872,084	£42,872,084	£0

34. It is thus, proposed that as there remain risks associated with all schemes shortlisted in both the Core Fund (Base Fund and WG Fund) and in the Ring-fenced Fund, there is likely to be some element of slippage and hence the need for the Reserve Scheme List (Table 5) to be ready. Headroom is thus, likely to be created and schemes will need to have undergone due diligence and fulfil pre-contract requirements in order to take up funding that may become available through this proposed cascade approach. Should it be the case that having gone through the process of due diligence to prove reserve schemes are viable and deliverable and it arises that there is insufficient or no slippage from the main funds – conversations will be stepped up with WG as regards additional funding and a report will be brought back to Regional Cabinet to seek any additional investment required.

Risks

35. All schemes must adhere to a robust monitoring and assurance framework to ensure acceptable progress is being made against key milestones within the funding agreement. The funding requirement will be subject to further review ahead of drawdown where costs will also be verified. In all circumstances, the amount of funding allocated to each scheme cannot be increased and is capped at the current level.
36. It is a CCR requirement that each scheme has a Project Monitor appointed to undertake the quarterly monitoring function on behalf of the LA prior to any claim for funding. This also provides CCR the ability to carry out an additional layer of oversight on each scheme if required. To support LAs, the cost of the Project Monitor can be considered qualifying expenditure and has been included in each of the scheme appraisals.
37. The impact of cost inflation is an issue which will continue to be monitored; however, current evidence suggests that increased property values are currently off setting increases in costs. Contingencies have also been allowed for within scheme appraisals to mitigate this risk. For all schemes, any cost overruns will become the responsibility of LAs as funding recipients.
38. The development process is at times uncertain and although further due diligence has been completed and CCR and its advisors are comfortable to enter into contract on a number of schemes, there are processes which are beyond the control of CCR. For example, some schemes have to obtain the relevant

planning permission and legal consents, some have to navigate the procurement processes or there could be labour and supply issues. This list is not complete and there could be a number of other factors which could impact on LAs ability to deliver the scheme and see some schemes fall away during the post contract phase of the fund.

Next Steps and Timescales

39. Whilst this report sets out the proposed final shortlist of schemes to progress to the next stage, LAs and CCR still must enter into contract before Housing Viability Gap Funding can be fully approved and made available to Local Authorities on an unconditional basis.
40. This will be addressed over the next few months and CCR and its legal and technical advisors will continue to work with LAs to sign off the individual contracts for each scheme. It is expected that some of the contracts will be signed before the end of December 2021 with the remainder being signed off in January and February 2022.
41. Once LAs and CCR are in contract the Housing Viability Gap Fund will move to the Post Award and Monitoring stage. A robust Monitoring and Assurance Framework is in place and this along with the funding agreement sets out the requirements of the fund recipients (LAs).
42. The requirements will be specific for each scheme, and will include, but not limited to:
 - the money is to be spent on capital related to the project;
 - the scheme will be delivered by an agreed date, otherwise CCR can recover the funding;
 - any costs saved or recovered (in accordance with the agreed recovery schedule) are to be retained by CCR;
 - any cost over runs are borne by the LA and their delivery partners, where applicable;
 - the LA will assure CCR on delivery through regular reporting on progress via the required Project Monitor and quarterly reporting process; and
 - to drawdown funding, which is to be paid in arrears, the LA appointed Project Monitor must carry out a reconciliation and substantiation of each claim against actual costs occurred. The claim form must also be signed off by the LA S151 Officer prior to submission to CCR.
43. Each of the final shortlisted schemes will be subject to an agreed set of milestones which will be monitored during the life of the project and will include, but not limited to:
 - LAs to drawdown total funding award no later than 31 March 2024;
 - work start date on site;
 - housing construction start date;
 - date last unit on Development Site must be constructed and ready for occupation; and
 - last unit on Development Site is sold.

44. All homes delivered through the Housing Viability Gap Fund must also comply with existing and emerging policy requirements of each of the LAs in respect of locally adopted standards. This includes compliance with quality and space standards as well as specific energy efficiency requirements for all new homes. In addition, all new homes supported through the fund must meet a minimum rating of EPC B.
45. CCR is also exploring options for future support to enable all new housing (including HVGF) schemes to contribute to CCR's Energy Strategy and zero carbon ambitions. The implementation of all these measures will be fundamental in helping to meet climate targets and to ensure all new homes delivered through the fund help safeguard housing in Wales for future generations.

