Cabinet Prifddinas Ranbarth Caerdydd | Cardiff Capital Region Cabinet

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 targets 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 CCRCD 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 CCRCD 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 CCRCD 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 CCRCD) 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:

http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en

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 hII 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

This Appendix 1a is exempt from publication because it contains 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.

Homes for all the Region – Cardiff Capital Region Housing Investment Fund

Final Business Case

CONFIDENTIAL

Preamble to the Full Business Case – Well-being of Future Generations Considerations, City-Deal Priorities

Cardiff Capital Region City Deal is an economic growth programme, underpinned by three principal targets: 5% GVA uplift, 25,000 jobs and £4bn private leverage. Whilst the final business case has to clearly demonstrate optimal contribution to these objectives, aims around economic inclusion and ensuring creation of the right considerations for shared prosperity have been central considerations in the development of Homes for all the Region, including the contribution the scheme seeks to make to *maximising* wellbeing goals.

The evidence base – a problem-led focus

It would have been straightforward to develop a scheme aimed at supporting commercially-driven economic viability models for new housing and indeed, would have enabled a strong contribution to the above measures of productivity. However, City Deal should aim to intervene in areas of market failure and so Savills was commissioned in the summer of 2019 to test out the key problem City Deal was best placed to help solve in the regional housing market. This work clearly identified two main challenges or gaps in current provision – marginal viability or stalled sites whose continued 'stuck' status had blighted communities for some time and the dearth of 'early senior' patient capital that was preventing local SME house-builders from playing a full role in the market. The priority focus of the scheme was thus decided and from early on, and programme minima introduced around economic inclusion and ensuring that areas of low competitiveness would be given an advantage in the scheme, given the need to add extra weight to catalysing and facilitating their potential.

This tilting of the playing field, is seen as necessary in ensuring City Deal creates the environment in which some of the most disadvantaged communities are enabled to thrive. This is important in maximising contributions to resilience goals because the City Deal Investment Framework, launched in June 2019, states that infrastructure projects must 'enable', reduce growth inhibitors, and help all places (not just those that are already competitive) to build, sustain and recycle local wealth.

The purpose

Homes for all the Region thus has a clear and tangible purpose. It aims to help solve the right problems in the CCR housing market – not just take advantage of the easy opportunities. Criteria has been clearly set around viability and value for money. However, the fund is not just there to support house-building or development itself. It is there to enable the infrastructure, such as land reclamation, connectivity and remediation, necessary to enable Councils and their delivery partners to develop sites in the most viable and sustainable ways. It is for this reason, that CCR can only require that sites are brought forward in line with local planning policy, with LAs being in the driving seat, in terms of taking forward sites in the kind of innovative and progressive ways which can best add value in the context of local issues.

Demonstrating commitment to delivery of wellbeing goals will also feature in the criteria to be drawn up by an appointed Technical Advisory Panel to provide ongoing support to City Deal in managing the operation of the fund. The City Deal focus is at a foundational level - providing the incentives and levers aimed bringing forward the sites in the first instance – delivering them and meeting the key criteria is the responsibility of the LAs who successfully bid into the Fund. It must be borne in mind however, that the reason the sites are currently stalled and in the vast majority of cases, have been stuck for decades, is because they are simply not financially viable, despite the latent wider economic value those in the best connected areas will hold. The CCR imperative is therefore to help make them viable and unlock their economic potential. If the sites are not forthcoming in the first place – they will never deliver anything and so whilst criteria will be set for adding value, a balance must be struck vis a vis hard requirements and obligations which may simply exacerbate their arrested development.

Connected and Resilient

Maximising the ability of places to be prosperous, right across the region, and for those places to become more sustainable and resilient, are core goals of this scheme.

Criteria will require that sites are brought forward in locations where there are demonstrable sustainable transport links (proximity to Metro as one example); access to employment, work and training opportunities, and that there is opportunity for people to feel connected to community and place. This helps to create denser labour markets which in the medium to long-term, help attract businesses and industry to areas, support matching between jobs and skills, drive knowledge spillovers and innovation, and so boost GVA. These 'net additionality' benefits are important longer-term features of this business case and again, reinforce the importance of connectivity and enduring resilience.

Economic inclusion

Programme minima has been set to embed economic inclusion criteria. This means that more than 50% of the total fund will be targeted at the five areas which fall into 'low inclusivity' status and low competitiveness as defined by the UK Competitiveness Index. This will ensure those areas with the biggest problem in relation to stuck sites, and lowest trend rates of housebuilding, have an advantage in terms of engaging with this scheme. This is really important in the light of ensuring all areas across the region, have an opportunity to feel benefits and take a local and more bespoke approach to tackling the issues which are important to them. The CCR is a relatively small region and traditional theories of economic agglomeration are not always the right ones to inform policy interventions. We can't wait for apparent 'trickle down' benefits to impact the wider region and must be proactive in catalysing them. In the case of the Homes for All the Region, whilst the delivery rate and productivity impact is assessed as good – beyond this, it is the social impact, the creation of denser labour markets, the opportunity to embed local wealth creation and resilience, which over time, will make an impact beyond short-term targets.

In respect of the SME Finance Fund in particular, our focus is on foundational economies and doing more to support smaller and medium sized companies to play a role in local house-building. In so doing, the goal is that this will utilise and support local resources, assets and people and ensure those benefits are retained and recycled back into local communities. Developing local supply chains and maximising the supplier effects is at the heart of this fund and ensuring we have the in-region capacity to deliver fit for future housing.

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Executive Summary

The CCR Housing Funds will provide targeted investment to overcome evidenced market failures in the housing delivery market in South East Wales.

A Viability-Gap Fund will address development sites of between 40 and 350 units that are unable to come forward due to high infrastructure or remediation costs. An indicative £35m fund targeted at removing known viability-gaps at key sites within the region could:

- Unlock up to 2800 homes in the region over the next 10 years,
- Leverage gross private investment in housing of £490m, at a ratio of 14:1 per CCR £ invested
- Support £870m of total economic activity, spread across the region
- Deliver 16% more homes in areas of low economic inclusivity than would be delivered in the market-led alternative
- Boost accessibility to employment opportunities for workers throughout the region, and consequentially deliver productivity-enhancing labour market effects to employers.

The Viability-Gap Fund will optimise economic returns by investing in the most strategically located sites which maximise value for money. It will ensure inclusive economic returns by ensuring that development outcomes are spread throughout the geography.

In addition, an SME Finance Fund will provide commercial lending support to SME developers at small sites which are unable to be progressed through unavailable financing of soft, upfront costs in the delivery cycle.

A £10m fund to provide upfront finance, targeted exclusively to SME developers, to provide upfront capital to meet pre-planning costs, could:

- Unlock up to 700 further homes over 10 years that are unable to access the finance required from the market
- Leverage a total private investment in housing of £130m
- Deliver £250m of increased economic activity in CCR

Wherever possible, **both funds** will seek to enable financial return to the Cardiff Capital Region in order that funding can be recycled and further investments made. Analysis of potential eligible sites throughout the region has been undertaken by Local Authorities themselves as part of the data-gathering exercise to inform the OBC, and cross-checked as part of a further site-specific deep dive exercise undertaken by Savills testing and informing the FBC conclusions. Importantly, the analysis by Savills corroborated the findings from the LA data gathering exercise.

The funds are complementary and non-overlapping with either market provision of finance to the housing delivery sector, or funding programmes currently being run or in development by either Development Bank of Wales, Welsh Government or any other commercial organisation operating in these markets.

Cardiff Capital Region will procure the services of specialist advisors to support the operation and management of the funds, and to help ensure benefits realisation. Support from an experienced built-environment consultancy will coordinate operation of the Viability-Gap fund and advise optimised value for money solutions for CCR investments. Separately, an established and regulated fund manager will be procured to manage the capital allocated to the SME Finance Fund on CCR's behalf. Further details of the SME Finance Fund will be developed during the procurement process and brought back for final approval later in the year.

1 Introduction

1.1 Recap: findings of the Strategic Outline Case (SOC) and Outline Business Case (OBC)

The SOC proved the case for the Housing Fund proposition as being clearly aligned to the strategic objectives which underpin the CCR's Industrial and Economic Plan and its Investment & Intervention Framework. It provided a clear logic setting out: the case for change to intervene in the housing market in South East Wales; the potential mechanisms for intervention; a long-listing options analysis of proposed interventions; and a short-list of proposed Housing Fund sub-fund delivery approaches to be reviewed further under an **SME Finance Fund** and a **Viability Gap Fund**.

In the development of the OBC, detailed design of the SME Finance Fund and the Viability Gap Fund was undertaken through engagement with a range of local stakeholders including: experts with market knowledge (incl. RTPI Cymru, Principality, Federation of Master Builders); entities that already operate similar funds (incl. Homes England, Greater Manchester, Development Bank of Wales); and supplemented with market research of housing funds in the UK more broadly; as well as data collected from CCR Local Authorities and Savills on unviable development sites in the region. Through detailed design, economic outcomes of the SME Finance Fund and a Viability-Gap Fund were estimated to assess value for money on a range of Fund options. The affordability of the Fund options were also estimated based on the net cashflows to the Fund (i.e. assumed drawdowns, returns through interest/principal/equity/overage,) and costs to manage and operate the Fund in relation to expected resource running costs. Initial considerations for commercial and management arrangements were also considered for the preferred options identified in the OBC.

1.2 Purpose of the Full Business Case

The OBC was reviewed by the CCR Investment Panel and approved to continue to FBC development by Regional Cabinet in December 2019. It was determined by CCR that, whilst both the Viability Gap Fund and SME Finance options address key market failures in the Region's housing market, the Viability Gap Fund had the clear potential to be up and running and creating a positive local impact in the shorter timeframe. This FBC document therefore focuses on the refined value for money assessment of the Viability Gap Fund, with reference to the latest state of progress regarding the SME Finance Fund in the economic case, and with a summarised review in Appendix D. Additional market testing and procurement of the SME Finance option will be required by CCR before final completion of FBC development for this part of the CCR Housing Fund.

The purpose of this Full Business Case is to therefore to review the strategic, economic and financial cases of the Viability-Gap Fund for completeness, and set out the detailed commercial and management arrangements for the successful delivery and operation of the Fund.

Since the submission of the OBC in December 2019, procurement documents have been developed by CCR to procure the services of a Fund Coordinator and Panel of Technical Advisors, who will support CCR in the review of funding applications and prioritising investment proposals across the Region. In parallel, additional engagement was conducted with CCR Local Authorities, including a workshop with relevant senior representatives, to review the proposed eligibility criteria, process, and draft terms and conditions under which Viability-Gap Funding will be competitively awarded under the fund. This engagement was conducted to test the principles of the Viability Gap Fund amongst those who would be required to act as scheme sponsors (i.e. Local Authority applicants) and ensure that the practical commitments required by sponsors was fully understood. An additional workshop was also held with senior stakeholders from the housing and development sector, including housebuilders, who could act as delivery partners in the fund alongside their Local Authority sponsors. Subsequent to this engagement the eligibility criteria, process, terms and conditions, and evaluation framework (which will be used to prioritise schemes and ensure benefits are distributed across the Region) were finalised, and are included within the Technical Annex of this FBC.

Following HMT Green Book principals, this FBC comprises the following chapters:

- **The Strategic Case** – Reviews and refines the Strategic Case from the OBC for relevance, cross-checks further developments in the wider policy context, and sets out the Spending Objectives of the Fund, which set the framework for the development of the rest of the FBC cases
- **The Economic Case** – Finalises the value for money assessment for the Viability-Gap Fund
- **The Commercial Case** – Presents the commercial arrangements under which the Viability Gap Fund will operate
- **The Financial Case** – Demonstrates the final affordability assessment of the Fund
- **The Management Case** – Sets out the finalised operational and governance requirements to both setup and manage the Viability Gap Fund, including the resource requirements, assurance and monitoring arrangements, and provides a view of known risks and mitigations for implementation and delivery.

This FBC document is seeking conditional approval for release of £30m of CCR capital funding to the Housing Fund Proposition, to leverage £15m of Welsh Government funding.

£35m of funding is requested for allocation to the Viability-Gap Fund upon completion of the procurement process (which will finalise the FBC process for this part of the Fund).

£10m is requested to be provided on the basis of delegated authority for application to the SME Finance fund, subsequent to FBC completion for this component of the fund.

2 The Strategic Case

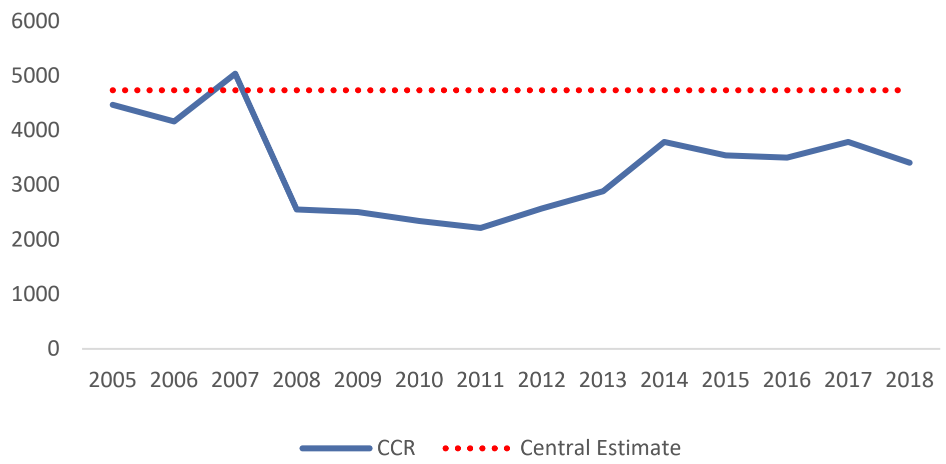
This Strategic Case makes the case for change to provide a positive intervention to improve outcomes the CCR housing market and demonstrate how such an intervention strategically fits with local, regional, and national priorities.

2.1 Strategic Context

In 2017, Welsh Government identified housing as one of five priority areas which have the "greatest potential contribution to long-term prosperity and well-being" in its *Prosperity for All* Economic Action Plan. This reflects a broad understanding among stakeholders within the built environment sector of the need to address significant delivery issues in the Welsh housing market.

Over the past decade, the Cardiff Capital Region has accounted for 51% of all housebuilding in Wales, and is well-positioned strategically and economically to unlock much-needed additional housing supply. However, housebuilding rates within the Cardiff Capital Region have not recovered to pre-Financial Crisis levels. Over the past decade, housing delivery has consistently been below identified levels of housing need for the Region.

Figure 1. Annual Housing Starts in the CCR and WG Central Estimate of Annual Delivery Need (Stats Wales)



As shown in *Figure 1*, housing delivery across CCR fell sharply following the 2007 Financial Crisis, and has not returned to pre-crisis levels. The average annual number of housing starts since 2008 has been approximately 3,000, with a degree of annual volatility. In comparison, Welsh Government identified that a 'central estimate' of current housing need across the 10 Cardiff Capital Region Authorities is approximately 4,700[1] new homes per annum (as illustrated by the red line in *Figure 1)*. In other words, an additional 1,700 homes need to be delivered each year in order to meet demand.

Figure 2 below illustrates the general widespread decline in housebuilding in the region at a Local Authority (LA) level. Notably, housing delivery fell by 87% in Merthyr Tydfil and 79% in Rhondda Cynon Taf between 2007 and 2018, compared to an average decline of 32% across the whole region over the same period. Housebuilding in seven out of the ten local authorities has failed to recover to pre-financial crisis levels, with the exception of Bridgend, the Vale of Glamorgan and Torfaen.

[1] The definition of overall housing need used by *Stat Wales* reflects both the existing unmet need (including homeless households in temporary accommodation and overcrowded or concealed households) and newly arising need (a projection of newly forming households), which require an additional housing unit to be built.

Figure 2. House Building Starts in the Cardiff Capital Region by Local Authority (Stats Wales, ONS)

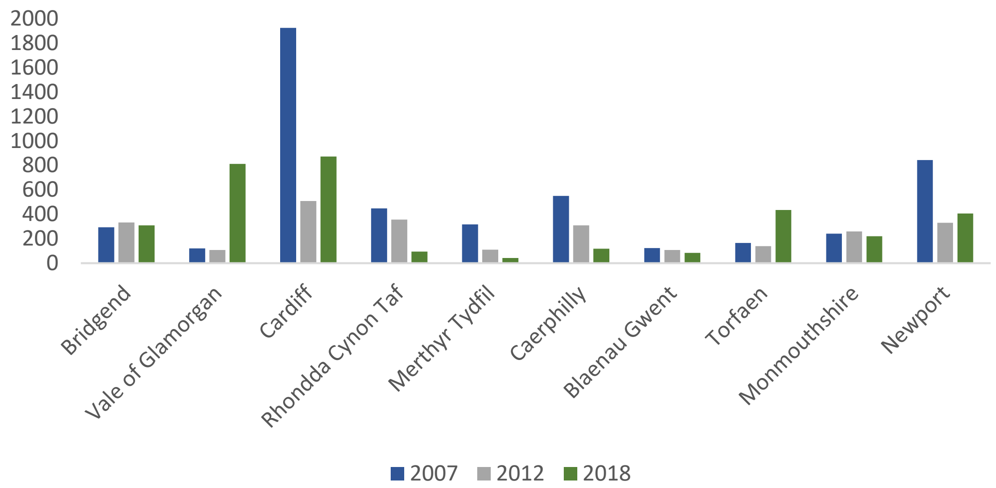


Table 1 shows the disparities in housing delivery across LAs areas in relative terms, analysing housing delivery rate per 10,000 people for each CCR LA in 2018. RCT, Merthyr Tydfil and Caerphilly had the lowest rate of housing delivery. Conversely, M4 corridor Authorities like the Vale of Glamorgan, Bridgend, Cardiff and Newport had the highest proportional rates of housebuilding.

