

REPORT TO: Mersey Gateway Executive Board

DATE: 29 January 2009

REPORTING OFFICER: Strategic Director Environment

SUBJECT: Mersey Gateway: Funding for Advanced Land Acquisition

WARDS: All

1.0 PURPOSE OF THE REPORT

1.1 This report deals with the funding required to support the acquisition of land, including the interests of tenants and freeholders, prior to receiving Government grant. The report updates the information reported to the Mersey Gateway Executive Board (MGEB) on 15 November 2007, and the following proposals are consistent with the Mersey Gateway Business Relocation Strategy agreed by MGEB on 19 May 2008. It is proposed that the land acquisition budget is reviewed annually at this time of year so that any changes can be considered as part of the Council's budget deliberations. For the avoidance of doubt the report does not deal with the Mersey Gateway development budget which was agreed by MGEB on 25 September 2008.

2.0 RECOMMENDATION: That the Board

- i) approve the revised budget for Advanced Land Acquisition and Negotiations;
- ii) recommend that the Council amend the Capital Programme accordingly; and
- iii) note the potential call on the Council Priorities Fund.

3.0 SUPPORTING INFORMATION

3.1 The funding agreement with the Department for Transport (DfT) established when Mersey Gateway received Programme Entry approval in March 2006, and reconfirmed in October 2008, specifies that the Council is responsible for meeting all development costs up to receiving Final Funding approval for the project. Members are aware that the funding agreement with Ministers is being administered by the rules for delivering local major transport schemes. These rules establish the following stages in project approval:-

- **Programme Entry** once the initial case has been made to the DfT (achieved in March 2006).

- **Conditional Approval** once statutory powers are in place and HM Treasury content for procurement to commence (ie the Treasury Project Review Group has cleared the outline business case (expected in January 2010)
- **Full Approval** case submitted once a Preferred Bidder has been identified and firm prices have been secured (expected in April 2011).

3.2 As reported previously to the MGEb this staged funding approval process means that grant is not available to cover any costs incurred on land acquisition and negotiation prior to full funding approval being granted, which is currently programmed for April 2011. Moreover, the grant for land acquisition is issued through the Regional Funding Allocation and affordability constraints in the regional programme has resulted in the proposed grant payments being further delayed.

3.3 Options to manage the funding gap for land acquisition have been assessed in some detail. These have included potential arrangements with third parties to share risk.

3.4 The following seven options for meeting the short term funding gap have been identified and evaluated.

1. Regional Funding Acceleration (RFA): the funding gap could be closed considerably by bringing forward the funding profile by around £30m over the next three years.
2. Infrastructure Fund Proposal: the forward funding of land assembly is often an issue for Councils when promoting large PFI projects. A proposal has been submitted by a private equity investment fund that has been established to assist local authorities in providing funding for project preparation and land acquisition where costs are incurred in advance of the PFI contract being placed.
3. Pension Fund Proposal: this option has now been abandoned because the Council owned land that could be made available in a development partnership with the pension fund was not sufficiently attractive to off-set the land assemble costs and risks.
4. HBC Direct Acquisition: the Council could cover the cost of early land acquisition and negotiation through a prudential borrowing loan facility and repay the loans using the grant when it is received from government.
5. Asset Backed Option: the Council could either sell its surplus land and assets on the open market or enter into a development partnership utilising these assets to offset any borrowing costs incurred in option 4 above.
6. PFI Contract: This option involves the PFI concessionaire purchasing all the necessary land as part of the PFI contract. The Council would then purchase the land from the concessionaire using the RFA grant.
7. Hybrid Option: This option considers the combination of the asset backed option 5 and HBC acquiring the remaining land through

borrowing (option 4) .