Revenue Budget Update

46. The Full Business Case (FBC) approved by Regional Cabinet back in March 2020, included revenue budget totalling circa £1.6 million. These resources were identified to cover a range of activities over the life of the Fund to 31st March 2024. The actual spend for 2020/21 and the projected spend for financial years 2021/22, 2022/23 and 2023/24 is set out in Table 7 below.

Table 7: Viability Gap Fund Budget Position

Approved Budget	2020/21 Spend		2021/22, 2022/23 & 2023/24 Projection	Total Projected Costs	Projected Variance
£1,623,099	£543,971		£1,943,221	£2,487,192	£864,093

47. The projected costs will cover project milestones such as entering into contract with LAs for each scheme, post contract monitoring, discharge of pre-draw down contract conditions and the further due diligence required for schemes listed in Tables 4 and 5. The projected costs also include a contingency of 10% to allow for any unforeseen costs which may arise as part of the delivery phase of the programme.
48. The current support budget position has been calculated on the principle of taking 7 applications forward to the next stage of the process. The approved indicative shortlist set out on Tables 1 & 2 identified 12 schemes to progress to the next stage. Furthermore, Regional Cabinet were minded to approve the ring-fenced option to allow 2 LAs additional time to work on their submission, this has seen 2 additional schemes progressed in parallel with the other 12 schemes. If Regional Cabinet approve the reserve list schemes in Table 5 to progress to the pre contract and further due diligence phase, the total number of schemes being taken forward is 17.
49. Progressing this number of schemes has had implications for the project in respect of Technical and Legal Advisors inputs and associated costs for this stage of the project and beyond. The updated budget position evidences a projected shortfall of £864,000 when compared the approved budget in March 2020. Further details can be found in Exempt Appendix 6.

SME Housing Fund Update

50. The SME Housing Fund has been allocated £10 million of Welsh Government Financial Transactional Capital to establish a housing investment fund to offer different types of investment products to SMEs operating in CCR, which are struggling to secure funding from the wider market, with the aim of unlocking stalled smaller sites and enabling housing delivery of SMEs in the region.
51. Whilst initial work undertaken by CCR and the subsequent market testing evidenced a need for this fund, the procurement process was unsuccessful in attracting a suitable fund manager to administer the fund. Additionally, the housing market is currently extremely buoyant and given inflationary costs associated with construction pricing and materials, the pitch and level of fund is now believed to be unlikely to have the impact envisaged.
52. In conjunction with para 34 above and the potential need for additional funds to fulfil either all of part of the Reserve Scheme List, it is proposed that discussions take place with WG to consider any re-purposing that may be able to be achieved along with any additional funds that could scale the reach and impact of the CCR Housing Viability Gap Fund – and if relevant – wider thematic objectives and potential future funds.

Delegations

53. Given the work needed at the next stage of the process to progress 11 schemes into contract and a further 6 schemes through the pre contract and further diligence phase, Regional Cabinet are asked to consider providing an appropriate level of delegation.
54. Delegated authority is sought to allow the City Deal Director in consultation with the Portfolio Member, Section 151 and Monitoring Officer to progress the next stages of the fund through to legal completion as set out in this report. The delegation is to include the ability to approve final sign off for those schemes still to complete the further due diligence and the City Deal Director will provide regular updates to Regional Cabinet on progress. It should be noted that as per para 34. Should the reserve scheme prove to be viable and deliverable and additional funding becomes necessary – a further report will be brought back to Regional Cabinet.

Reason for Recommendations

55. To make progress with the CCR Housing Viability Gap Fund in respect of final shortlists for:
 - the Base CCR Fund;
 - the WG Fund;
 - the Ringfenced Schemes Fund.
56. To ensure progress is underway to bring reserve schemes into due diligence in order to develop a state of readiness should slippage occur, and, other funding and investment opportunities arise.