Table 1. Housing delivery rate per 10,000 people in *the Cardiff Capital Region, by Local Authority, 2018 (Stats Wales, ONS)*

Local Authority	Proportional Housing Delivery Rate (New Houses per 10,000 people) in 2018
Bridgend	21
Vale of Glamorgan	62
Cardiff	24
Rhondda Cynon Taf	4
Merthyr Tydfil	7
Caerphilly	7
Blaenau Gwent	12
Torfaen	47
Monmouthshire	24
Newport	27

Figure 3. Map of the housing delivery rate per 10,000 people in CCR by Local Authority in 2018 (Stats Wales)

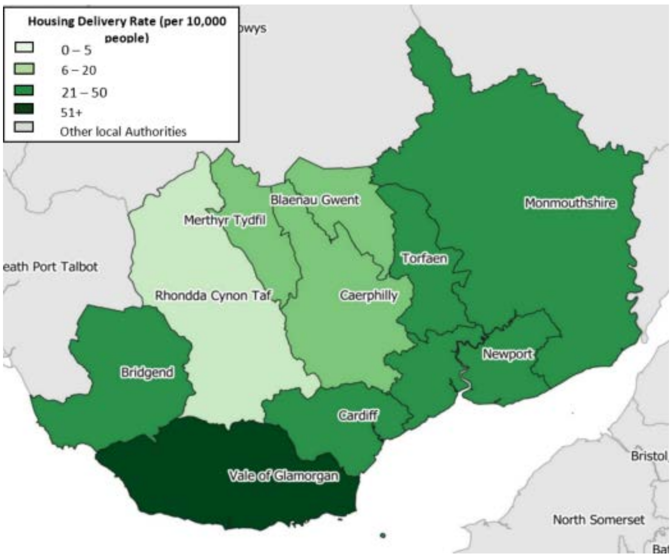


Figure 3 illustrates the point geographically, showing lower rates of housebuilding in north-western Valleys Authorities compared to stronger rates in Torfaen, Monmouthshire and the M4 corridor.

In addition to housing supply challenges, there are also significant concerns within the sector regarding the quality of housing being brought forward and being replaced, as evidenced in the 2019 *Independent Review of Affordable Housing Supply*. The Review identifies existing low quality housing stock that suffers from fuel inefficiencies and other issues such as poor health outcomes that compound social and economic issues for residents in already deprived areas. New homes which meet the Welsh Housing Quality Standards, or deliver zero carbon objectives, have the potential to improve health outcomes, reduce fuel poverty, and support the Region's low carbon ambitions.

There is also a clear under-delivery of affordable housing in the Cardiff Capital Region. According to the most recent data, each of the CCRs Local Authorities excluding Blaenau Gwent registered a net need of affordable housing, summarised in *Table 2* below. Affordable housing need refers to households which lack their own housing or are living in housing deemed inadequate or unsuitable[2].

[2] Welsh Governments *Local Housing Market Assessment Guide* takes a broad definition of inadequate or unsuitable housing, including residents in situations of homelessness or insecure tenure, overcrowding or concealment, poor dwelling condition and those with social needs to move (e.g. harassment).

Table 2. Net Need of Affordable Housing Units per annum by Local Authority according to the latest Housing Needs Assessments (as published by each district)

Local Authority	Net Need of Affordable Housing Units p.a.
Bridgend	1762
Vale of Glamorgan	576
Cardiff	2024
Rhondda Cynon Taf	738
Merthyr Tydfil	366
Caerphilly	282
Blaenau Gwent	n/a
Torfaen	200
Monmouthshire	474
Newport	593

2.2 Case for Change

Adequate affordable, high quality housing supports a range of connected social and economic outcomes[3], including physical and mental well-being, educational attainment and employment rates. New homes also improve the overall attractiveness of an area as a place to invest.[4]

The existing lack of supply in CCR constrains the choices available to residents who require high quality, affordable housing, and increases the risk they will be subject to inappropriate housing conditions. The negative social, economic and environmental consequences for CCR include:

- **Continued rising house prices to income ratios (i.e. lower affordability throughout the region),** resulting in household income being accumulated in housing and reducing consumer spending and investment in other sectors throughout the economy
- **Poor labour mobility** from lack of available housing near strategic infrastructure (e.g Metro)
- **Increased costs to businesses** from limited labour supply, as well as lost productivity from congestion and poor connectivity
- **Low quality housing stock not being replaced,** which negatively impacts the ability for the Region to meet zero carbon and wider housing quality objectives
- **Poor quality of life for residents**, including increased homelessness, negative health outcomes, greater economic inequality, and economically isolated communities

In terms of housing affordability, real terms house price inflation has been a growing structural issue across the whole UK economy for the past two decades. In recent years, it has become an acute issue in the Welsh housing market. House prices in Wales have risen 6.96% over the past two years, the second fastest rate among the UKs regions (see *Table 3*). As the most significant component of the Welsh housing market, parts of CCR have been strongly impacted by increasing house prices

Table 3. House Price Growth by Region in the UK from Q3 2017 to Q2 2019 (Source: ONS, Nationwide)

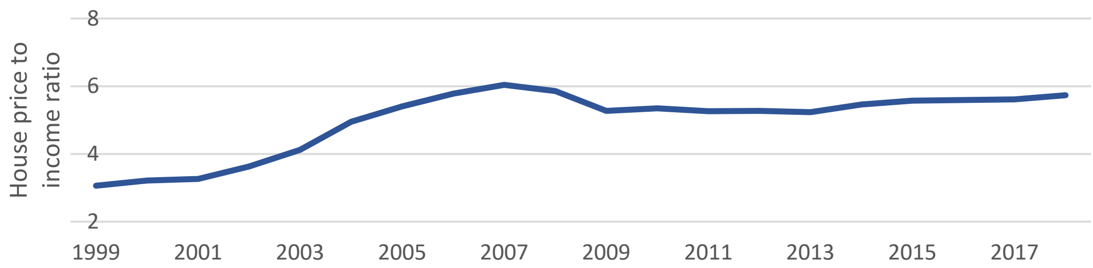
Region	House Price Growth (2017 to 2019)
North	1.84%
Yorkshire & Humberside	5.48%
North West	3.98%
East Midlands	4.10%
West Midlands	5.70%

[3] As identified in the Independent Review of Affordable Housing
[4] As identified by the Wales Housing Supply Task Force

East Anglia	3.13%
Outer South East	-0.11%
Outer Metropolitan London	-1.84%
London	1.28%
South West	2.05%
Wales	6.96%
Scotland	1.89%
Northern Ireland	7.25%
United Kingdom	2.00%

Additionally, inflation in the housing market has significantly outstripped wage growth in the Cardiff Capital Region. Using the average house-price-to-income ratio as a measure of the affordability of housing in the region, this had almost doubled between 1999 and 2007, rising 97%, as shown in *Figure 4*. The affordability ratio reduced slightly in the aggregate immediately following the financial crisis in 2007/8, as house price growth contracted nationally, before continuing to worsen again. As of the 2018, median house prices were over five times the size of the median average annual income in the region.

Figure 4. Ratio of Median House Prices to Median Gross Annual Workplace-Based Income (£) in CCR (Stats Wales)



At the LA level, the picture has been more nuanced since the financial crisis. High-demand areas like the Vale of Glamorgan and Cardiff have seen a further rise in the affordability gap since 2009 as illustrated in *Table 4*. Conversely, other LAs such as Merthyr Tydfil and Blaenau Gwent have seen a decline in the in the price of housing relative to salaries since 2009.

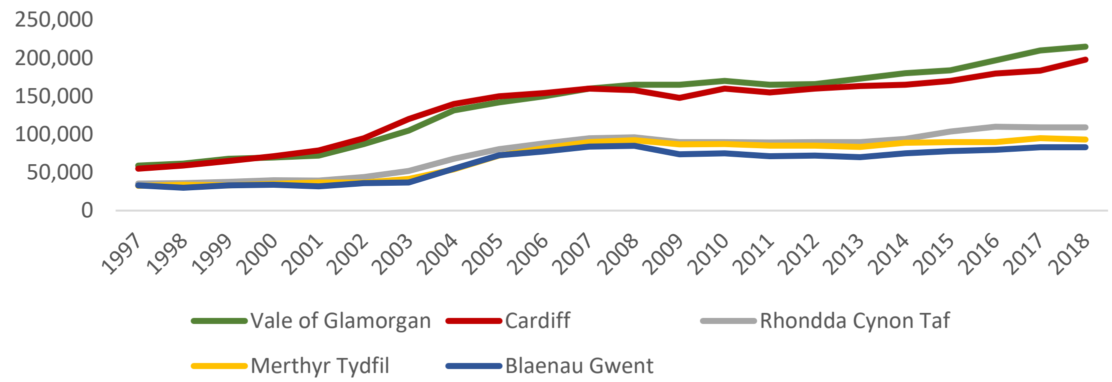
Table 4. Ratio of Median House Prices (£) to Median Gross Annual Workplace-Based Income (£) by Local Authority in the Cardiff Capital Region

	House price to income ratio			YoY Average Growth	
Local Authority	1999	2009	2018	1999 – 2009	2009 – 2018
Bridgend	3.13	5.02	5.05	6.0%	0.1%
Vale of Glamorgan	3.97	6.37	8.61	6.0%	3.9%
Cardiff	3.75	6.13	7.05	6.3%	1.7%
Rhondda Cynon Taf	2.42	4.07	4.36	6.8%	0.8%
Merthyr Tydfil	2.27	4.34	3.78	9.1%	-1.4%
Caerphilly	2.78	4.79	5.00	7.2%	0.5%
Blaenau Gwent	2.09	3.72	3.59	7.8%	-0.4%
Torfaen	2.69	5.14	5.27	9.1%	0.3%
Monmouthshire	4.62	7.84	8.62	7.0%	1.1%
Newport	2.90	5.34	6.03	8.4%	1.4%

Source: Stats Wales

Figure 5 shows median house price growth for five LAs in CCR. In the M4-corridor local authorities of Cardiff and the Vale of Glamorgan, house price growth recovered following a drop during the downturn. In more peripheral areas, such as RCT, Merthyr Tydfil and Blaenau Gwent, house price growth has flat-lined, and in some cases not recovered to pre-crisis levels.

Figure 5. Median House Price Growth for five local authorities in CCR (Stats Wales, ONS)



In summary, over the past decade the Region's housing market has been dominated by two themes. The first is the growing affordability gap in M4 corridor areas as demand for housing has exceeded the supply of housing being brought forward. The second is stagnant house price growth in northern areas of the Region which are linked to structural economic challenges in these Local Authorities.

2.3 Problem Statement

The analysis within this Strategic Case, drawing on a broader existing evidence base, stresses the urgency for action to support additional quality housing supply across the region. There is a clear need for additional market support to be able to deliver the extra 1,700+ homes needed per annum to meet demand in the Region.

2.4 Proposed Solutions

The solution to the challenge should reflect the complex and multi-faceted problems stalling the delivery of homes, and the diverse challenges across the different Local Authorities of CCR. In March 2018, CCR commissioned Savills to undertake a review of the private sector housebuilding market within South East Wales. The research assessed some of the causes of the market failures driving insufficient levels of private delivery of new housing, and identifying existing funding and financing options for the private sector, as well as shortfalls of those options and suggesting where there may be gaps in provision in which for new funding or finance support could be provided.

Savills noted that the planning pipeline of housing within CCR is split roughly equally between larger sites of greater than 500 units and smaller sites of less than 500 units, but that the issues associated with bringing these two types of sites forward differed. At both larger and smaller sites, both Local Authorities and developers noted typically high upfront costs for remediation and infrastructure investment, especially at many legacy industrial sites prevent market delivery of these sites. At smaller sites, inability to borrow from the market to cover the upfront costs of the delivery cycle, including dealing with the planning process, but also remediation costs too, were identified as a major barrier to progressing sites. The report indicated two clear market failures affecting private housebuilding, and from which a case can be made for additional public intervention:

1. Both large and small strategic sites requiring a degree of 'unlocking' due to high remediation or enabling infrastructure costs. Where sites deliver significant wider economic value but the

risk and uncertainty of development prevent the private finance and development sectors from being sure of sufficient financial returns to invest.

2. Inadequate financial support for SME builders at small sites at the appropriate stages of the development cycle development. Where development would provide commercial and returns to the developer, but private finance is unable to undertake originations at smaller capital values and the upfront stage of investment.

In light of this strategic context and identified market failures, CCR put forward the proposal to explore the idea of setting up a Housing Fund to address the challenges

2.5 Investment objectives

It is recognised that a Housing Investment Fund will not be able to solve all challenges related to regional housing delivery given the variety of macro-economic contexts, and interlinked sectors, markets, and regulations which impact housing delivery. Therefore it is important to lay out realistic and measurable spending objectives so that the detailed design of the Housing Investment Fund can be judged against specified outcomes over the life of its operation

In addition to increasing the quality and quantity of affordable homes in CCR, spending objectives for the Housing Investment Fund should be aligned to CCR's wider strategic goals such as supporting sustainable and inclusive growth and be aligned and compatible with local and national policies and regulations for new development. Given the local, regional and country-level priorities, the spending objectives of the Housing Investment Fund were determined to be:

1. Increase overall economic output and boost GVA of Cardiff Capital Region;
2. Promote economic inclusion in the Region, particularly for those in economically disadvantaged communities;
3. Lead to more housing that is genuinely affordable for residents;
4. Contribute towards the 'quality homes' agenda, including Welsh Housing Quality Standards for physical and mental health standards and zero carbon objectives; and
5. Produce environmental, social and health benefits that improve overall quality of life for residents
6. Deliver recyclable returns to the fund wherever possible to align with the CCR's Evergreen objectives (although noting that financial returns are secondary to economic outcomes for the purposes of this fund).

3 The Economic Case

The purpose of the Economic Case is to identify the preferred option that delivers the best public value for money, based on assessed economic and social impacts. This chapter covers the approach taken to identify the preferred option for the Housing Investment Fund; starting from an options long-listing exercise through to a detailed appraisal of short-listed options to assess value for money.

3.1 Recap of approach in SOC and OBC

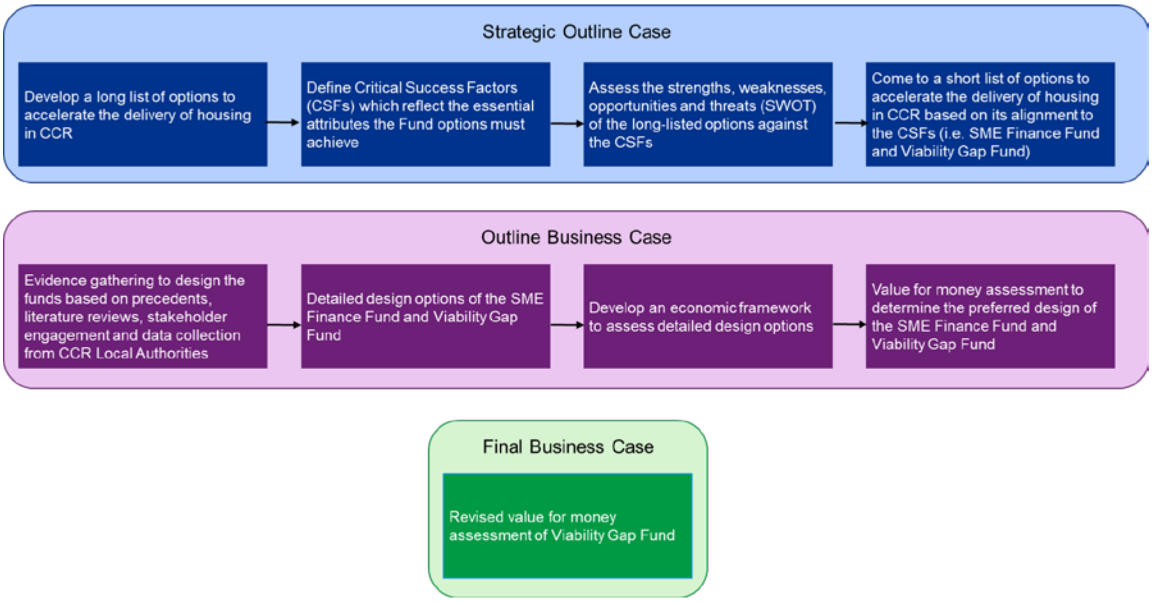
As set out in the Strategic Case, the purpose of setting up a Housing Investment Fund is ultimately to enhance the supply of high quality, affordable housing in CCR which, in turn, has the opportunity to impact wider social, economic and environmental objectives for the Region and Wales as a whole.