- 3.5 Each of the options has been assessed and scored against the five criteria of Deliverability, Timing, Affordability, Risk, Value for Money and Political Considerations. The scores were then totalled and the options ranked to identify the most favourable option for the Council. The seven options and summary scores are as follows:

Option	Score	Rank
• RFA Acceleration	19	1
• Infrastructure Fund Proposal	16	3
• Pension Fund Proposal	(rejected/withdrawn)	
• HBC Direct Acquisition	18	2
• Asset Backed Option	15	5
• PFI Contract	12	6
• Hybrid Option	16	3

- 3.6 The most favourable option for HBC would be the acceleration of the RFA grant (Option 1) as it would minimise the gap in funding land assembly, thereby avoiding any significant external finance. However, due to constraints on the funding provided by DfT and by the North West Region this option may prove to be undeliverable. The Government has requested the Region to prepare Regional Funding Advice for its Comprehensive Spending Review period 2008-11 and beyond to 2018 (leading to the RFA2 submission that is required to be with Government by 28 February 2009). The first draft of RFA2 has been presented for public consultation and comments have been requested by 30 January 2009. The first draft highlights the shortage of funding for the Regions priority transport schemes over the next ten years at least. This draft submission suggests there is little scope to bring forward the RFA allocation for Mersey Gateway and our effort should be focussed on avoiding any slippage by securing the current grant profile in the final RFA2 advice put to Government. It should be noted however that spending the proposed RFA will depend on a number of schemes receiving full Funding approval which have yet to receive even Programme Entry status. It is therefore proposed that the Council is well placed to take advantage of any under spend that may arise in future years due to schemes being delayed. Any acceleration of all or part of the receipt of RFA will reduce the borrowing

requirements of any of the financing options and therefore improve affordability and value for money.

- 3.7 On the basis that it is not possible for the RFA to be accelerated then the preferred option is direct acquisition where the Council enter into prudential borrowing arrangements to acquire the land when needed.
- 3.8 The Infrastructure Fund proposal (Option 2) is the best option based on sharing risk with the private sector but the evaluation has failed to identify any substantial benefits to offset the additional deliverability and financial risks over and above any of the direct purchase options that could be undertaken by the Council. It is proposed to keep this option in reserve as it may offer deliverability benefits should RFA allocations and Council borrowing capacity come under further pressure.
- 3.9 The asset backed hybrid option is slightly less favourable as there is a higher degree of deliverability risk related to the realisation of the estimated sale value in the current market within the tight timetable. However, this option would potentially reduce the required prudential borrowing and cost to HBC and therefore could be considered to carry a lower degree of financial risk for HBC. The asset sale may be considered further as an option to provide mitigation against the financial exposure of the direct acquisition option.
- 3.10 The PFI contract variation is the least favourable option as it would delay the project and introduces the greatest project deliverability risk for HBC.
- 3.11 The results of the options appraisal have been reported to the Officer Project Board who concluded that funding advanced land purchase through prudential borrowing (Option 4) offers best value when combined with a further investigation of opportunity to mitigate the financial burden. The main mitigation measure to be investigated should be bringing forward the Regional Funding Allocation as part of the current review of the regional funding programme (RFA2).

4.0 POLICY AND FINANCIAL IMPLICATIONS

- 4.1 Funding advanced land acquisition through prudential borrowing is estimated to require around £28m prior to achieving final funding approval in spring 2011. The current allocation in the approved Capital Programme for Mersey Gateway Land Acquisition is restricted to £6m.
- 4.2 The actual expenditure incurred on land acquisition and negotiation and the commitments plus contingency based on the current negotiations are as follows:-

Land Acquired (including fees)	=	£ 2,500,000
Compensation Paid	=	£ Nil
 Total Actual Spend	=	 £ 2,500,000
 Additional Commitments Pending (to March 2011) (estimated)	=	 £ 18,700,000m
 Contingency	=	 £ 6,800,000
 Total Budget to Full Funding Approval	=	 £28,000,000