Financial Implications

57. The report proposes that 8 of the 9 schemes with an indicative allocation from the CCR £30 million Base Fund are approved for final sign off with a total Viability Gap funding requirement of £26.1 million. The remaining scheme is subject to further due diligence but it is proposed that this retains a ring-fenced allocation.
58. With regard to the Welsh Government £5m Fund, 3 schemes are proposed to progress with a total Viability Gap funding requirement of £5.4 million i.e. £436,700 above budget with the variance proposed to be funded from the underspend on the CCR £30 million Base Fund.
59. The additional £7.8 million approved by Regional Cabinet in March 21 is proposed to fund 3 ring fenced schemes at a total cost of £11.347 million i.e. a potential variance of £3.547 million. Headroom is anticipated in this estimate as some schemes may not progress to delivery but this variance would be funded by the remaining balance on the CCR Base Fund.
60. In addition, indications are that variances against the £1.6 million revenue budget approved by Regional Cabinet in March 20 will be in the region of £864,000 reflecting additional technical and legal advice and related support costs for the programme. It is proposed to meet this through an increase to the revenue budget which is achievable give the current reported underspend.
61. Funding allocated to each scheme will be paid in arrears subject to a detailed reconciliation of costs with any over-runs the responsibility of individual local authorities.
62. The recommendation for a potential repurposing of the £10 million SME Housing Fund allocation will be subject to approval by the Welsh Government and Cardiff Council as recipient of the loan. Discussions as to further funding opportunities are also planned in order to support optimisation of the scheme objectives.

Legal Implications

63. Regional Cabinet may provide the delegation sought pursuant to para.10.8.1 of the JWA.
64. There are no other legal implications in this report.

Well-Being of Future Generations (Wales) Act 2015

65. In developing the Plan and in considering its endorsement regard should be had, amongst other matters, to:
 - a) the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards;
 - b) public sector duties under the Equalities Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties Councils 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: a. age; b. gender reassignment; c. sex; d. race – including ethnic or national origin, colour or nationality; e. disability; f. pregnancy and maternity; g. marriage and civil partnership; h. sexual orientation; i. religion or belief – including lack of belief, and;

- c) the Well-being of Future Generations (Wales) Act 2015. 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 objectives set by each Council and in so doing achieve the national wellbeing goals. The wellbeing duty also requires the Councils to act in accordance with a 'sustainable development principle'. This principle requires the 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 Regional Cabinet must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, 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 7 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.

66. Regional Cabinet must be satisfied that the proposed decision accords with the principles above. To assist Regional Cabinet to consider the duties under the Act in respect of the decision sought, an assessment has been undertaken, which is attached at Appendix 7.

Equality Act 2010

67. 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

68. It is recommended that the Cardiff Capital Region Joint Cabinet:

- (1) approves the proposed Final Shortlist of Schemes in respect of the CCR Base Fund and WG Fund which total £42,872M and comprise the already approved Base Fund of £30M; the £5M WG Fund and the £7.8M approved (in March 2021) to supplement the Ringfenced Schemes – providing for 11 Final Shortlisted Schemes to move forward and 3 Ringfenced Schemes to be supported subject to next steps of the process;
- (2) approves progressing the 3 reserve schemes to the next phase of the fund and CCR and its advisors will begin the pre contract and further due diligence for schemes set out in Exempt Appendix 5;
- (3) approves an increase of £864,000 to the Housing Viability Gap revenue operating budget to take account of the increased number of schemes, due diligence on reserve fund schemes and to meet future needs;
- (4) approves the delegation to allow CCR City Deal Director in consultation with Portfolio Member and S151 and Monitoring Officer to progress the next stages of the fund through to legal completion and keep cabinet appraised;
- (5) approves to engage in discussions with WG regarding potential to repurpose £10 million SME Housing Fund and to identify any further additional funding opportunities to support optimisation of the Housing Viability Gap Fund.

Kellie Beirne
Director, Cardiff Capital Region
29 November 2021

Appendices

Appendices 2, 3, 4, 5 and 6 of 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. In all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Exempt Appendix 2	HVGF Indicative Shortlists
Exempt Appendix 3	Stage B Due Diligence Report – Indicative Shortlist
Exempt Appendix 4	HVGF Final Shortlist
Exempt Appendix 5	HVGF Ring-Fenced & Reserve Shortlist
Exempt Appendix 6	HVGF & SME Housing Fund Revenue Budget
Appendix 7	Well-being of Future Generations Assessment

Background Papers

Homes for All the Region Cabinet Report - 9 March 2020
Homes for All the Region Cabinet Report - 14 September 2020
Homes for All the Region Cabinet Report – 15 March 2021

Housing Viability Gap Fund Evaluation Framework

This document sets out how the Cardiff Capital Region (“CCR”) will evaluate the information provided to it by bidding local authorities to prioritise those schemes which would be taken forward to the contracting phase for Viability Gap Funding. The overall Fund comprises £30m of CCR funding (the “Base Fund”) and a further £5m allocation from Welsh Government (the “Welsh Government Fund”).