At SOC stage a long list of options were considered to achieve the spending objectives. In total, eight options were considered. The long listed options were ranked against Critical Success Factors (CSFs) set out in Appendix A, which reflect the essential attributes the Fund options must achieve. Through this ranking process two options were shortlisted: 1) a Viability Gap Fund; and 2) an SME Finance Fund.

At OBC stage, detailed design of these two shortlisted fund options was undertaken based on extensive stakeholder engagement, desk-based research of existing funds in the UK and local market analysis. Following detail design, an economic framework was developed in order to estimate the economic and social outcomes of each of the shortlisted options and assess value for money.

The following figure summarises the approach taken in developing the Economic Case from SOC to FBC stage. The Economic Case findings at SOC and OBC stage are summarised in Appendix A.

Figure 6. Summary of approach to the Economic Case



3.2 Overview of the preferred options: Viability Gap Fund

The Viability Gap Fund will provide capital funding to housing sites determined as unviable on account of abnormal infrastructure and remediation costs. These are sites which are unable to come forward at present because viability analysis shows that on account of these abnormal costs, the sites do not provide enough financial return to cover the risks associated with development.

Applications will be open to all ten CCR Local Authorities to apply for funding. The application form included within the Technical Annex sets out the key qualitative and quantitative criteria, including evidencing the viability gap, and other required site information which CCR will use to assess applications.

Funding will be awarded on a competitive basis for sites of between 40 and 350 units, requiring viability-gap investment of between £1m and £8m. Upon receiving funding applications, at the closure of an application-window, CCR will rank and prioritise projects using a Value for Money Evaluation Framework (see Technical Annex) based on benefits per £ invested by CCR, and weighted for connectivity to local employment opportunities. This framework will take a holistic, programme level view-approach; ensuring the economic outcomes are balanced across the region and inclusivity objectives are met.

CCR will take advice from procured technical advisors to manage the fund application and evaluation and prioritisation processes, and will ensure that applications are fully scrutinised for value for money.

While applications can only be received from Local Authorities as project sponsors, they are encouraged to work with third party delivery partners (such as private developers, landowners or RSLs). Funding can be awarded to sites owned by either the private or public sector, and sites in mixed and multiple ownership. Capital funding will be strictly subject to State Aid compliance, but under broad State Aid exemption rules (set out in detail in the Legal Options paper), can be used for:

1. Preparation of a Local Authority plot of land for development through remediation or infrastructure investment (publically owned land must be sold on at market residual values)
2. Fund on or off-site infrastructure or remediation works at a site owned by a third / private party.

CCR will also only seek to support sites which are able to be progressed and delivered on an accelerated timescale in order to deliver the greatest Net Present Value benefits to the Capital Region. The application process will be a time-limited window of 6 months, as described in the Technical Annex and the Management Case, before review and clarification of site applications commences by CCR technical advisors. It is therefore up to Local Authority partners to decide which sites they wise to prioritise given the timelines, and which will be most likely to be at an appropriate state of readiness to complete the application and review requirements.

3.3 Overview of the preferred options: SME Finance Fund

The purpose of the SME Finance Fund is to fulfil a gap in the market by providing commercial senior debt to SME developers unable to access finance for soft costs associated with the early, planning and design stages of the development cycle. As set out in the detailed economic appraisal within the OBC, there is a significant gap in the market for housing supply from SME firms which has been significantly reduced in Wales since the Financial Crisis, with access to upfront capital being one of the main barriers to entry for SME firms into the housing supply and delivery market.

Since the approval of the OBC by CCR Regional Cabinet, Welsh Government and DBW have provided confirmation that the CCR SME Finance Fund proposition is deemed additional to other funds operating in the market – especially those operated by DBW. The SME Finance Fund will therefore continue to FBC development.

The process for completing the FBC will be to test, via a market engagement which has already commenced, and subsequent procurement exercise, if the SME Finance Fund can be delivered by the market at a resource cost that provides value for money based on expected demand for the fund.

The SME Finance Fund is summarised in Appendix D. As set out above, the rest of the main body of this business case focuses on the finalised FBC for the Viability-Gap Fund, and the SME Finance Fund FBC will be completed subsequent to local agreement and procurement of a FCA accredited fund manager.

3.4 Economic framework to assess the VfM of the Viability-Gap Fund

As per HMT Green Book guidance, an economic framework is used in this FBC to assess the value for money of the Viability Gap Fund and is linked to the Spending Objectives set out in the Strategic Case. The economic framework is used to develop an indicative assessment of the economic benefits that the fund could deliver, and informs an overall VfM analysis by scenario.

Due to the nature of operating a fund – with the detail of applications to the fund yet unknown, certain economic outcomes are not observable at FBC stage, and will need to be considered on a site-by-site basis (see Table 5). These considerations will be made when applications are submitted to the Viability Gap Fund and will be assessed by CCRs technical advisors using the Evaluation and Prioritisation Framework methodology (as set out in the Technical Annex).

The following table summarises the Spending Objectives of the fund, the economic outcomes that could be used to measure those objectives, and whether this is measured in this FBC or later through the Evaluation and Prioritisation Framework.

Table 5. Economic framework to assess value for money of the Viability Gap Fund

Spending Objectives	Economic outcomes observed	Assessed at FBC	Prioritisation Framework
Increase overall economic output and boost GVA	1) Land value uplift		✓
	2) Local economic output at a CCR level	✓	
	3) Private investment leveraged	✓	
	4) Productivity uplift from connectivity benefits		✓
Lead to more housing that is genuinely affordable for residents	5) Net additional homes delivered	✓	
Promote economic inclusion, particularly for those in economically disadvantaged communities	6) Inclusivity benefits	✓	
Contribute towards the 'quality homes' agenda, including Welsh Housing Quality Standards for physical and mental health standards and zero carbon objectives	7) Qualitative assessment		✓
Produce environmental, social and health benefits that improve overall quality of life for residents	8) Qualitative assessment		✓

The definition of the economic outcomes listed in Table 5 is summarised below:

1. **Land value uplift** reflects the change in land prices due to development activity. In the context of the Viability Gap Fund, this would be due to shifting the use of unproductive land (e.g. former industrial sites) to productive land (i.e. new residential areas). Post-development land value (residual value) represents the price which a private developer would be willing to pay in order

to guarantee a minimum required level of profit. In the house building industry, developer profit on cost is typically assumed to around 20% depending on perceptions of risk locally. The viability note in the Technical Annex to this document provides the definition of viability adopted by CCR for the purposes of this Fund.

For the Viability Gap Fund, land value uplift would have to be observed on a site-by-site basis, due to the unique characteristics of a site in its current form (which informs current land prices), as well as the gross development value and development costs of the proposed housing development (which informs new land prices). MHCLG provides guidance to calculate land value uplift, and the extent to which the outcome should be considered net-additional.

2. **Gross economic output at a CCR level** is driven by the gross development value of the sites that come forward as a result of the Viability Gap Fund. This directly impacts the house building industry to CCR in the form of additional revenues. It also includes multiplier or "knock-on" effects through the local economy, which increase the scale of estimated benefits to CCR due to:
   - Indirect impacts from additional revenue to the supply chains of the house building industry in CCR; and
   - Induced impacts from the consumption/expenditure related to the activity of house building industry and their supply chains and employees.

The local economic output at a CCR level for the Viability Gap Fund was estimated based on the expected value of the number of homes that could come forward under different fund scenarios by looking at localised residual land values across the region, although this should also be reviewed at post-evaluation stage and will be supplied via detailed viability-analysis on a site by site basis. For the detailed approach of how local economic output was calculated refer to Appendix A.

3. **Private investment leveraged** reflects the relative scale of private (developer) funding unlocked in relation to the scale of public finance invested per investment. This is also estimated based on the number of homes expected to come forward and the gross development value. For the detailed approach of how private investment leveraged was calculated refer to Appendix A.

4. **Productivity uplift from connectivity benefits** derives from the notion that more homes delivered in well-connected locations, i.e. within good public transport or active transport to access jobs, will support effective density in a similar way to transport improvements. That is, a higher volume of better located housing delivers effectively increased labour markets to local employers, which entice new employers into a region and drive greater overall productivity (from better matching between skills and jobs, and knowledge spill-overs).

For the Viability Gap Fund, productivity uplift from connectivity benefits would have to be observed on a site-by-site basis, due to the specific location of the site and its connectivity to local transport links. In the Application Fund to be submitted by Local Authorities, sites will be assessed on their overall connectivity score. DfT guidance on measuring agglomeration benefits from improved connectivity could be applied at a site-by-site basis.

5. **Homes delivered** is the number of homes on sites developed that would otherwise not have been delivered without the Viability Gap Fund. This will need to be outlined in project sponsor's applications with a clear viability gap which demonstrates that development could not go through without public intervention. This outcome is estimated in the FBC but should also be reviewed at post-evaluation stage. For the detailed approach of how net additional homes delivered was estimated refer to Appendix A.

6. **Inclusivity benefits** are based on estimate the number of extra homes that would be expected to be delivered in areas of low inclusivity. Low inclusivity areas are identified as the 50% least competitive Local Authorities according to the UK Competitiveness Index (UKCI). Taking a competitiveness approach to define inclusivity is aligned with the overall objectives in point 3 above to drive improvements in connectivity and access to economic opportunity.

   The evaluation and prioritisation framework set out in the technical annex proposes the implementation of a **programme minima** for the Viability-Gap Fund which would try to ensure that, subject to a sufficient size of pipeline, that at least 50% of fund is value is allocated to sites in the 50% lowest inclusivity Local Authorities on this basis (i.e. least competitive).

3.5 Value for money analysis

The following table summarises the value for money analysis of the Viability Gap Fund for a £35m fund, assuming one round of funding. The input is based on a sample pipeline of sites provided by Local Authorities that was analysed within the region where the viability gap on-site is already known or estimated. The data from this pipeline of sites was then cross-checked by further deep-dive analysis undertaken by Savills which corroborated the findings of the initial data gathering exercise. See Appendix A for the detail of data gathering and testing analyses.

The analysis assumes that each project is ranked on the basis of its Value for Money (I.e. number of homes unlocked per public £ invested), and awarded funding in that order. Appendix A.5 and A.6 provide full detail for the input to the analysis.

Three sensitivity tests are run:

- Optimised test pipeline: Assumes that schemes are funded in order of best to worst value for money (i.e. homes unlocked per £ invested), and no additional policy levers are applied
- Constrained test pipeline: Also assumes that schemes are funded in order of best to worst value for money, but assumes policy levers are applied to improve environmental efficiency of homes and meet assumed local affordable housing policies.
- Average viability scenario: Assesses the economic outputs from the average site (mean) site in the sample pipeline

A range based view of potential economic outcomes is appropriate for a fund FBC given the unknown final detail of sites which will apply to the fund. Whether outcomes trend towards the 'optimised' pipeline or the 'average' pipeline will depend on the average VfM and depth of individual applications to the pipeline and the impact of programme-minima rebalancing on the overall fund VfM.

It is important to note that the upper levels of possible outcomes are based on the full £35M fund delivering units that are local planning policy compliant and no more. CCR is currently awaiting final 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 overall likely outcomes delivered will reduce.

Table 6. Summary of value for money analysis of the Viability Gap Fund

Viability-Gap Fund Option	Homes Delivered	Private investment leveraged – GDV, (ratio)	Economic output – local GDP impact for CCR	Inclusivity Benefits (no. new homes in most deprived areas)
£35m Fund (test pipeline, optimised	2894	~£493m (14:1)	~£870m	1447
£35m Fund (test pipeline, constrained	1850	~£325m (9:1)	~£575m	875
£35m Fund (average viability gap scenario)	1337	~£231m (7:1)	~£408m	668

The analysis is considered a conservative baseline outcome from one round of funding with no returns to the fund, and therefore no recycled investment. In practice, CCR will put in place mechanisms for value recycling into the fund, as set out in section 3.6 immediately below.

A range of fund sizes were also tested as part of the detailed appraisal analysis within the OBC, from £10m to £60m. The average viability gap for the 50% best value for money sites analysed as part of the data-gathering exercise was £2.7m. A £35m fund was therefore deemed the minimum size required in order for an effective prioritised pipeline to be developed. i.e. for there to be enough schemes fundable that can ensure the meeting of programme minima objectives for economic inclusion as well as overall value for money.

Given CCR's investment leverage objectives as set out in its industrial economic plan, the GVA unlocked by the pipeline forecasts above would all provide good value for money which exceed CCR's private leverage targets from their Industrial and Economic Plan KPIs, as set out in the Technical Annex.

It is important to note that the indicators set are gross economic indicators as some housing delivery unlocked via CCR funding will be displaced from other sites. However, in many Local Authority areas with very low levels of recent housebuilding (as set out in the Strategic Case), most house building will be highly net-additional at the local level.

The Evaluation and Prioritisation framework is set out in detail in the Technical Annex, and sets out the method which the Viability-Gap fund will use to assess investment propositions coming forward to the fund. Principally investment propositions will be ranked for value for money according to number of homes unlocked per £ of investment by CCR. Programme minima criteria will ensure that a proportion of investment will occur throughout the region (see technical annex for full method).

The Technical Annex also proposes the minimum value for money threshold against which CCR should review the prioritised process of sites before continuing with any investment decision.

The prioritisation process is set out in detail in the Management Case further below.

3.6 Funding Flow and Hierarchy

A viability-gap will be known at potential candidate sites to different degrees of certainty as schemes are fully investigated. Therefore, at the proposed commencement of the fund in April 2020, the full size of the viability-gap at all sites will not be fully known, with many sites in the process of completing the full investigative works required to establish the exact size of their viability-gap.

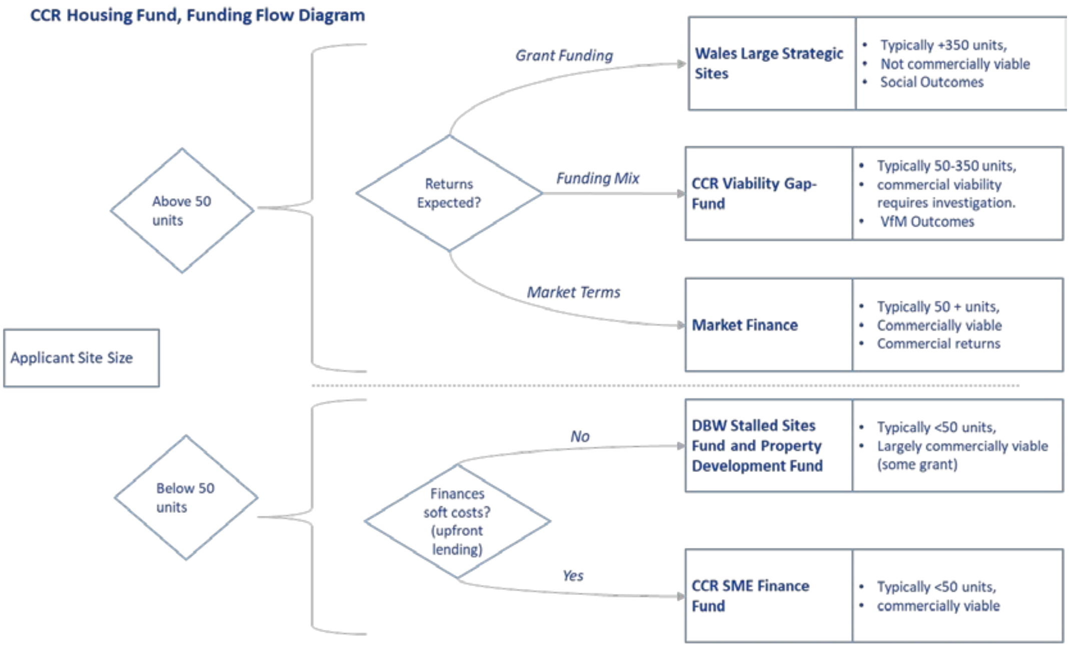
Consequently, the nature of support required to 'unlock' each site will also not be fully known until investigative works have been completed. CCR will therefore work with scheme applicants via its panel of specialist technical advisors to understand the implications of detailed viability work upon the optimum funding solution.

3.6.1 Funding Flow

The purpose of CCR Funding is to address market failures whereby development sites will achieve economic returns to the region but no funding is currently available to enable their delivery.

This will require CCR funding to be: distinct from other funding available (additionality), to be addressing a known insufficiency in the performance of the development sector (market failure), and to be delivering economic returns that justify investment (value for money)

The table below sets out how the CCR Viability-Gap fund achieves these key criteria in relation to other funds already operating or in development within the region:



Other Indirectly Relevant Funding Sources: *Welsh Government / ERDF Regeneration Funds (e.g. Valleys Taskforce), South Wales Metro, i.e. funds expected to have a positive impact on regional viability through raising land values; SHG (if already invested on site)*

The CCR housing fund is therefore clearly:

- Distinct from expected Welsh Government funding to major unviable sites. The CCR Viability Gap-fund will target sites that provide greatest VfM (economic returns per £ invested), subject to programme evaluation criteria. It will generally target mid-size sites (40-350 units).