- 4.3 Based on this estimate the funding required to deliver the Mersey Gateway project in accordance with the established Business Relocation Strategy will require £22m of additional borrowing to be put in place over the next two years as £6m is already identified in the current Capital Programme.
- 4.4 Most of the advanced land acquisition costs are expected to fall in the financial year commencing April 2010 but it is estimated that a further £6m should be put in place at the earliest opportunity and the Capital Programme amended accordingly by the Council in March 2009. The expected balance of £16m will be reviewed towards the end of this year and the results reported to the MGEB taking into account the availability of funding through RFA that may reduce the borrowing required.
- 4.5 The above funding would cover the expected land expenditure up to receiving Full Funding approval which is programme for April 2011. After achieving Full Funding approval the total RFA of £79.6m is committed by Government but the payment of grant will be constrained by the amount available for Mersey Gateway in the RFA programme. The current financial projections for completing the land acquisition, including undertaking all necessary site clearance and de-contamination works, indicate that further borrowing will be required to meet the gap between the timing of these costs and the current RFA grant payments.
- 4.6 The profile of expenditure set against the expected receipt of RFA grant is set out table 1 below:-

	2008/9	09/10	10/11	11/12	12/13	13/14	14/15	15/16	Total
Land Acquisition Cost (including Site Clearance/De-Contamination works)	4.5	7.5	16.0	36.0	7.8	Nil	Nil	5.0	76.8
RFA Grant (excluding £6.4m for development)			4.0	6.0	9.3	33.2	23.7	3.4	79.6
Borrowing in Year)	4.5	7.5	12.0	30.0	-1.5	-33.2	-23.7	1.6	
Borrowing Required	4.5	12.0	24.0	54.0	52.5	19.3	(4.4)	(2.8)	

- 4.7 The cumulative borrowing requirement in advance of the grant receipt rises to an estimated £54.0m. This will be incorporated in the Treasury Management Policy to be considered by the Executive Board at its meeting on 12th February 2009. Interest costs on this borrowing will be dependent on the interest rate applicable at the time. Provision has been made in the budget for interest costs relating to 2009/10 borrowing although it may be necessary to utilise the Priorities Fund to meet the costs in future years.

5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

- 5.1 The implementation of Mersey Gateway will have significant benefits for all Council priorities.

6.0 RISK ANALYSIS

- 6.1 The Council investment in early land acquisition is expected to deliver savings of at least £5m and will minimise the risk to businesses and jobs. The total estimated cost of £77m for land assembly including allowance for site clearance and de-contamination works is under review taking into account the more detailed information emerging in negotiations with the affected parties. Members should note that the bulk of the land acquisition will take place over the next three years and any commitments to acquire land will reflect the current market for commercial landholdings. .
- 6.2 Should Mersey Gateway not be delivered for any reason then the Council would be able to resell any land bought but it is estimated that in a worst case the Council could lose up to £7m in abortive compensation and acquisition costs. Any increase in land values would reduce this loss and could produce a surplus should the market for commercial land improve. The substantive risk of early termination falls away at Final Funding approval expected in April 2011. At this stage the maximum financial exposure would be £28m (ie the maximum borrowing envisaged up to March 2011). The key events that pose a

threat to early termination are the confirmation of Orders in spring 2010, followed by market prices being confirmed when bids are returned from potential contractors in early 2011. Early termination would cause the market value of land acquired to remain on the Council balance sheet. As such the Council will be taking the market value risk of the assets purchased. The borrowing undertaken post Final Funding approval would be short term pending the receipt of grant that would be committed by Government at this stage.

- 6.3 The borrowing indicated in table 1 and reflected above in the risk assessment would be reduced if we are successful in bringing forward the RFA grant payments. This seems unlikely prior to reaching Final Funding approval, set for April 2011, but as this approval would commit Government grant, Mersey Gateway would be a strong candidate to benefit from any under spend in the RFA programme or reprioritisation of investment.

7.0 EQUALITY AND DIVERSITY ISSUES

- 7.1 Mersey Gateway provides an opportunity to improve accessibility to services, education and employment for all.

8.0 REASON(S) FOR DECISION

- 8.1 The recommended decisions are required to support the delivery of Mersey Gateway.

9.0 ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 9.1 Not applicable.

10.0 IMPLEMENTATION DATE

- 10.1 The recommended decisions are required at the earliest opportunity to authorise the continued preparation of the Mersey Gateway project.

11.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

- 11.1 Files maintained by the Mersey Gateway Project Team and by the Highways and Transportation Department