£30m Base Fund

The CCR Funding Programme has been structured to target the areas of lowest economic competitiveness in the region – as informed by the UK Competitiveness Index 2019. This will be achieved via the following split fund prioritisation approach:

- £15,000,000 Sub-Fund 1: shall be allocated to the bottom 5 ranking local authorities which are: Rhondda Cynon Taf; Torfaen; Caerphilly; Blaenau Gwent; and Merthyr Tydfil; (as determined by the UK Competitive Index 2019) on a scored basis; and
- £15,000,000 Sub-Fund 2: shall be open to **all** local authorities on a scored basis and shall not exclude, for the avoidance of doubt, any local authority successfully securing funding support from Sub-Fund 1 e.g. where more than one site has been submitted by an individual local authority.

If either Sub-Fund is not fully allocated, CCR will refer back to Regional Cabinet on options and recommended approach.

£5m Welsh Government Fund

In addition, a further £5m is accessible by Applicants subject to meeting additional conditionality imposed by the Welsh Government. Such conditions principally relate to the requirement to deliver Welsh Government policy aspirations in respect of space standards and the provision of 50% affordable housing. Please see Appendix H for further details.

Applicants are asked to confirm whether the scheme satisfies the Welsh Government Funding Conditions, and, if so whether some or all of the funding support is capable of being procured from that source.

CCR reserves the right to explore options to utilise such additional funding support for any scheme (in whole or in part) and CCR shall assess this option, to the extent applicable, on a scheme by scheme basis. The evaluation of the Welsh Government Funding will be based on similar principles outlined for the Base Fund below.

The Evaluation Framework

The evaluation is divided into a set of pass/fail questions (Stage 1) followed by more detailed evaluation to weight the outcomes CCR is seeking to achieve using the Viability Gap Fund (Stage 2). CCR intends to then take forward a total number of applications which in aggregate appear (at evaluation stage) to require approximately £30,000,000 of Viability Gap Funding (Base Fund).

CCR reserves the right to:-

- increase or decrease the overall fund amount subject to review of the submissions received;
- hold some applications in reserve should any applications which are initially successful subsequently fail to progress to grant agreement stage; and
- only take forward applications that score a minimum of 30% (out of 65% available) under Deliverability (Stage 2A).

STAGE 1: GATEWAY CRITERIA

Ref.	Pass/Fail Questions	Criteria to pass (otherwise response will be marked as a fail)
1.1	Is the submission from an eligible Local Authority?	<i>Submission must be from one of the CCR Local Authorities and able to demonstrate relevant internal approvals in place.</i>
1.2	Is the Development Site identified in the current Local Development Plan or will it be during the likely delivery timeline? If not, has it already secured an outline planning consent which would remain implementable for the likely delivery timeline?	<i>Scheme must be identified within the current Local Development Plan or (if not); already has outline planning consent which would remain implementable; or is able to demonstrate a significant chance of planning permission being secured in sufficient time, which provides comfort that funds will be able to be drawn down in line with CCR's spend timetable (see point 7).</i>
1.3	Is there a clear link between the delivery of homes and the infrastructure works?	<i>Scheme to be funded must demonstrate either a physical or clear strategic link with the delivery of housing. For example, where a single piece of infrastructure will unlock one or more housing sites, or where multiple pieces of infrastructure are required to unlock homes in a specific location.</i>
1.4	Does the financial appraisal template demonstrate the need for gap funding?	<i>Financial appraisal template must show a funding viability gap post verification of assumptions by CCR's technical advisers.</i>
1.5	Do the works constitute Qualifying Expenditure?	<i>Scheme and works to be funded constitute Qualifying Expenditure having regard to 'Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) 2018; and State Aid requirements following a preliminary assessment by CCR's legal advisors.</i>