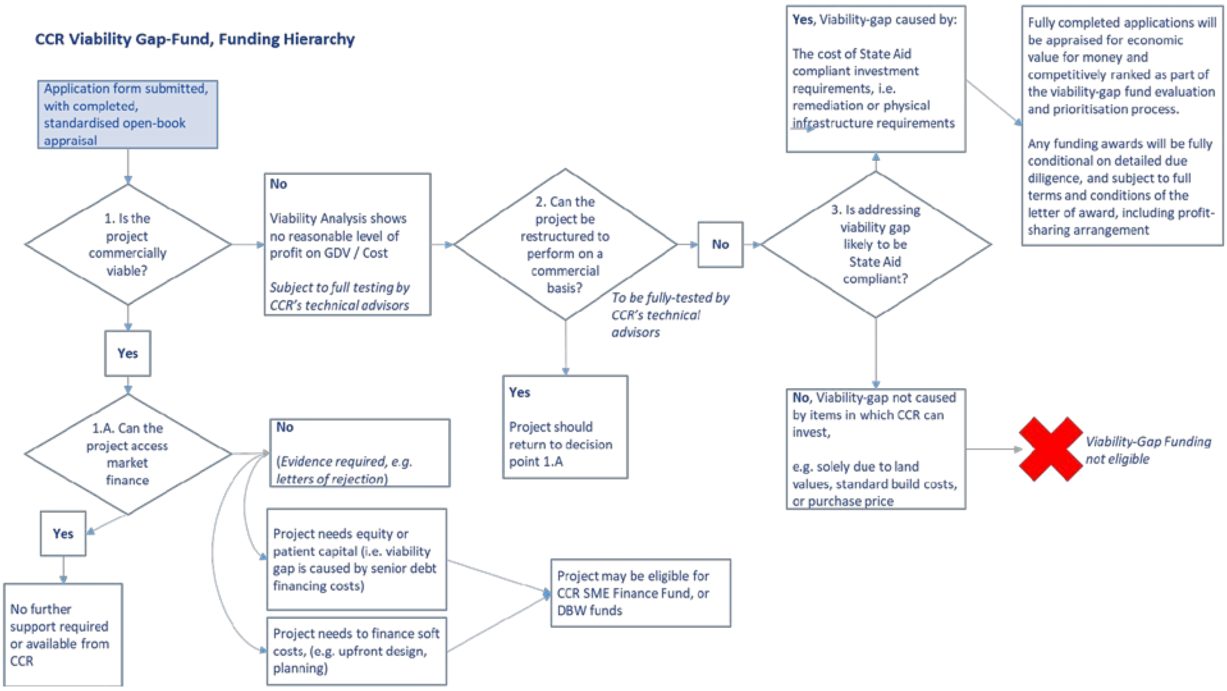
- Distinct from pure market finance available. The CCR Viability-Gap Fund will seek to operate where private finance options are exhausted. It will however still seek financial returns via overage wherever possible.
- Distinct from DBW funds and the CCR SME Finance Fund. The CCR Viability-Gap Fund will not specifically target SME developers or small sites.

3.6.2 Funding Hierarchy

The Viability-Gap fund is seeking to invest in value for money outcomes principally based on boosting housing delivery in South Wales in light of an evidenced and acknowledged market failure to supply sufficient housing.

To ensure maximised economic returns, the funding will seek to invest in the most strategic locations which provide the greatest outcome (homes delivered) per £ of investment by CCR. Where possible, the fund will seek financial returns from overage in order to leverage additional investments above and beyond that enabled by the initial funding.

The diagram below shows the funding hierarchy arrangement for the CCR Viability-Gap Fund:



The diagram shows that in the first instance (decision point 1.) applications will be required to prove that they cannot be delivered by commercial means.

If this can be proved with verification from a scrutinised, open-book viability assessment, challenged and reviewed by CCR's technical advisors, which establishes that the site proposal as submitted would not be expected to return a reasonable developer, the application will progress to decision point 2. Viability will be defined in the first instance in accordance with the advice note provided be Savills setting out an industry recognised definition of viability, as detailed within the Technical Annex. Fundamentally, applications will need to be viable in relation to local land values and planning policies, with both the fund criteria and State Aid rules specifying that only viability gaps caused by infrastructure or remediation costs are eligible. As set out in the Application Form in the

Technical Annex, Local Authorities and their delivery partners will be responsible for having undertaken the level of investigative works sufficient to enable a viability-assessment that can be thoroughly scrutinised by CCR's technical advisors.

Projects which are deemed commercially viable at decision point 1, will be analysed at decision point 1.A to understand if there are finance market failures which are preventing the site coming forward. In these cases, CCR will work with applicants to help them identify potential alternative financing arrangements where these may exist, which could include signposting to alternative funds available, including DBW funds and the SME Finance Fund. CCR, via its technical advisors, will engage Local Authority sponsors to organise joint discussions with their developer partners as required.

Where sites are not expected to be commercially viable on the basis of their initial application, at decision point 2, CCR will work with its technical advisors to scrutinise if sites could be made more viable via marginal changes in the development proposition, whilst ensuring that quality criteria are baselined in local and national policy and regulation.

Only on the basis of not being able to come forward commercially via a more viable delivery approach will sites progress to decision point 3, to confirm the expected State Aid compliance of this site.

If sites are State Aid compliant, they will move into value for money assessment, as discussed in the Evaluation and Prioritisation Framework in the Technical Annex.

4 Commercial Case

This section considers the key commercial considerations of the Viability Gap Fund, including the commercial arrangements of the fund, the procurement route, required services, and risk allocations between the LA Partners and the project sponsors partaking in the fund. The outturn of all such detailed commercial considerations are reflected in the final Viability Gap Fund Eligibility Criteria, Application Form, Fund Terms and Conditions, and the Evaluation and Prioritisation Framework, set out in the Technical Annex.

4.1 Overview of commercial arrangements

As set out in Section 3.2 the Viability Gap Fund is designed to provide capital funding to unviable sites to promote and accelerate the pace of housing delivery within the CCR region. From a CCR perspective, there are three commercial arrangements that must be set up to operate the Fund:

1) **Arrangement with a Fund Coordinator.** CCR will procure a Fund Coordinator to review applications to the Fund, working closely with LA Partner scheme sponsors and their delivery partners (as more specifically described below). Engagement with Local Authorities as part of a detailed data gathering exercise (described in Appendix A), and supplemented by additional market analysis by Savills, suggests that there should be a pipeline of relevant sites across the region able to come forward to apply to the fund. The Fund Coordinator will provide specialist guidance to the LA Partner applicants completing a Phase A of the application process, as set out in the Management Case, and will provide a monitoring and reporting role between the CCR and fund applicants.

   The fund coordinator will report into CCR project team on the progress, challenges, issues of the application period as sponsors are developing their applications. CCR project team will use this information to keep CCR Governance stakeholders up to date with the progress of the fund process timelines against milestones (as set out in the Management Case below). The fund coordinator will be required to drive efficiencies in the overall process by helping Local Authorities with their identification and sifting of sites likely to perform best against the VfM criteria of the fund (especially in consideration of strategic connectivity of sites in relation to access to economic opportunity).

2) **Arrangements with Technical Advisor Panel.** CCR will also procure Technical Advisors to provide specialist skills to work with the Fund Coordinator as part of the economic and commercial review of sites proposed as part of an application process (set out in the Management Case and Technical Annex), to provide a cross-check review of the viability assumptions presented at sites, and to test the potential viability of sites requesting funding support (as more particularly described below). The procurement process will ensure that advisors have sufficient capacity and capability across the range of built environment specialist skill sets, including planning, surveying, and economic development to appropriately provide the breadth of services required.

   The Technical Advisor Panel will be responsible for helping CCR to maximise the Value for Money from each site. They will implement the evaluation and prioritisation framework on behalf of CCR after the closure of the application window, and provide an assessment of the prioritised pipeline of sites in order for CCR Governance (project team, Investment Panel, and CCR Regional Cabinet) to take an informed decision on value for money of the applying investment propositions. The Technical Advisors will undertake due diligence against any conditional funding awards as part of a Phase B of the application process, also set out in the Management Case below.

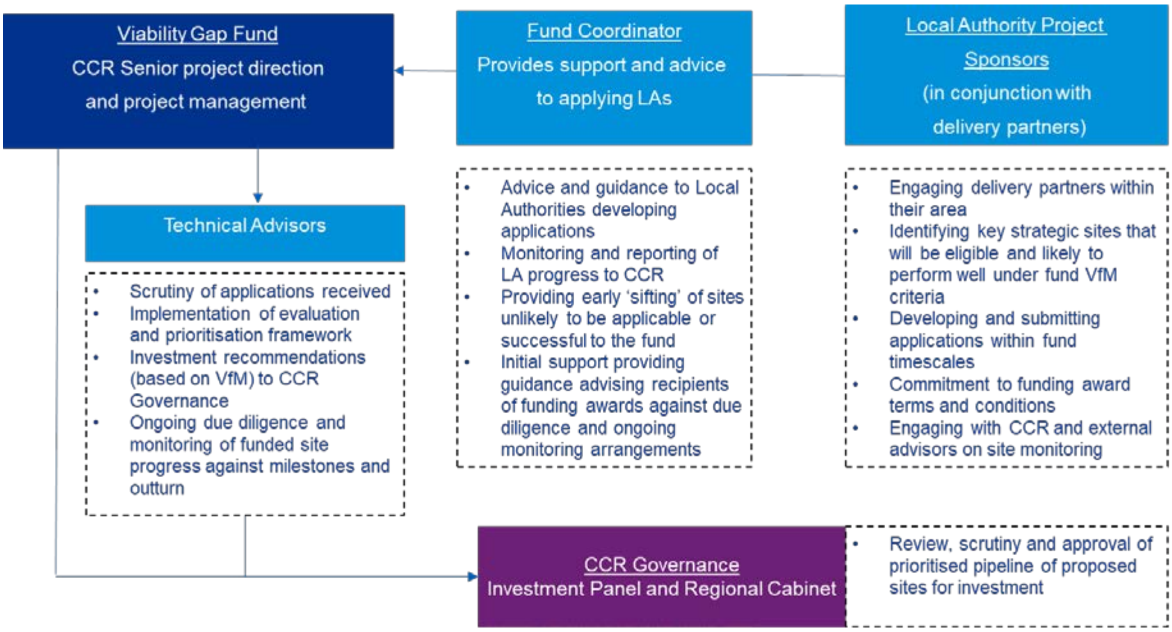
They will also support the ongoing review and monitoring of sites which have been awarded funding. This role will include corroborating the detailed due diligence required at Phase B of the application process, as well as further monitoring of funding draw-down and the outturn situation at sites which will enable the implementation of overage agreements where applicable (described in section 4.5.2)

3) **Arrangements with LA Partner scheme sponsors.** LA Partners are responsible for submitting applications to the Fund for housing schemes they wish to put forward, working in conjunction with third-party delivery partners where required. Applications must adhere to the Eligibility Criteria set out in the Technical Annex (e.g. open-book viability gap analysis, demonstrate CCR intervention is required, etc.). In order to receive Viability Gap Funding, LA Partners must also agree commit to the Fund terms and conditions, also set out in the Technical Annex, including the overage agreements, risk allocations and use of funding received.

   Funding awards to LA Partner scheme sponsors will be made on a conditional basis and shall be subject to the completion of detailed due diligence. Upon receipt of funding, LA Partner scheme sponsors and their partners will further be bound by the funding agreement which will set out the detailed terms and conditions of funding. Funding draw down will then be subject to site-based milestones, with capital transferring between Cardiff Council as fund Accountable Body and the relevant Local Authority partner who will then be responsible for administering payments to their delivery partners.

The following figure summarise the commercial arrangements required to operate the Viability Gap Fund, which structures the remainder of this chapter.

Figure 7. Overview of CCR's Commercial Arrangements for the Viability Gap Fund



4.2 Procurement strategy and route

4.2.1 Approach to procuring a Fund Coordinator and Technical Specialists

CCR will procure a Fund Coordinator and Technical Specialists through a competitive tendering process undertaken via a Government Framework. The Procurement Strategy, route to market and documents are in place with an expectation that a procurement award will be made in April 2020. Resource costs included within this FBC are based on extensive market engagement work undertaken to date, including provision of contingency for optimism bias and overrun.

The market engagement work undertaken suggests that the roles for both the technical advisor and fund coordinator role are well understood and that there is sufficient market demand from suitably experienced, recognised industry suppliers to provide both the capability and capacity to meet the service requirements.

4.2.2 Approach to receiving applications from scheme promoters

Following the submission of the OBC in December 2019, LA Partners were engaged via a workshop and subsequent one-to-one discussions to review the draft Eligibility Criteria and the terms and conditions to receive Viability Gap Funding.

Following this engagement, a final Viability Gap Fund Technical Annex including, the Eligibility Criteria, Application Form, Fund Terms and Conditions, and the Prioritisation Framework were produced, governing the process and terms of operation for the fund. All of these documents are set out in the attached Technical Annex. These documents will be formally shared with LA Partners by end-April 2020 representing the commencement of the call for applications. Applications are due to be returned within 6 months by end October 2020, as set out in detail in the Management Case below.

For the purposes of prudence in the value for money analysis, is assumed that there will be only one wave of funding released through this process initially. However this is subject to the value for money assessment of the overall pipeline, as well as any recycled capital returning to the fund which might enable a further call for sites at a later date. Any Viability Gap Funding awarded by CCR, following conclusion of the due diligence and governance process (as detailed in Section 4.5.2 below), will be issued from the Accountable Body directly to the sponsor local authority subject to the terms and conditions of funding (as detailed in the attached Technical Annex). Such conditions shall include, amongst other matters, overage sharing arrangements, detailed performance reporting and an obligation to achieve agreed milestones.

4.3 Service requirements and outputs

4.3.1 Fund Coordinator

The Fund Coordinator will be responsible for project management of the Fund full application process, providing guidance to LA Partner sponsors, and providing monitoring and reporting services to CCR. Specific responsibilities will be:

- To provide project management support to the 10 LA Partners when the CCR fund is formally launched and notifying the LA Partners of opening of the application process and helping to stimulate the pipeline of potential sites.
- To assist the LA Partners' with the technical detail of the application process, ensuring that data requirements are fully understood, and enhancing the quality of submissions to-be received upon closure of the application window.
- To provide guidance to the LA Partner scheme sponsors where they may need to undertake commissioning/co-ordination of the technical surveys and other technical site information that will need to be submitted along with the application for assessment. Supporting the direction of CCR revenue support funding to Local Authority Partners on this basis.
- To act as a link for communication, reporting and monitoring arrangements between the City Deal Office, the LA Partners and the wider Technical Advisor Panel;

4.3.2 Technical Advisor Panel

The Technical Advisor Panel will be responsible for:

- Independently evaluating and scrutinising all applications received, with a view to testing the commerciality of propositions and cross-checking the viability assessments provided
- Assisting the City Deal Office with the implementation of the evaluation and Prioritisation Processes, providing an assessment of the overall value for money of the prioritised pipeline;
- Making appropriate recommendations to the CCR senior management team and Investment Panel as required based on implementation of the Evaluation and Prioritisation Framework as set out in the Technical Annex and the Management Case.

Once funding agreements have been finalised, and development on sites commenced, the Technical Advisors will also be responsible for post award monitoring and evaluations, which includes:

- Ongoing support to LA Partners as developments are progressed;
- To assess progress against agreed milestones and provide recommendation as to whether milestone payment should be released by the City Deal Office/Accountable Body;
- To regulate the operation of the overage arrangements included within the funding conditions.

The appointed Technical Advisors will need to be able to access the appropriate level of financial and legal advice and support, which is commensurate with the technically complex level of applications that are likely to be received and CCR will procure additional financial and legal support as required from its existing framework arrangements. The technical advisors will also need to be able to review and assess due diligence matters as part of application-reviews as set out in the fund terms and conditions, such as company financial standing assessments, financial modelling, advising on security and risk, advising financing structures, State Aid, preparation of all supporting legal documentation, etc.

It will be the responsibility of the sponsor local authority and/or their appointed delivery partner to resolve such matters to the satisfaction of the CCR Project Team and the Technical Advisors (pursuant to the terms of the conditional funding award letters issued at the end of Phase A). CCR will undertake a detailed due diligence process with the support of its external advisers to verify all such matters prior to the confirmation of any funding commitment

4.3.3 Scheme promoters

LA Partners will be given 6 months to complete their applications to the Fund, with support through CCR's Fund Coordinator and Technical Specialists, as well as revenue funding provided by CCR.

Applications will need to be submitted on a site-by site basis, meaning LA Partners could submit multiple applications. LA Partners are responsible for confirming that schemes brought forward meet the Eligibility Criteria and that they are willing to abide by the Funding Terms and Conditions, both as set out in the Technical Annex. Applications submitted must be complete and accurate. LA Partners are responsible for seeking the support of the Fund Coordinator and their own technical advisors if required to complete their applications. Revenue match funding of up to £500,000 will be provided by CCR to support the development of applications during both Phases A & B in totality (meaning CCR will reserve a proportion of overall revenue funding for Phase B). Any revenue funding will be subject to negotiation with CCR and advice from the fund coordinator that the proposed scheme(s) receiving revenue support are likely to be appropriate candidates for detailed investigation.