1.6	What is the £ CCR investment per home?	<i>Funding request must fall below maximum threshold cap of £37,500 per home to be eligible for Funding Award. However, local authorities may choose to contribute funding to schemes to bring them within the threshold.</i>
1.7	Does delivery of the works meet CCR's spending timetable of drawdown of all CCR funds prior to 31 March 2024?	<i>Bid clearly demonstrates that the scheme can meet the spending timetable of the CCR Housing Fund i.e. all CCR funds to be drawn-down prior to 31 March 2024.</i>
1.8	Has the applicant confirmed they are not currently under consideration for and do not intend to apply for the Welsh Government's 'Stalled Sites Fund' programme?	<i>The site is not under consideration and the Applicant does not intend to apply for the Welsh Government's 'Stalled Sites Fund' programme.</i>
1.9	How much funding is required?	<i>Appraisal shows a shortfall in funding which is a maximum of £8,000,000. Where funding shortfall is greater than £8,000,000 sufficient evidence has been provided to demonstrate how the additional funding shortfall will be met.</i>
1.10	Has the Applicant confirmed acceptance to the principles set out in the Heads of Terms for the Funding Agreement?	<i>Applicant confirms acceptance of the principles set out in the Heads of Terms for the Funding Agreement (see Appendix F).</i>
If application passes all of the pass/fail questions, move on to Stage 2 (Weighted Evaluation)		

STAGE 2A: WEIGHTED EVALUATION – DELIVERABILITY [65%]*

Ref.	Focus Area	Weighting	Evaluation Criteria
2.1	Delivery strategy for the works and the overall development including land assembly.	25%	<p><i>4 - Robust delivery strategy has been developed for the works and overall development with limited risks.</i></p> <p><i>3 - Clear delivery strategy has been developed for the works and overall development with some elements less detailed than others and the strategy identifies some risks which are not significant and which the strategy demonstrates are appropriately mitigated.</i></p> <p><i>2 – High-level delivery strategy for the works and overall development has been developed and a more detailed strategy is still being finalised and some risks have been identified but those risks are not significant and/or there is a detailed delivery strategy but significant risks have been identified which the strategy demonstrates would be appropriately mitigated</i></p> <p><i>1 - High-level delivery strategy for the works and overall development which requires considerable further work and/or there is a detailed delivery strategy but significant risks have been identified which are not appropriately mitigated.</i></p>

Ref.	Focus Area	Weighting	Evaluation Criteria
			<i>0 - No or limited information around the proposed delivery strategy for the works and/or overall development.</i>
2.2	Risk identification and mitigation strategy.	5%	<p><i>4 - Detailed understanding of risks and robust mitigation strategy provided, and risk lies with the most suitable party for managing them.</i></p> <p><i>3 - Good understanding of risks and mitigation strategy provided but some risks/mitigation strategies are not as detailed or fully explored as they could be, and the risk lies with the most suitable party for managing them.</i></p> <p><i>2 - Understanding of most project risks and high-level mitigation strategy provided but most risks/mitigation strategies are not as detailed or fully explored as they could be and/or some work to be done to determine the appropriate party to manage the risks.</i></p> <p><i>1 - Limited understanding of project risks and mitigation strategy provided, some risks and/or consideration of the most appropriate party to manage risks have been missed.</i></p> <p><i>0 - No or limited understanding of project risks and / or mitigations, and/or majority of risks have been missed. Further work to be done to determine the appropriate party to manage risks.</i></p>
2.3	Extent the works and overall scheme are fully costed, and all funding sources identified.	10%	<p><i>4 - Detailed costings provided for works and overall scheme with all funding sources identified.</i></p> <p><i>3 - Clear costings provided for works and overall scheme with over 90% funding sources identified.</i></p> <p><i>2 - Some costs unknown and/or less than 90% of funding sources identified.</i></p> <p><i>1 - Significant gaps and/or lack of clarity in costings provided and/or less than 50% of funding sources identified.</i></p> <p><i>0 - Limited or no cost information provided and significant gaps in funding sources.</i></p>
2.4	Capability and capacity of proposed contracting organisation(s) to deliver the works and overall development.	10%	<p><i>4 - Robust evidence of capacity and capability of organisation(s) to deliver the works to be funded and overall development.</i></p> <p><i>3 - Good evidence of capacity and capability of organisation(s) to deliver the works to be funded and overall development but some areas require more detail to evidence a robust capability or capacity.</i></p> <p><i>2 - Evidence of capacity and capability of organisation(s) to deliver the works to be funded and overall development provided but several areas where evidence is not provided.</i></p> <p><i>1 - Limited capacity and capability of organisation(s) to deliver the works to be funded and/or overall development.</i></p> <p><i>0 - No clear capacity and capability to deliver the works to be funded and/or overall development.</i></p>
2.5	Robustness of delivery programme including feasibility of timescales.	15%	<p><i>4 - Robust delivery programme provided that outlines all key project milestones with realistic dates for achieving these.</i></p> <p><i>3 - Delivery programme provided that outlines most but not all key project milestones with realistic dates for achieving these.</i></p> <p><i>2 - Delivery programme provided which identifies most key project milestones with some over</i></p>