LA Partners are also responsible for reviewing and understanding the terms and conditions to receiving funding, as set out in the Technical Annex. LA Partners should liaise with the Fund Coordinator regarding any questions to the terms, and agree to the finalised terms upon submissions of their applications to the Fund.

4.4 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 7. 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

4.5 Charging / Payment mechanisms

4.5.1 Fund Coordinator and Technical Advisor Panel

As set out in the Financial Case and the Management Case, CCR will incur ongoing revenue costs in operating the Viability-Gap Fund through its procurement of a Fund Coordinator and Technical Advisor Panel.

Charging and payment mechanisms for the provision of the services from these advisors will be governed according to the provisions of the formal ITT documentation developed by CCR as part of its procurement process.

4.5.2 Scheme Sponsors

All capital funding awards to LA Partners will be conditional on the basis that the information provided in the Application Form is complete and accurate, subject to full due diligence sign-off, and that Fund Terms and Conditions are agreed in advance by all parties through a letter of award. Fund terms and conditions will be sent to LA Partner sponsors, as set out in the Technical Annex, upon opening of the fund. A conditional letter of funding award for co-signature will be sent to any LA Partners successful at the application stage.

CCR will only be able to make capital awards to State Aid compliant investment proposals. The full State Aid considerations which both CCR and LA Partners will need to consider and abide by are set out in the Legal Options Paper which accompanied the OBC for the Housing Fund. Broadly, CCR will consider two types of funding proposition which have precedent as State-Aid compliant forms of investment:

- Funding of general infrastructure works at sites
- Remediation of brownfield land

The Legal Options paper should be referred to for a full understanding of State Aid considerations required in the operation of the fund.

As part of the Application Form to apply for Viability Gap Funding, LA Partners are asked to provide a high-level cash flow for draw down of funding and housing delivery. This will depend on the cause of the viability gap, and the intervention is required to bring this site forward e.g. physical infrastructure including road / highways, rail crossing, public land assembly, site remediation etc.

Funding payments will be made by CCR to the LA Partners upon the delivery of agreed outputs / milestones by reference to an agreed site delivery plan.

Any resource awards to Local Authorities will be subject to negotiation and discussion between CCR and Local Authorities, and subject to an evidenced need for resource support throughout the application process.

4.5.2.1 Accountable Body

The Viability-Gap Capital Fund will be managed according to the preferred option set out in a Legal Options paper which accompanied the OBC. This approach will see Cardiff Council as the 'Accountable Body' establish a ring-fenced 'block of finance' within its wider financial management arrangements.

Funding will be drawn down via payments direct from the Accountable Body to the LA Partner sponsor subject to decisions made by Investment Panel and Regional Cabinet, upon advice from the CCR project team and its technical advisors. The LA Partner sponsor will then have full responsibility for further disbursements of funding to third-parties and ensuring that these disbursements are compliant with relevant regulation (e.g. State Aid, financial due-diligence, anti-fraud checks).

In the event a scheme promoter is unable to complete any of the agreed key milestones to site completion, this could result in termination of all subsequent funding and a requirement to repay any funding already drawn-down.

4.5.2.2 Overage arrangement

As part of the Fund Terms and Conditions, LA Partner scheme sponsors must agree to commit to an overage arrangement in the case the outturn profit from a site receiving Viability Gap Funding shows the site to be achieving sales values which are providing a level of profit in excess of that forecast within the viability assessment submitted with the original application form as follows:

- Any profit (determined by outturn sales values) level above the 20% reasonable return threshold will be shared with CCR
- Profit on each additional £ earned above this level will be shared equally (on a 50/50) basis between CCR and the developer

4.6 Contract management strategy

As mentioned in 4.3, Fund Coordinators will be responsible for post-award monitoring and evaluations, which ensures contractual obligations are fulfilled compliantly and documented appropriately. This role includes assessing progress of site development relative to agreed milestones; providing advice on whether milestone payment should be released by the City Deal Office/Accountable Body; and implementation of profit-sharing arrangements.

CCR will work with the Fund Coordinator ahead of Fund Agreements being signed with LA Partner scheme promoters to agree what outputs will be monitored during the design, build and sale of homes delivered from the Viability Gap Fund.

In the event of a change in scope and/or costs of the scheme, CCR will be responsible for managing and approving changes based on the advice of its Technical Advisor Panel.

4.7 Other contractual arrangements relevant to the operation of the fund

- CCR's remedies and processes in the event of failure on the part of the scheme promoter to deliver homes on time and at the specified price
- Duration of the contract(s) with scheme promoters and any break clauses
- Assurance for compliance with appropriate regulations (e.g. State Aid)
- Welsh Government Funding terms and conditions

4.8 Accountancy and Tax treatment

4.8.1 Overall Arrangement

CCR will operate the Viability Gap Fund 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 Technical Annex.

4.8.2 Tax considerations

Under the assumption that HMRC considers CCR a Local Authority Association, and the purpose of the Viability-Gap Fund objectives of unlocking additional housing provision as pursuant to the general interests of Local Authority partners, it is expected that investments will not be subject to corporation tax. CCR will seek advice to clarify this with its legal advisor before any investments are made from the fund.

Any Local Authorities seeking to directly purchase land with funding made available will need to take further tax advice.

Both CCR and Local Authorities are considered to be able to recover any VAT incurred in accordance with their usual procedures.

4.8.3 Accountancy Considerations

As Cardiff Council is acting as an agent in terms of the definitions of the Joint Working Agreement, net accounting applies. This means that the receipts Cardiff Council receives from the WIF are not recognised as income in its stand-alone accounts and are effectively netted off against the payments it makes on their behalf.

Each Local Authority Partner will account for its share (where received according to the fund prioritisation process) of the transactions as though it were transacting directly with the ultimate counterparty. This applies equally to expenditure and revenue. However, Local Authority Partners will treat Cardiff Council as the counterparty for payables or receivables, in recognition of Cardiff Council's role in settling these, and Cardiff Council will recognise corresponding payables and receivables with each of the Local Authorities.

Cash contributions from the WIF to the Viability-Gap Fund will be considered transactions with Cardiff Council. Local Authority Partners will record a receivable from Cardiff for any such amounts paid, until such time as the cash is used by Cardiff Council to make HIF related payments. Likewise, Cardiff Council will record corresponding payable amounts.

In respect of amounts received directly by Cardiff on behalf of the Viability-Gap Fund from the WIF, Cardiff will only count as income its proportion of that income (for Viability-Gap Fund use), with a corresponding payable to the other Local Authority Partners.

How this net accounting would apply in practice is set out in the table below:

Transaction	**Cardiff Council (as Accountable Body)**	**LA Partners**
Cardiff Council receives viability-gap funding from the WIF	Dr: Cash (the full amount) Cr: Income (the proportion of the total attributable to Cardiff – subject to VfM prioritisation) Cr: Amounts payable to Councils (the remaining balance, attributed to each Council according to their proportion – subject to VfM prioritisation)	Cr: Income (with its proportion of the total received)
Cardiff Council disburses / allocates viability-gap funds on agreed basis	Dr: Expenditure (with its proportion per Clause 12.5.3 of JWA). The nature of the debit will also reflect whether the expenditure is revenue or capital in nature Cr: Cash (with the **full** amount paid) Dr: Amounts payable to Councils (with their proportion of the total spend)	Dr: Expenditure (with their proportion per Clause 12.5.3). The nature of the debit will also reflect whether the expenditure is revenue or capital in nature Cr: Amounts receivable from Cardiff (with their proportion of the spend – subject to VfM prioritisation)
Dealing with accruals (accrued costs at year end not yet paid by Cardiff as Accountable Body)		

Transaction	**Cardiff Council (as Accountable Body)**	**LA Partners**
Initial recognition of accrual	Dr: Expenditure (with its proportion per Clause 12.5.3). The nature of the debit will also reflect whether the expenditure is revenue or capital in nature Cr: Accruals (**Full** Amount) reflecting the amount owed to the external party Dr: Accrual - Amounts receivable from Councils (for their proportion of the total external accrual)	Dr: Expenditure (with their proportion per Clause 12.5.3). The nature of the debit will also reflect whether the expenditure is revenue or capital in nature
Payment of accrued expenditure	Cr: Cash Dr: Accruals (external) – the **full** amount And then net off the accrued receivable from Councils against amounts owed to them … Cr: Accrual – receivables from Councils (for their proportion of the full accrual) Dr: Amounts Payable to Councils – with their proportion of the full accrual	Cr: Amounts receivable from Cardiff Council (to reduce the amount owed to them by Cardiff Council as it has now used the cash to settle the external creditor).

5 Financial Case

The Financial Case considers the affordability and cost implications of the Viability Gap Fund for Cardiff Capital Region and its stakeholders.

Whilst an overall size of the expected fund has initially been proposed at £35m, the affordability of the Viability Gap Fund was also estimated under £10m, £30m, £35m, and £60m funding scenarios. This helps to better understand the overall level of investment need of the Fund under a given market demand and defined budget constraints.

5.1 Overview of the approach

A financial model was developed and detailed in the OBC to estimate the affordability of the Viability Gap Fund. Affordability is determined by the expected net cash flows to CCR, based on annual drawdowns, and management fees incurred, and possible overage from residual land values achieved. Net cash flows are presented in both nominal and NPV terms. The following table summarises the approach to estimating each of the elements of the net cash flows.

Table 1: Approach to estimating affordability of the viability gap fund

Annual drawdowns	Annual drawdowns to the fund are driven by the size of the fund and the estimated average viability gap funding per site. Average viability gap estimates come from data provided by CCR Local Authorities on specific sites that currently face viability challenges and thus could be eligible to apply to the fund. Regardless of fund size, it is assumed application reviews are completed in FY2021, and capital allocations are distributed over a three year period thereafter (FY2022-FY2024). Thus the amount that is drawn down per year is driven by the assumed size of the fund (i.e. £10m, £30m, £35m, and £60m funding scenarios).
Overage from residual land values	Whilst the purpose of the fund is to address the viability gaps of large stalled sites through capital funding, it is assumed CCR could recover some overage from residual land values achieved, where possible. Overage expectations have not been explicitly modelled as part of the FBC. On account of risks in forecasting macroeconomic future outcomes and the limited precedent for this kind of funding within South Wales, it was not deemed realistic to be able to forecast the outturn sales positions on disperse sites across the region before applications have been received and scrutinised. An overage assumption considered prudent at 10% of sites achieving residual values greater than the industry-standard minimum viability of 20% profit on cost was therefore used for the purposes of providing a benchmark assessment of the lower range of potential overage returns that the fund could realise in order to a) meet revenue running costs, b) recycle investment.
Commercial arrangements	As set out in the funding flow statement, CCR will be willing to explore commercial arrangements to unlock sites where there is an appropriate market failure to be overcome. The financial case does not include

	analysis of these scenarios, and uses the overage-scenario as a conservative estimate of potential returns.
Resourcing costs	Through the stakeholder engagement activities, an estimate has been derived for the amount of resource required to operate and manage the Viability Gap Fund. This includes the resources from LAs to develop business cases for specific stalled sites and resources from CCR to review applications, come to an agreement with LAs, and monitor progress in order to release the funds and monitor outturn and overage. The resource requirements are discussed in more detail in the Management Case.

5.1.1 Resourcing costs

During the Application Period, Local Authorities will be responsible for developing and submitting applications for Viability Gap Funding. It is assumed in-house dedicated resource will be required for this from each CCR Local Authority. An annualised cost of c£60,000 was assumed for salary and on-costs for a sufficiently experienced FTE resource at each Local Authority to support the application process. Given an aspiration for resource match-funding, CCR will provide up to £500,000 in sum across all Local Authorities to partially support in-house resource costs for completing the application process. Additionally, CCR revenue support can also be used by Local Authorities to appoint additional technical advice, in addition to the support provided by a CCR Fund Coordinator, in order to develop their applications. It is expected that where Local Authorities are working with private and third sector delivery partners, these partners will also be able to provide leverage to support application development costs.

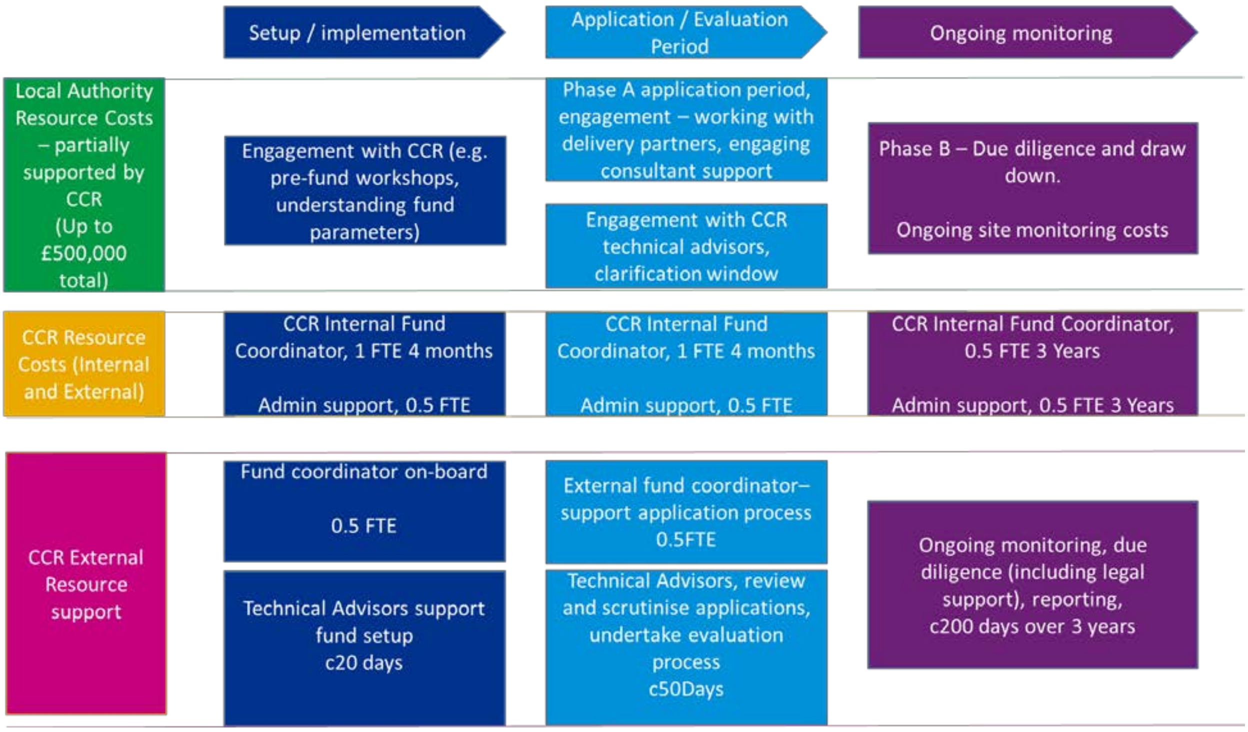
As set out in the Commercial Case, the Fund Coordinator will be responsible for supporting Local Authorities applying to the fund, and the Technical Advisors will review and scrutinise applications to the fund and managing and monitoring agreements between CCR governance, the recipients and end-users of funding. Once funding terms have been agreed with all recipients, the technical advisors will also be responsible for ongoing due diligence and monitoring of the Fund thereafter. 240 days of technical advisor support have been estimated at a blended advisor day-rate of £1,515 per day, based on assessment of existing relevant Government frameworks for similar services. This will support both the year one application and evaluation process, as well as the ongoing monitoring and due diligence required over the following 3 years of housing fund operation once awards have been made.

It is assumed the external Fund Coordinator role would be resourced at approximately £1,875 per day at 2.5 days a week for the 6 month duration of the application window per annum to CCR.

Both the fund coordinator and the technical advisor roles will interface with the CCR office, and CCR will make available sufficient senior management resource to provide direction to the project. Additionally, CCR will procure internal project management and administrative support to provide day-to-day management with the procured technical advisors and to provide sufficient information and data-collection to provide effective internal-project communication and progress monitoring. These internal resources are estimated at c£200,000 based on tapered level of resource requirements from an intensive first 12 months (application and evaluation), to lower intensity ongoing monitoring and due diligence post funding awards.

Additional support, including legal and financial advice will be procured as required from CCR's existing frameworks and assumptions have been made for the level of support required. In total, resource costs (including LA support) are assumed of £1,498,000 over four years of fund operation.

Figure 8. Proposed Resource and Responsibility Flow - Viability Gap



5.2 Summary of results

The following table summarises the results of the viability gap fund for the 'optimised' pipeline scenario, including fund operations, nominal cash flows, the NPV of cash flows, and the discounted proportion of initial capital.

Table 8. Results of the viability gap fund under three fund size scenarios

	Fund size	£35m
Fund operation	Start date	2021
	End date	2024
	No. years operational	4
	Total no. of financial arrangements	11
Nominal cash flows	Total Drawdown within 10 year period (£ m)	-£35.0
	Assumed value of non-recovered (£ m)	£29.3
	Overage recovered (£ m)	£7.2
	Total value recovered (£ m)	£7.2
	Total resource costs incurred (£ m)	-£1.5
	CCR net cash flows (£ m)	-£29.3
NPV	Discounted Net cash flows (£ m)	-£25.8
	Discounted capital recovery (%)	7%

As set out earlier, annual drawdowns to the fund are driven by the size of the fund and our estimated average viability gap funding per site. Thus, regardless of fund size it is assumed that the fund operates over a four year period, between FY2021 and FY2024.

This table demonstrates that the financial returns to the fund through residual values achieved could cover the costs of managing the fund, and thus capital recovered in discounted terms is close to zero.

5.2.1 Sensitivity testing

As demonstrated in the results, financial outcomes for the Viability-Gap Fund are largely dependent on the assumed returns to the fund and management costs. Sensitivity testing is conducted on these two inputs under a £35m fund size scenario, on the 'average' pipeline outcome case. Sensitivities are observed for what happens to capital recovered when no overage-inducing residual values are attained, and when management fees are doubled. A summary of the sensitivity test inputs is presented in the table below.

Table 9. Sensitivity testing of SME Finance Fund options

Financial model assumptions	
Fund size	£35m
Share of homes that attain residual values sufficient to repay CCR investment	
Baseline assumption	10%
Sensitivity testing assumption	0%
Management fees double	
Baseline assumption	£1.5m
Sensitivity testing assumption	£3m
Zero carbon housing agenda (higher viability gap)	
Baseline assumption	£23,000
Sensitivity testing assumption	£28,000
Affordable housing agenda (lower residual values)	
Baseline assumption	£1.7m per hectare
Sensitivity testing assumption	£1.6m per hectare

The following table compares the discounted capital recovery under the baseline assumption against the sensitivity tests.

Table 10. Results of sensitivity testing the Viability Gap Fund

Discounted capital recovery (%)	**Viability-Gap Fund**
Baseline assumption	**5%**
No returns to the fund	-3%
Double management fees	2%
Zero carbon housing agenda (higher viability gap)	3%
Affordable housing agenda (lower GDV)	4%

The table above demonstrates that, even when management fees are doubled, some capital could be recovered through residual values. In the scenario where no returns to the fund are made, there is a small negative capital recovery. Discounted capital recovery worsens marginally when the zero carbon housing agenda and affordable housing agenda assumptions are taken into account.

The following table summarises the breakeven points for the share of homes that attain residual and management fees per annum in order for the discounted proportion of initial capital to be zero.

Table 2: Breakeven analysis of Viability Gap Funding

Breakeven	Viability-Gap Fund
Share of homes that attain residual values	4%
Management fees	£1.2m (Local Authorities) £190k (CCR)

This demonstrates that only 4% of homes delivered through the Viability Gap Fund would need to attain residual value in order to have a capital recovery of 0%.

6 Management Case

The Management Case demonstrates how the Viability Gap Fund will be delivered in practice once implemented, including setting out the processes, resources and responsibilities, and the governance and information-sharing structures that will undertake and oversee delivery.

6.1 Project framework

CCR Regional Cabinet will be ultimately responsible for the appropriate use of capital allocated into the Housing Fund. It is therefore imperative that there are appropriate governance and performance monitoring arrangements in place to ascertain that funds are being used appropriately – as planned, and that impacts (and benefits) are understood, including the reasons for any deviation from expectations. These governance arrangements will follow the agreed IIF assurance framework setup as part of CCR's ongoing Joint Working Agreement.

6.1.1 Governance and stakeholder structure

- Local Authorities will work with scheme promoter partners to identify their most-strategic sites and develop application forms to apply to the CCR viability-Gap Fund. A range of stakeholders will then be involved in the scrutiny and evaluation of applications received. The broad stakeholder groups are set out below and their governance relationships are set out as follows:

Stakeholder group	Role	For the purpose of the Fund, reports to
Welsh Government	• **Oversight of use of (£5m) Grant Funding allocation**	• **Is consulted, reviews outcomes**
Cardiff Capital Region (Cabinet, Investment Panel, Programme Board)	• **Cabinet approves business case for the fund.** • **IP will agree to list of prioritised schemes post-application**	• **IP reports into the Cabinet via CCR Senior Management**
Viability Gap Fund CCR Project Senior Management	• **Oversees the performance of the Fund Coordinator and Technical Advisors**	• **Reports into IP and Cabinet, status of the project pipeline, prioritised list of investments**
Fund Coordinator	• **Supports and guides project sponsors applying to the fund.** • **Monitors and reports progress during application period and post-award**	• **CCR Senior Management** • **IP as required**
Technical Advisors	• **Provides review of site applications from a technical perspective** • **Provides advice to maximise outcomes and potential commercial return for CCR**	• **CCR Senior Management** • **IP as required**
Project Sponsors (Local Authorities)	• **Develop applications** • **Work closely with delivery partners**	• **CCR Project Management** • **Fund Coordinator**

	• **Responsible for complying with funding terms and conditions**	

Upon receipt of a pipeline of applications from Local Authorities, at the time of closure of the application window, CCR project managers will work with their technical advisors to rank and prioritise applicant schemes according to the value for money criteria established within this business case. This process will be overseen by CCR Senior Management.

Subject to the prioritised pipeline meeting the minimum value for money threshold established, and subject to the achievement of the programme minima, and deliverability criteria (i.e. route to planning, delivery timelines), the prioritised list of schemes will be presented to Investment Panel for scrutiny. In line with the Investment and Intervention Framework process, any scrutinised programme of site-based investments approved by Investment Panel will then be presented to Regional Cabinet in order for proposed site funding awards to be confirmed.

6.1.2 Key roles and responsibilities

Role	**Stakeholder group**	**Appointed personnel, under procurement, or third-party (e.g. project sponsors)**	**Responsibility**
Senior Responsible Owner (SRO)	**Viability Gap Fund Project Team**	To be appointed by CCR	Benefits realisation, senior stakeholder management
Project Director and Internal Project Manager	**Viability Gap Fund Project Team**	To be appointed by CCR	Day-to-day project direction and communication
External Project Manager	**Fund Coordinator**	Subject to outcome of CCR procurement	Progressing fund against task and workplan
Project Support	**Technical Advisor**	Subject to outcome of CCR procurement	Providing specific advice as requested
Project Sponsors	**Local Authorities (and delivery partners)**	To be determined by individual LAs	Engaging with application process and ensuring delivery on the ground

6.1.3 Reporting arrangements

CCR will set up management information and accounting arrangements between themselves, the Fund Coordinator and Local Authority funding recipients. An internally resourced project manager and project director, along with administrative support, will oversee these arrangements.

The externally-appointed Fund Coordinator has responsibility for management and oversight of the Housing Fund Programme. This person will be responsible for management of information flows between CCR and its governance and assurance arrangements, and the recipients and end-users of funding. The Fund Coordinator will engage on a weekly basis with the CCR project manager and provide a quarterly report to CCR programme senior management, which will be provided as an update to CCR Governance committees as required.

6.2 Project plan

6.2.1 Overview of timelines

As with other investments made by Cardiff Capital Region, investments from the housing fund will also follow the CCR Investment and Intervention Framework assurance process, with governance sign-off by Investment Panel and Regional Cabinet.

This process will be facilitated by taking a programme approach to project appraisal, which will enable a pre-prioritised list of applicant schemes to be presented to the IIF. As discussed in the Economic Case and the Technical Annex, this process provides greater overview of the likely outcomes per £ of investment, and how outcomes will be shared across CCR Local Authorities.

Cardiff Capital Region has developed an evaluation and prioritisation framework for the Viability-Gap Fund, which is set out in the Technical Appendix will be circulated to Local Authorities and industry representatives. This will be accompanied by notice of the opening of the fund to applications, as well as the eligibility criteria and funding terms and conditions.

CCR has also developed a template Application Form for Local Authorities to complete in order for schemes to be appraised on a level playing-field basis, as provided in the Technical Annex. The Application Form sets out the key data requirements that will be required in order for projects to be comparatively assessed and ranked.

Local Authorities successfully applying for funding will need to have completed an expected profile of drawdown against a project management plans, and CCR will be responsible for monitoring progress against this plan and signing-off on the drawdown of funding as required against milestone delivery. LAs will also be required to complete a range of due diligence checks post-award and before-release, set out in the Funding Terms and Conditions Technical Annex.

6.2.2 Overview of timelines to Funding Awards:

The Viability-Gap Housing Fund will be formally launched in April 2020. At this point, the Technical Annex documents within this business case will be distributed to identified points of contact within each of the Local Authorities.

Receipt of the Technical Annex documents will enable LAs, as prospective project sponsors, to fully understand all requirements required of them and any third-party delivery partners they choose to work with, to complete the application process with eligible schemes, and the Value for Money basis on which schemes will be assessed.

This point will also signal the formal opening of the application window for the Viability-Gap Fund. Local Authorities will then have 6 months to complete applications to the fund. This forms Phase A of the application process. CCR will utilise the services of its procured Fund Coordinator to ensure that Local Authorities are clear and briefed on expectations and requirements for successful completion of the application form. CCR will also make available a portion of resource funding to each Local Authority as resource support in completion of application forms.

The application window will close 6 months after its opening. At this point, CCR will have received a pipeline of candidate schemes from Local Authority applicants. CCR's first action at this point (expected November 2020) will be to seek advice from its technical advisors to scrutinise viability assessments received, the deliverability of sites within the wider eligibility criteria for the fund, and to fully test potential for schemes to come forward on a commercial basis.

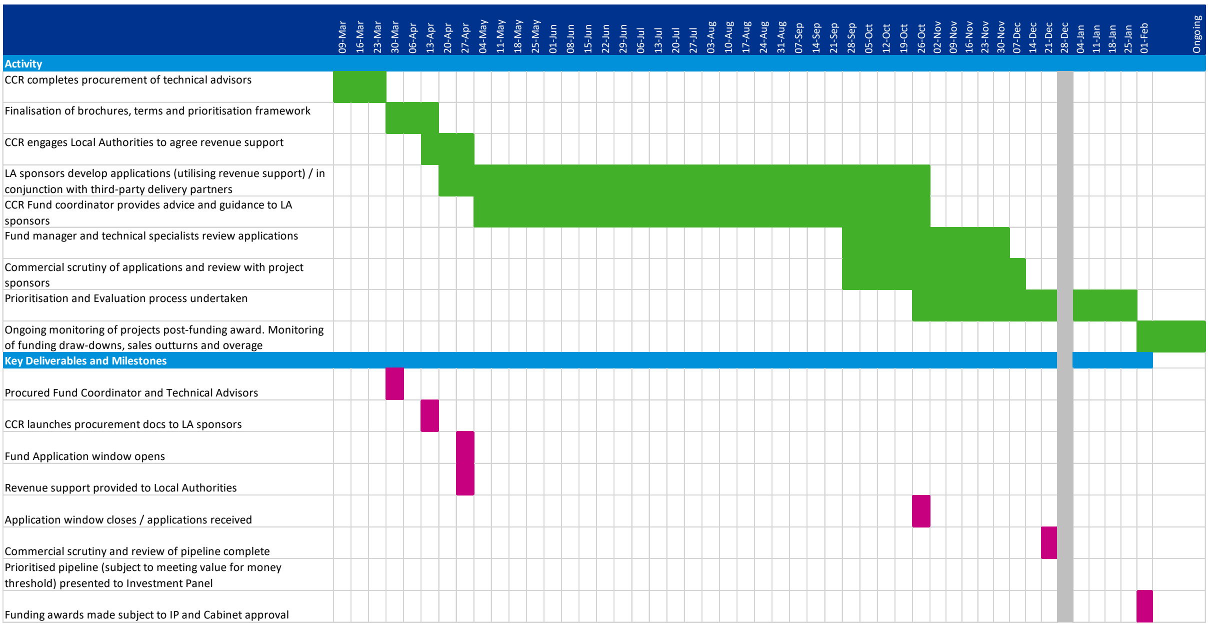
Schemes which are not able to come forward on a commercial basis will then be progressed to the value for money prioritisation process. CCR, receiving support from the technical advisor and the fund coordinator will develop a ranked pipeline of schemes based on how each scheme performs under the prioritisation and evaluation framework as described in the technical annex.

The most-optimum pipeline of schemes from a value for money perspective which also achieves the programme minima criteria set out will then be tested to ensure that it meets the overall minimum value for money threshold for any programme of investments, as set out in the Evaluation and Prioritisation Framework.

If the minimum threshold is met, the prioritised programme will be presented to Investment Panel for scrutiny, and then Regional Cabinet for sign-off subject to Investment Panel approval.

Sites awarded funding will be subject to the terms and conditions of a letter of funding award, which will state the detailed ongoing due diligence, monitoring and reporting arrangements, and requirements to implement overage where outturn sales exceed minimum developer profit. CCR's technical advisors will monitor these activities and site progress against the deliverability and viability assessments submitted in order to validate capital draw-downs against milestones. This is Phase B of the overall funding process and will be detailed on a site-by-site basis subject to each letter of funding award.

6.2.3 Key activities Plan – To fund implementation and ongoing operation



6.2.4 Resource requirement

The diagram below shows an estimate of resource requirements between the City Deal office management of the programme process, and the Local Authority (and partners) inputs required in completing the application process and receiving and delivering on funding received, summarising the assumptions used to develop the costed resourcing requirements set out in the financial case.

Estimated Rsource Requirements (Days FTE), First 12 months					
Activity	CCR Governance	CCR Project Team	Fund Coordinator	Technical Specialist	Project Sponsor (each)
CCR completes procurement of technical advisors		5			
Finalisation of brochures, terms and prioritisation framework		10		5	
CCR engages Local Authorities to agree revenue support		10	5		
LA sponsors develop applications (utilising revenue support) / in conjunction with third-party delivery partners					60
CCR Fund coordinator provides advice and guidance to LA sponors		40	90	40	
Fund coordinator and technical specialists review applications	1	40	20	50	
Commercial scrutiny of applications and review with project sponors	1	40	10	50	10
Prioritisation and Evaluation process undertaken	1	40	5	60	
Ongoing due diligence and monitoring of projects post-funding award. Monitoring of funding draw-downs, sales outturns and overage		40		40	30

6.3 Change management strategy

The main purpose of the change management strategy is to assess the potential impact of any potential change on the fundamental operation and objectives of the Housing Fund. The introduction of the Viability Gap Fund will introduce new working relationships within and between CCR and Local Authorities, and between Local Authorities and the development community. Ultimately the CCR Senior Management will be responsible for considering implications of this change, but key operational consideration of the fund include:

- As set out in the Commercial Case, CCR will procure a Fund Coordinator and Technical Advisors to support CCR by independently evaluating all applications received and making recommendations on which schemes to fund based on the Prioritisation Framework
- The Fund Coordinator and Technical Advisors will also support Local Authorities in developing their application to the Fund. This support includes clarifying questions on the application form, and co-ordination of the technical surveys and other technical site information that will need to be submitted along with the application for assessment.
- CCR will provide revenue funding to Local Authorities to develop their applications.
- CCR has engaged with Local Authorities and housebuilders (who could partner with Local Authorities to promote a scheme) ahead of Fund Launch to gauge market interest, feedback into key fund documents, and set expectations of what the application process entails.
- CCR will provide Local Authorities with a key contact at CCR for any additional queries on the Viability Gap Fund that cannot be answered by the Fund Coordinator and Technical Specialists

Should any material changes be forecasted or impact the Housing Fund programme at any time, these will need to be reviewed for expected impact and deviation from objectives, in the first instance by the CCR City Deal responsible officers for the Housing Fund programme. If expected material impacts are identified, these must be escalated through the governance structure to ascertain if the programme needs to be reviewed to ensure expected value for money remains un-materially affected.

6.4 Benefits realisation strategy

On a site-by-site basis, the Technical Advisors will be assessing progress of site development relative to agreed milestones; providing advice on whether milestone payment should be released by the City Deal Office/Accountable Body; and assessment of profit sharing expectations. These findings will be shared with the City Deal Office. CCR will work with the Fund Coordinator to agree what outputs will be monitored to track benefits of each scheme over time.

CCR resource expenditure will see technical advisors will work closely with Local Authorities to monitor progress of sites against delivery timescales and funding draw-downs. This process will ensure that funding is spent appropriately in line with State Aid rules and in line with the detail of the application for funding.

These partners will also monitor the housing delivery on sites, in particular:

- Timing of delivery of units (against original plan)
- Sales price of units delivered (to determine if overage arrangements are to be implemented)
- Overall volume of units delivered

Monitoring of these outputs will enable CCR to reflect on the value for money of both outputs delivered and outcomes achieved, both in relation to the original Value for Money targets within this FBC, and the prioritised list of projects which will be developed at the end of the evaluation and prioritisation phase (at the end of 2020).

Investment Panel and Regional Cabinet will be able to scrutinise and review the proposed prioritised list of investment sites as part of the Governance process as set out. These governance bodies will have the ability to reject individual sites or the pipeline of sites if they perceive low returns in relation to the VfM criteria.

6.5 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.

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.	Clear written process for Local Authority responsibility and ownership of detailed project management arrangements, with private sector partners as required. Local Authority due diligence and State Aid investigation on individual propositions, and commitment to ongoing internal audit Ongoing monitoring arrangements of project outcomes

CCR will also need to take the necessary steps – as established in the role of the fund coordinator, to fully monitor draw-down, built-out and outturn situations on sites in order to ensure that funding is optimised, deployed appropriately, and that revenue recycling clauses are implemented. All parties will understand that outturn positions are at risk.