Ref.	Focus Area	Weighting	Evaluation Criteria
			<p><i>optimistic dates for achieving these.</i></p> <p><i>1 - Outline delivery programme which has not identified all or most key project milestones and several unrealistic dates applied.</i></p> <p><i>0 - No clear delivery programme provided.</i></p>

**NB minimum 'Deliverability' threshold score of 30% required for schemes to qualify for Funding Award.*

STAGE 2B: WEIGHTED EVALUATION – CCR OBJECTIVES, VALUE FOR MONEY AND USE OF SMES [35%]

Ref.	Focus Area	Weighting	Evaluation Criteria
2.6	Number of homes per £ invested.	15%	<p><i>4 - £7,500 per home or lower</i></p> <p><i>3 - £7,501 to £15,000 per home</i></p> <p><i>2 - £15,001 to £22,500 per home</i></p> <p><i>1 - £22,501 to £28,750 per home</i></p> <p><i>0 - £28,751 to £37,500 per home or higher</i></p>
2.7	<p>Alignment with and contribution to CCR objectives:</p> <ul style="list-style-type: none"> • Jobs • Private Sector Leverage • GVA 	10%	<p><i>4 – Excellent alignment with and contribution to CCR objectives, supported by robust evidence to demonstrate the case.</i></p> <p><i>3 – Good alignment with and contribution to CCR objectives, supported by clear evidence to demonstrate the case.</i></p> <p><i>2 – Reasonable alignment with and contribution to CCR objectives supported by evidence to demonstrate the case.</i></p> <p><i>1 – Some alignment with and contribution to CCR objectives although limited evidence has been provided to support the case.</i></p> <p><i>0 – Limited or no alignment with or contribution to CCR objectives and limited or no evidence has been provided.</i></p>
2.8	Connectivity of the development.	5%	<p><i>4 – Excellent connectivity to nearest key settlement (as defined in the Wales Spatial Plan) by available public transport.</i></p> <p><i>3 – Good connectivity to nearest key settlement (as defined in the Wales Spatial Plan) by available public transport.</i></p> <p><i>2 – Reasonable connectivity to nearest key settlement (as defined in the Wales Spatial Plan) by available public transport.</i></p> <p><i>1 – Limited connectivity to nearest key settlement (as defined in the Wales Spatial Plan) by available public transport.</i></p> <p><i>0 – No connectivity to nearest key settlement (as defined in the Wales Spatial Plan) by available public transport.</i></p>

Ref.	Focus Area	Weighting	Evaluation Criteria
2.9	<p>Extent of supply chain for development and/or works to include SMEs.</p> <p><i>SMEs defined as: a small, medium or micro enterprise where the number of employees does not exceed 250.</i></p>	5%	<p><i>4 - Minimum commitment of 30% of supply chain for overall development and/or works to include SMEs.</i></p> <p><i>3 - Minimum commitment of 20% of supply chain for overall development and/or works to include SMEs.</i></p> <p><i>2 - Minimum commitment of 10% of supply chain for overall development and/or works to include SMEs.</i></p> <p><i>1 - Commitment to include SMEs within supply chain for overall development and/or works but no minimum threshold commitment provided.</i></p> <p><i>0 - No commitment to include SMEs within supply chain for overall development and/or works but no minimum threshold commitment provided.</i></p>

Future Generations Assessment Evaluation

(includes Equalities and Sustainability Impact Assessments)

Name of the Officer completing the evaluation: Louise Corbett E-mail: Louise.Corbett@cardiff.gov.uk	Please give a brief description of the aims of the proposal Development and operation of the Housing Viability Gap Fund
Proposal: Homes for all the Region	Date Future Generations Evaluation form completed: 26th October 2021