The housing fund will operate in the context of a continuously changing policy environment (e.g. building regulations, carbon reduction) and CCR will need to ensure that the fund continues to reflect the policy environment for the duration of its operation.

6.6 Project assurance and Post-project evaluation

Ultimately CCR will be responsible for reporting the benefits of the Fund on a programme level. CCR will procure an advisor to independently assess how the Gap Fund performed against the Spending Objectives set out in the Strategic Case. The Evaluation and Prioritisation Framework, which was used to prioritise schemes in the first instance, should also be the framework to assess benefits realisation. Through this independent assessment CCR will also seek areas of improvement/lessons learned based on data captured from applications as well as data captured during post-award monitoring and evaluations from the Fund Coordinator.

This Appendix 1b is exempt from publication because it contains 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.

Technical Annex I: Viability-Gap Fund, Fund Overview

Fund Overview

The CCR Viability-Gap Fund is open to all 10 CCR Partner Local Authorities ("**LA Partners**") to submit bids for capital funding to unlock unviable housing sites within the region.

Applications can only be received from LA Partners, in their capacity as project sponsors and managers of any funding awards. CCR will not accept direct applications from other third parties (such as private developers or Registered Providers) and the LA Partner will be expected to assume primary responsibility for any funding awarded. Third parties and LA Partners are expected to work collaboratively to develop funding applications and it will be a matter for the LA Partner to pass down the funding conditions to the relevant third party developer to the extent considered necessary.

Due to State Aid restrictions, funding is strictly only available for capital investments in specified infrastructure or remediation interventions. Broadly, the types of infrastructure that are likely to be considered to be acceptable from a State Aid perspective include:

- Investment in land preparation (including land remediation activities for brownfield sites);
- Investment in general infrastructure (including transport infrastructure made available for free public use); and/or investment provided on market terms.

It is a matter for the LA Partners, as recipients of the funding, to satisfy themselves that the funding is being deployed in a State aid compliant manner.

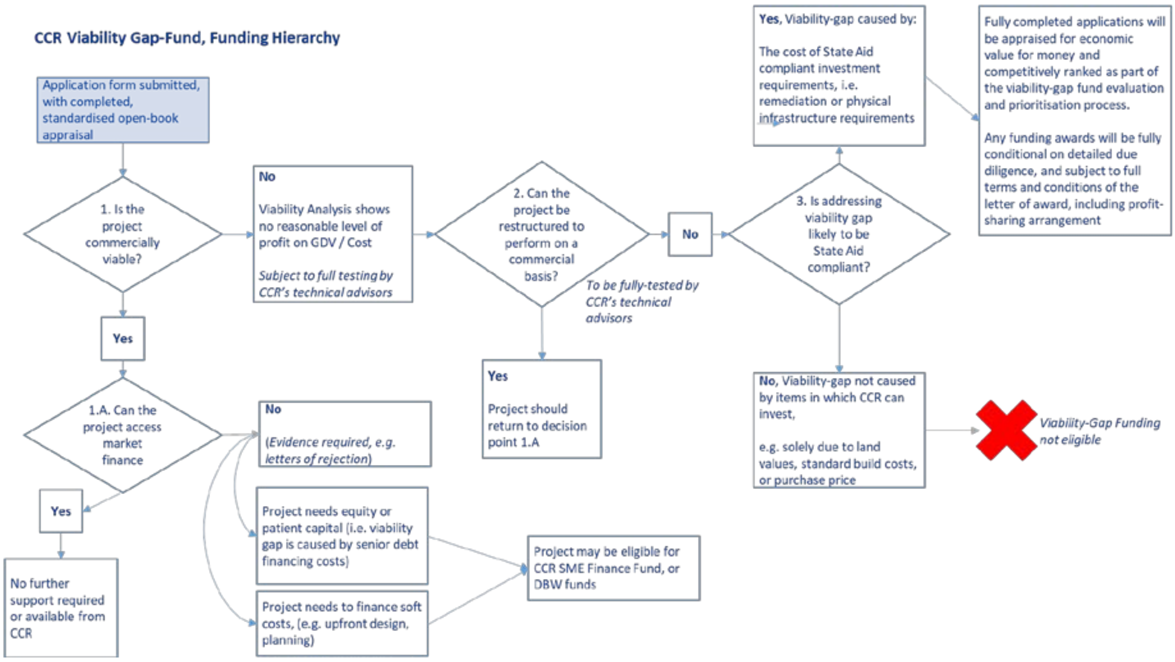
Funding can be awarded to sites owned by either the private or public sector, and sites in mixed and multiple ownership provided that the LA Partner assumes primary responsibility for the investment.

In all cases, funding can only be awarded to sites that can prove a viability-gap on site, and only to the extent that the viability-gap is closed as a result of the CCR funding award. The Eligibility Criteria section below sets out the parameters which CCR will use to define "viability" for the purposes of the funding application.

CCR's primary objective is to provide Viability-Gap Fund awards strictly on a 'funder of last-resort basis' such that the proposed development could not proceed in the absence of the CCR intervention. CCR will seek confirmation of this point, with the support of its specialist external advisers, as part of a detailed due diligence phase. This will include testing proposed sites to ensure that there are not alternative commercial arrangements through which such sites could be delivered, or other sources of available funding in the region which should be employed instead. Alternative arrangements could include:

- Reviewing alternative delivery arrangements for the site which improve commerciality
- Reviewing the extent to which the viability-gap is caused by the developer's ability to access external finance sources and, in such cases, proposing potential commercial finance solutions;
- Signposting applications to alternative funds where appropriate (including, Welsh Government, DBW, market-led, and CCR SME Finance Fund)

The funding flow diagram below sets out the hurdles and testing which applicants will need to clear before they can be shown to be eligible for viability-gap funding.



Where any capital is to be provided through the Viability-Gap Fund, CCR will expect to share any developer 'excess profit' generated via the development by reference to an industry standard overage arrangement which defines excess profit as being where the outturn sales position exceeds the original viability-assessment forecasts. The detail of the overage arrangements is set out in the Eligibility Criteria section below.

LA Partners will be required to complete a detailed application form, as set out below, by reference to a set of key qualitative and quantitative criteria including evidence of the viability gap, and other required site information which CCR will use to undertake an initial assessment of the applications to determine, in principle and subject to contract, compliance with the Eligibility Criteria for the Viability-Gap Fund.

Capital funding from the Viability-Gap Fund cannot be drawn to fund preliminary site investigative works / surveys or pre-planning works. CCR will provide some limited resource support to LA Partners to support the application process on terms to be agreed on a site by site basis within the scope of CCR's limited available resources.

CCR will require all land / unit sales from sites developed with the support of Viability-Gap Funding to be sold on 'market value' basis calculated on a red book basis subject to agreed assumptions.

The sites seeking funding support from the Viability-Gap Fund are expected to be key strategic sites for the LA Partners, and the LA Partners are invited to participate in early engagement with CCR to test viability / suitability of the proposed sites prior to preparing a formal application.

Technical Annex II: Viability-Gap Fund, Funding Eligibility Criteria

In addition to the fund terms overview set out above, in order to be eligible to apply to the Viability-Gap Fund, a LA Partner must satisfy the following eligibility criteria ("**Eligibility Criteria**"). Specifically, the application must be:

- Submitted by a LA Partner acting in the capacity of project 'sponsor' and managers of any funding awards
    - Applications may cover multiple LA Partner sites
- For sites capable of delivering between 40 and 350 housing units
- Located entirely within the Cardiff Capital Region
- Must be a capital funding request only (resource funding support provided separately to LAs by CCR subject to negotiation)
- Below the maximum funding request of £8m
- Above the minimum funding request of £1m
- State Aid compliant. (e.g. general infrastructure investment or site remediation as defined above)
    - Able to demonstrate a Viability-Gap, by reference to the formula set out below
- Deliverable within 36 months of the funding award (at least for the phase of development supported by the Viability-Gap Funding), with all funding support drawn-down within this period.
- Able to commit to implement an overage arrangements where the following 'excess profit' conditions are met:
    - Unless otherwise agreed with CCR based on site specific constraints / risk profile, these are to be defined as real-term outturn sales values where schemes will achieve in excess of 20% profit on development costs.
    - In these cases, the developer will share each £ of additional profit on a 50/50 basis with CCR.
- Able to commence housing delivery (i.e. first unit commencements) within 12 months of funding award
- Able to complete all required due diligence and demonstrate that the site is capable of development and that there are no barriers / restriction to the proposed development and all requisite rights and easements have been secured (as demonstrated via a report on title procured by the LA Partner)

Technical Annex III: Viability-Gap Fund, Funding Terms and Conditions

All funding awards will be conditional and made directly to the LA Partners and shall be subject to the Funding Terms and Condition which shall include, amongst other matters:

- A co-signed conditional letter of funding award confirming support from the S151 officer, Local Authority nominated Senior Responsible Officer, as well as sign-offs from senior representatives from all identified relevant third parties (including delivery partners and land owners)
- Confirmation that the LA Partner will be responsible for any cost overruns and all delivery risks.
- Any failure to delivery the project outcomes by the agreed longstop date or any other breach of the funding conditions shall entitle CCR to clawback all of the Viability-Gap Funding plus [default interest calculated at [4%] above the prevailing Barclays Bank Base Rate] and any direct costs incurred by CCR.
- Compliance with all applicable consents and local policies (e.g. planning policies) and regulations
- Statement of compliance from the LA Partner vis-à-vis State Aid compliance;
- Agreement to monitoring and reporting milestones during the delivery of the project (to be agreed on a site by site basis and set out in the letter of funding award);
- Agreement to implement the agreed overage mechanism (as defined in Technical Annex II above);
- Satisfactory ongoing financial due diligence on all partners involved in the application
- Confirmation that adequate contractual arrangements are in place with the relevant developer / RP to deliver the proposed housing units / outcomes;
- Confirmation of planning permission for the proposed development or written statement confirming clear route to expected planning permission

These ongoing arrangements will be clearly set out in any conditional letter of funding award, to be counter-signed by the relevant LA Partner to confirm acceptance of the funding terms.

Technical Annex IV: Viability-Gap Fund, Evaluation and Prioritisation Framework – Achieving Value for Money

The prioritisation process will determine the rules via which CCR will allocate funding throughout the region from the Viability-Gap Fund. CCR will adopt a programme-approach, which will enable it to balance the impacts of a range of potential investment opportunities to ensure that benefits-spread across the region and inclusivity objectives are best met.

Programme Lead Metric

- Sites will be awarded funding according to maximum financial value for money. This is the ratio of the number of homes unlocked to £ of investment allocated to a project, with the additional considerations that:
- Additional weighting will be added to the overall value of money score based on connectivity of a development site to local jobs (access to economic opportunity)
    - Connectivity to be defined as public transport accessibility to the nearest local employment site, sites will be ranked on a scorecard basis and a ranked weighting applied to the value of the average viability-gap on site.
- If it can commit to ensuring a proportion (minimum 10%) of overall site build-out by an SME developer.

This is the overall 'lead metric' which means that the programme as a whole will seek to maximise this value, subject to meeting the key 'minima metric':

Programme Minima Metric

The minima metric sees the prioritisation framework enforce a distribution of benefits (housing delivery) according UK Competitiveness Index Ranking by LA Partner, and subject to an appropriate number of eligible application across the programme, and the overall budget constraint.

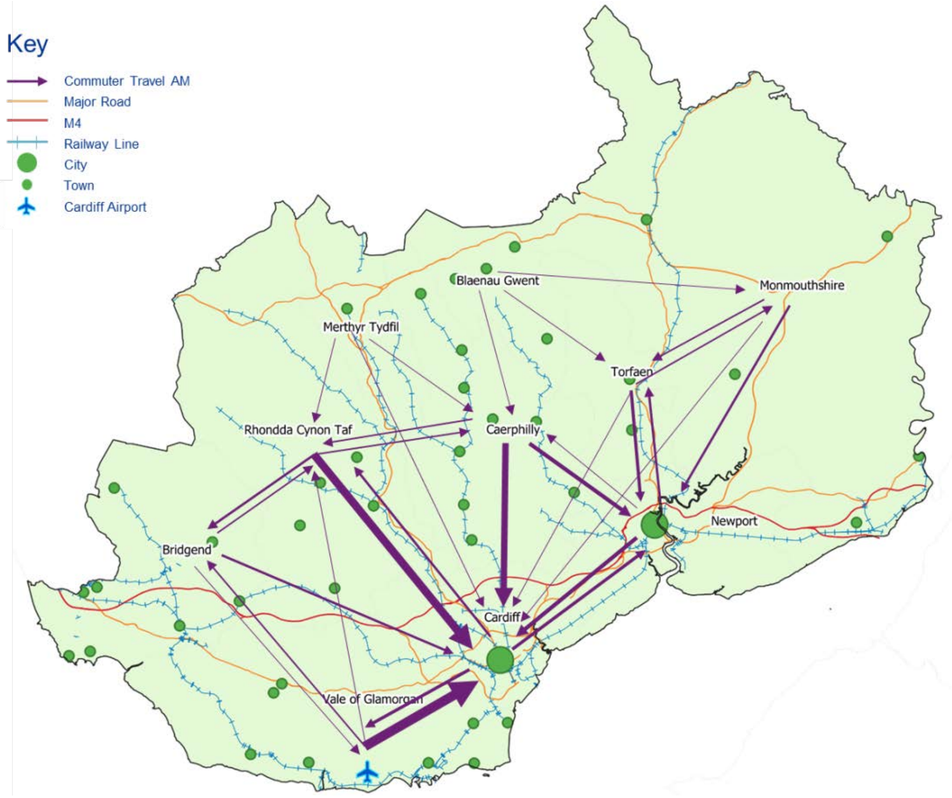
Scheme Assessment

The scheme assessment determines the appraisal criteria against which individual scheme applications will be assessed for gross-economic and economic-inclusivity benefits to the region. In the detailed application process, schemes will be required to set out:

1) The number of homes unlocked directly from the funding
2) The overall cost of infrastructure / remediation capital investment required
3) A viability analysis which shows clearly the viability gap: Expressed in terms of residual land value against gross development costs, fees, land purchase costs, and developer profit margin (as detailed in Savills viability definition note further below)
4) An assessment of the connectivity impacts of the scheme (beyond the local transport planning requirements for the scheme). This will be an assessment of the strategic connectivity of the scheme in terms of access to economic opportunity i.e. how well the site is connected via public and active transport (both on-site and off-site) to key regional centres of employment.
    - As an indication of connectivity to economic opportunity in the region, the map below shows a high-level overview of peak morning commuter flows in the Cardiff Capital Region, overlaid against the major road and rail networks and population centres. The thickness of the flow line is

proportionate to the volume of the commuter flows, and each Local Authority is shown with its three largest commuter flows.

Figure 1: Commuter flows within the Cardiff Capital Region



5) Whether they will provide a commitment to providing for a portion of the site (target 10%) to be developed by SME developers.

A.1.1.1 Economic Inclusion

Similarly, a programme minima criteria will be added to the prioritisation process for economic inclusion effects that will weight the programme pipeline by its ability to deliver homes in areas that would be less likely to receive new delivery of homes under BAU conditions.

A BAU expectation of market-led housing delivery, by weighting residual values (market likelihood to deliver, with trend housing delivery), would suggest the following distribution of new housing without intervention:

Likely distribution of Housing (without intervention)

Local Authority	
Blaenau Gwent	1.9%
Bridgend	11.2%
Caerphilly	3.9%
Cardiff	19.3%
Merthyr Tydfil	1.8%
Monmouthshire	8.3%
Newport	15.7%
RCT	8.0%
Torfaen	6.8%

Vale of Glamorgan	23.0%

This would imply an expectation of c21.8% of new homes would be delivered within the 5 LA Partners administrative areas with the lowest 5 UK Competiveness rankings.

The inclusion minima adopted by CCR would therefore seek to ensure that at least 50% of funding would be allocated to sites based in these areas of lowest competiveness. CCR will rank all schemes on a VfM basis, according to a connectivity weighted assessment of homes unlocked per CCR £ invested. Where the initial ranking of schemes does not meet the economic inclusivity programme minima, the lowest performing VfM scheme will be removed from the ranked pipeline, and the next best performing scheme from a most-deprived LA will be added to the list. This process will continue until economic inclusivity balance criteria is met.

SME opportunity

Overall the programme will seek to achieve a target of at least 10% of new housing units across all sites being developed by SME developers, subject to other criteria being already meet. Sites submitted without confirmation of commitment to SME development may still apply to receive funding but may be negatively impacted by the CCR prioritisation process detailed above.

This criteria is a secondary objective which will not determine the overall size of the fund, but may support Investment Panel / Regional Cabinet to make marginal spending decisions where the main VfM criteria have been met.

Value for Money

CCR's approach to assessing 'Value for Money' for the overall fund will be based on a balanced scorecard approach of measurable outcomes, whilst also trying to account for real world economic outcomes driven by connectivity improvements and greater access to economic opportunity derived from bringing well-connected but unviable sites back into productive use.

Whilst the overall value of the prioritised Viability-Gap Fund pipeline will not be known until applications are received and CCR has been able to review and test assumptions, the fund will have the following targets for economic outcomes, aligned to the CCR KPIs.