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	Shared prosperity is a feature of the funds with a focus on economic inclusion, viability appraisals and priority for areas of lower competitiveness that can show connections with public transport, jobs and regeneration opportunities.	The scheme seeks to move beyond creating wealth – to spreading wealth. Part of the Evaluation Framework focused on SME involvement to promote 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 can adapt to change (e.g. climate change)	The scheme sets the conditions only for unlocking sites and the weight of responsibility around delivering on core objectives will be through local-led delivery and effective partnership working.	Resilience is embedded through the focus on areas of lower competitiveness and productivity and the need for demonstrations of connections to jobs, public transport and community infrastructure. Independent assessments have been carried out as part of the business case development stages with CHC, RSLs, home builders federation, CBRE, DBW and Savills to comprehensively tests assumptions and deliverability and contributions to sustainability and resilience.

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?
<p>A healthier Wales People's physical and mental wellbeing is maximized and health impacts are understood</p>	<p>The link between good quality housing and people's health and wellbeing is documented and the Homes for Region Programme will deliver a range of housing for a variety of purposes i.e. affordable, open market. There is a focus on SME's which which seeks to maximize local benefits and effects.</p>	
<p>A Wales of cohesive communities Communities are attractive, viable, safe and well connected</p>	<p>Improving regional infrastructure and building new homes (improving the overall quality of housing stock within the region) will make a key contribution to travel to work modes, denser labour market creation and development of human connections</p>	<p>This will feature as a core part of the viability assessment and VFM checks and local planning policies will need to be adhered to. The appointed Technical Advisors will support the Fund's design and implementation, as well as monitor and review such conditions.</p>
<p>A globally responsible Wales Taking account of impact on global well-being when considering local social, economic and environmental wellbeing</p>	<p>The fund has been designed to solve market failure in the all areas of the region and has recognised that other existing initiatives may be available but aims to address gaps in existing provision.</p>	
<p>A Wales of vibrant culture and thriving Welsh language Culture, heritage and Welsh language are promoted and protected. People are encouraged to do sport, art and recreation</p>	<p>The Cardiff Capital Region 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.</p>	<p>The fund will be accessible by all LAs within the Region and key stakeholders.</p>
<p>A more equal Wales People can fulfil their potential no matter what their background or circumstances</p>	<p>Economic Inclusion is a central objective of this initiative and it's aimed at levelling up provision, accessibility and opportunities for all within the region.</p>	

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>Long Term</p> <p>Balancing short term need with long term and planning for the future</p>	<p>The scheme operates over four years but 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.</p>	<p>The scheme viability criteria and VFM credentials have been tested and validated by CCR's appointed Technical Advisors and secured onward recommendation from Investment Panel to Regional Cabinet for approval.</p>
 <p>Collaboration</p> <p>Working together with other partners to deliver objectives</p>	<p>The scheme is a partnership across public and private sectors and involves all ten councils, RSLs, developers and land owners and agents.</p>	<p>Ongoing co-ordination and support is being offered through a Fund co-ordinator role and the revenue funding dedicated fund to support all LA's.</p>
 <p>Involvement</p> <p>Involving those with an interest and seeking their views</p>	<p>WG are the Funds partners and there will be opportunities for comprehensive public engagement as part of the full scheme operation and delivery.</p>	<p>Local planning policies will need to be adopted and adhered to in relation to local consultation and public engagement.</p>
 <p>Prevention</p> <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>Each scheme will need to demonstrate contribution to wellbeing goals as part of investment criteria.</p>
 <p>Integration</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 maximise contributions towards resilience and prosperity.</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	LAs will be required to inform the shape, type and nature of provision required including tenure, flexibility, lifetime homes and so on.	None arising at this time – needs to be assessed through scheme delivery and compliance.	Relevant criteria to be developed via CCR's Technical Advisors and key stakeholders progress individual schemes.
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 such as LHMA and housing registers.	As above.	This will be demonstrated at criteria application stage
Gender reassignment	As above – With regard to any allocation of affordable 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.
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?

<ul style="list-style-type: none"> • Engagement with LAs and their key partners in 2020 and again in 2021 • PIN Notice – July 2020 • 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?

Ensure the fund is deployed effectively and ensure future monitoring can record the impact and full benefits realisation.

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:	Ongoing from April 2021 to March 2024
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