Scalable targets, based on a £35m Viability-Gap Fund:

- Deliver at least 668 new homes, supporting an average viability gap no greater than £48,000 per home
- Of which, at least 334 to be delivered in the 5 most deprived LA Partners
- Achieve a total GDV of new development of £115m (in line with CCR's 1:3.25 private sector leverage KPI)

These are minimum targets for the programme to achieve a local definition of 'Value for Money' for the purposes of the Viability-Gap Fund, based on leveraging private investment through GDV. This will provide a baseline for economic outcomes independent of considerations of the wider strategic inclusivity impacts which the fund is seeking to achieve in terms of housing delivery in areas of lower housebuilding throughout the region.

Initial analysis of the potential pipeline, based on data gathering and economic analysis for both the OBC and FBC suggest the overall programme will likely perform much better than the minimum criteria established, as set out below:

Viability-Gap Fund Option	Homes Delivered	Private investment leveraged – GDV, (ratio)	Economic output – local GDP impact for CCR	Inclusivity Benefits (no. new homes in most deprived areas)
£35m Fund (test pipeline, optimised	2894	~£493m (14:1)	~£870m	1447
£35m Fund (test pipeline, constrained	1850	~£325m (9:1)	~£575m	875
£35m Fund (average viability gap scenario)	1337	~£231m (7:1)	~£408m	668

A positive forecast, based on awarding funding sites according to the prioritisation principles, i.e. ranking sites from highest to lowest value for money, would see economic outcomes 3.5 times greater than the minimum target scenario according to the sample data collecting.

A non-ranked pipeline, taking the average viability-gap per home in the sample data collected, would see benefits 1.85 times greater than the minimum value for money threshold.

Technical Annex V: Viability-Gap Fund, Process and Timeline

- The Viability-Gap Housing Fund will be formally launched in April 2020.
- The receipt of this suite of documents will signify to Local Authorities that the formal application window is open and they will be invited to submit sites to the Viability-Gap Fund.
- CCR will contact Local Authorities directly to discuss the arrangements for up to £50,000 of revenue support available from CCR, subject to engagement and negotiation with CCR.
- Local Authorities will have six months to work with delivery-partners in their patch to, identify the most strategic sites for which they will be able to develop comprehensive applications, which are likely to score well within CCR's Evaluation and Prioritisation Framework
- Local Authorities will submit applications to the Viability-Gap Fund using the Application Form provided, separately for each individual application.
- CCR's Fund Coordinator will make contact with each Local Authority to provide advice and guidance during the application window.
- All applications will need to be submitted by End-October 2020. The application window will formally close on 31 October 2020.
- CCR will review applications, prioritise and scrutinise between November 2020 and January 2021. Local Authorities should be prepared to answer clarification questions within this period. Working with their delivery partners they should be prepared to discuss scrutiny and testing of their site proposals and viability assessments.
- Having implemented its Viability-Gap Fund Evaluation and Prioritisation Framework, and followed its Investment and Intervention Framework, CCR will notify successful applicants in early 2021. Successful applicants will receive a letter of funding award, which specifies the detailed terms and conditions of funding, ongoing due diligence and monitoring arrangements associated with site outcomes and funding draw-downs, and detail of the overage arrangements to be agreed to.

Technical Annex VI: Viability-Gap Fund, Application Form

This Application Form for Viability-Gap Funding is for the 10 CCR Partner Local Authorities ("**LA Partners**") to complete in relation to local sites with proven viability constraints, in public or private ownership, which they are seeking to promote as designated project sponsors.

LA Partners will be expected to assume primary responsibility for any funding awarded. Third parties and LA Partners are expected to work collaboratively to develop funding applications and it will be a matter for the LA Partner to pass down the funding conditions to the relevant third party developer to the extent considered necessary.

Accordingly, where information is required below from third-parties, it is the LA Partner's responsibility as project sponsor, to work with these third-parties to gather necessary information.

Information provided within this application will be used to assess projects according to the Eligibility Criteria set out in Appendix III, subject to contract and CCR undertaking detailed due diligence.

No offer or request for funding is deemed to have been made or accepted until the relevant contractual documentation has been duly signed by all relevant parties and declared unconditional. No discussion or communication with CCR whether prior to, during or subsequent to this selection procedure will imply acceptance of any offer or request for funding or constitute an indication that the LA Partner will be awarded funding support. Once the applicant's proposal has been formally approved following satisfactory conclusion of the subsequent evaluation stages, CCR will issue a formal 'Conditional Funding Letter' to confirm its decision. Such decision shall be subject to the express terms of the 'Conditional Funding Letter' and the relevant contractual documentation which will need to be agreed and signed for and on behalf of the relevant parties to have contractual and binding effect.

Any costs or expenses incurred by the LA Partner (or any other person engaged by the LA Partner) will not be reimbursed by CCR and CCR will not be liable in any way to the LA Partner or any other person for any costs, expenses or losses incurred by the LA Partner or any other person in connection with this application.

The application below equates to a Phase A of assessment for the Viability-Gap Fund. Phase B will cover the detailed due diligence exercise and the pre-conditions to be satisfied before any CCR funding can be released and draw-down by the LA Partner. This is as described in the Funding Terms and Conditions, and will be further set out in any Conditional Funding Letter between CCR and LA Partner.

Viability-Gap Application Form

1	**Contact and identification information**	
1.1	Name of Local Authority acting as project sponsor (if a shared bid, list all Local Authorities participating in the bid)	
1.2	Primary contact information of Local Authority project sponsor	Name:

		Telephone: Email:
2	**Site Information**	
2.1	Site details	Site Name: Site Locations: *Address, and easting, northing (coordinates)*
2.2	Site size (Ha)	Overall site size (ha), gross and net developable: Overall net developable housing area (ha) (i.e. net of other use classes): *Is the proposal on greenfield or brownfield land? If both, what is the split?*
2.3	Current use class of site	What is the current use class of the site?
2.4	Planning permission (including surveys, and all other regulatory requirements)	Does the site have planning permission for the proposed development? Please include planning references if available Is the site allocated in the Local Plan (if applicable)? If not, please provide a description of a clear route to proposed planning permission
2.5	Strategic importance of the site Alignment of development of the site to CCR strategic objectives	*Please provide a qualitative overview of the importance of the site to the Local Authority.* *The site does not need to be allocated in the Local Plan (given the viability constraint), but LA Partners should be able to identify route map to secure inclusion in the Local Plan and/or detailed planning permission.* Provide a qualitative analysis of how the site aligns with priorities established in the Cardiff Capital Region Economic Plan…
2.6	What is the nature of the viability problem at the site(s)?	Referring to Appendix I (Fund Eligibility), please provide a description of the nature of the viability constraint in relation to an eligible area of funding.

2.8	What is the likelihood of this development going forward in the absence of securing funding from the CCR?	*Please provide evidence from the viability analysis to support*
2.9	Please outline what other sources of finance and funding developers have considered to bring this site forward.	*In your response, please highlight evidence from the viability-analysis to show why alternative sources of finance are not a viable delivery option.* *Please detail any other funding awarded towards delivery of the site in the last 10 years* *This includes both private finance (e.g. bank loan) and public grant funding (e.g. Welsh Government loans).* *What other delivery options have been considered and why have these alternatives been rejected?*
2.10	What type of intervention is required to bring this site forward? *e.g. physical infrastructure including road / highways, rail crossing, public land assembly, site remediation etc.*	*Detail the specific investment-type required to solve the viability-gap on site*
3	**Site Assessment**	
3.1	Please provide a full open-book viability analysis undertaken in accordance with Appendix that proves the scale of the funding required to achieve viability on site.	*Please ensure this provides:* *Calculations with scenarios/ sensitivity analysis. Please provide assumptions on GDV, build costs, externals, professional fees, sales costs, finance costs, contingencies and developers profit.* *Please also provide:* • *A List of the professional/ consultancy reports commissioned on this site to date.* • *The number of homes to be provided on site. Will any further homes be unlocked on subsequent phases?* • *An assessment of how land value assumptions align with knowledge of the local land market* • *Breakdown of the funding components required, providing an indication of why these are State Aid compliant* • *Proposed number of units and tenure split.* • *Purchase price details*

		Are you in receipt of all technical/ professional advice? if not, please explain what is outstanding? *Have you obtained quotations for the remediation/ infrastructure works? Please provide evidence if available*
3.2	Please provide evidence of alignment with local policy	• *Are you promoting a policy compliant scheme, please provide details. Please provide details with reference to viability analysis*
3.3	Please provide an overview of the site's connectivity	• *Please describe the connectivity to the local employment centre via public sector transport*
3.4	Please provide a red line boundary of the site, indicating the developable areas and use classes the subject of your application	
4	**Additional Information**	
4.1	Please provide delivery timelines for completion of the Viability-Gap Funded investment	*Project Start Date:* *Project End Date:*
4.2	Please provide a development schedule for when housing will be delivered on site	*Please provide the project start date (for housing delivery) and yearly completion volumes for housing.* *N.B. CCR will prioritise development sites that accelerate housing delivery*
4.3	Please provide a report on title for the entire site to confirm that there are no barriers / restriction to the proposed development and all requisite rights and easements have been secured. If required, please provide multiple reports to align with the overall red line boundary map	*Provide as attachment (s)* *Must include:* *Names of owners of land* *If private companies, please provide company name and address* *Details of any restrictive covenants or other barriers* *Dates of when current land ownerships came into their current state.*
4.4	Please identify any other relevant development partners involved in the scheme i.e. housing developers, third party infrastructure provides (e.g. Network Rail, highway authority, contractors).	*Please detail any third-party approvals or third-party investments that might be require in order for the project to proceed, or in order to unlock the viability-constraints* *(e.g. Network Rail approvals)*
4.5	Please provide a high-level cash flow for draw down of funding and housing delivery.	*The amount of any funding award will take account of predicted cash flows for the schemes, expected developer contributions and the size of grant needed.*

4.6	If funding is awarded, please identify a lead and senior officer who will be responsible for monitoring the delivery of the scheme.	*Please provide their name and role within your organisation.*
4.7	Please outline the main risks to the project as a whole along with the corresponding mitigating steps that you will take to minimise these risks.	*Please provide a project risk matrix for the overall site, with specific reference to resolving the viability constraint – including risks and issues (quantified where appropriate), and their proposed mitigation*

Technical Annex VII: Note on Project Viability Assessment

This annex sets out a broad framework to assess project viability. It has been prepared by Savills for Cardiff Capital Region.

Drawing on our experience of work on similar schemes we suggest the following broad approach:

- Define viability in terms of residual land value (RLV)
- The overall test on viability eligibility has two components:
    - RLV of the scheme without grant/loan is negative or too low to be commercially attractive
    - RLV of the scheme with grant/loan is positive and just sufficiently high to be commercially attractive
- For a scheme to be eligible it needs to comply with both of above.
- A sufficiently positive RLV to be commercially attractive will depend on the specific circumstances of the site.
    - For brownfield sites a starting assumption is that the RLV should be at least 20% more than existing use value (EUV)
    - For greenfield sites a starting assumption is that the RLV should be at least £xx/acre [figure tbc in light of characteristics of agricultural land in the local area and the planning status of the site].
- The RLV and viability will depend on a number of factors including any affordable housing targets. A starting assumption is that schemes should be policy compliant in terms of affordable housing provision. However to allow comparison on a consistent basis schemes Cardiff Capital Region should take account of differences in proposed affordable housing provision between different schemes.
- In overall terms RLV = Gross Development Value (GDV) – [costs + fees + developer's profit]
- For the purposes of appraising viability a reasonable developers profit could be defined as 20% of development costs. A higher or lower rate may be appropriate on specific projects depending on the risk profiles.
- Usual practice is to monitor actual project performance in light of actual costs and revenues. An updated appraisal can be carried out at a suitable point in project development and if 'super profits' have been realised then an overage agreement could be included. This for example could be along the lines of any RLV above the agreed benchmark being shared on a 50/50 basis between the grant giving authority and the land owner and/or developer. Details could vary depending on who owns the land at what stage in the development process. (Such arrangements are common in development agreements, for example with the Ministry of Defence).

The specific details will need to be worked up in the process of preparing the CCHIF programme and in the light of individual schemes.

Appendix A Supplemental information for the Economic Case

A.1 Long listed options

In order to develop a long list of options that could achieve the Spending Objectives of the Housing Investment Fund, a literature review of background evidence was undertaken to investigate mechanisms that could boost the quantity and quality of housing delivery, in a CCR, Welsh and UK scope. This includes:

- Fixing our broken housing market, February 2017, Ministry of Housing, Communities and Local Government (MHCLG)
- Independent Review of Affordable Housing Supply for Wales, April 2019
- Delivering More Homes for Wales, January 2014, Housing Supply Task Force
- Housing Investment Fund - Research Report for Cardiff Capital Region, July 2019, Savills
- Tackling the under-supply of housing, December 2018, UK Parliament
- Building the Homes we Need, 2015, Shelter and KPMG,
- Effective Housing for People on Low Incomes in the Welsh Valleys, 2018, JRF

Based on this literature review, and in influenced by the analysis set out in the Strategic Case, the following long-list of options for the Housing Investment Fund were identified:

Option 1: Additional revenue funding to Local Authorities' Planning departments. Many Local Authorities in the UK have been cited to lack sufficient resources to quickly and effectively plan and deliver new housing in their jurisdictions, whilst ensuring quality standards and delivering wider economic benefits (e.g. from better connectivity). This insufficiency has resulted in plan-making being slow, expensive, oftentimes delayed, and sub-optimal from a wider benefits perspective. Under this option, the Fund would be used to provide additional revenue funding to LAs within CCR to give their planning departments more capacity and capability to deliver up-to-date, ambitious plans that incorporate spatial development strategies, undertake proactive and capability-intensive interventions in the land market such as land assembly and CPO when necessary, review development applications promptly; engage their communities on the design and mix of new homes; and ensure homes that are planned for are built out on time.

Option 2: Funding support to deliver enabling infrastructure and unlock stalled sites. Regardless of local housing market strength, many sites of various sizes across CCR fail to come forward due to high enabling-infrastructure capital costs, and this option would see funding support provided to provide remediation solutions. This is either due to the site being on ex-industrial land which requires significant land remediation and extensive technical assessments, or the site is not strategically located, which requires enabling infrastructure to make the site attractive to prospective developers. These high upfront capital costs ultimately result in the development being commercially unviable for the private sector and the housing sites remain stalled. Under this option, the Fund would be used to provide funding to the private and public sector to unlock these stalled sites.

Option 3: Boost training in the construction sector. The UK has historically faced low levels of investment in skills in the construction sector, which has contributed to skills shortages in the industry in some key trades and in some regions. This is due to worsen over the next ten years as a higher proportion of the construction workforce face retirement age in comparison to new joiners, and could result in even lower rates of housing delivery in Cardiff Capital Region. Under this option, the Fund would be used to boost training in the construction sector with a view to increasing productivity in the sector and accelerating housing supply.

Option 4: Direct financing support to SME builders. Savills' market assessment report sites that almost half of the housing pipeline is delivered outside of the largest sites (i.e. those of less than 500 units). These sites are typically too small to be of interest to volume builders, whilst the market share of SME builders in Wales has declined markedly since the global financial crisis. This decline is largely due to limited access to financing SMEs face, particularly at the early stages of development. Under this option, the Fund would be used to provide additional funding support directly to SME builders in order to unlock small sites in CCR.

Option 5: Direct financing support for custom and self-build homes. Alongside SME firms, custom and self-build homes enable people to choose the design and layout of their home, while a developer or specialist firm may support to find the site, secure planning permission and build the property. Custom and self-build homes are generally built more quickly and to a higher quality than homes delivered via traditional private and public markets. Under this option, the Fund would be used to provide funding support directly to home or land owners for the purpose of building custom and self-build homes.

Option 6: Supporting Local Authorities to directly deliver housing. LAs' role in delivering new housing goes beyond using their planning powers. LAs, Housing Associations, and local development corporations (where established) can directly impact housing delivery by developing new market housing for sale or private rent, as well as affordable housing. Under this option, the Fund would be used to provide LAs, housing associations, and local development corporations with capital funding to deliver housing via a range of possible mechanisms.

Option 7: Boosting productivity and innovation in the construction sector. The housebuilding industry is less productive than the average industrial-sector within the wider economy. This is partly due to low levels of investment in innovation, such as modern methods in construction and off-site housing construction. On the back of the publication of the Farmer's (2016) report, *Modernise or Die,* as well as the findings of Cardiff University's (2017) report, *More: Better* (which was commissioned by Welsh Government), it was determined that innovation in the construction sector has a role to play in boosting productivity and accelerating housing delivery in Wales. Under this option, the Fund would be used to provide funding and/or financing to local development firms and SMEs to boost innovation in their firm. This could take the form of revenue funding/financing to research and develop (R&D) innovative methods to construction, or capital funding/financing to invest in the technology or equipment required to undertake new and innovative construction methods. The outcome of this option would be to boost productivity in the construction sector, resulting in faster and more efficient housing delivery and sectoral GVA growth.

Option 8: Help-to-buy equity loans for prospective home owners. Home ownership, particularly among younger people, has declined sharply in recent years due to lack of housing affordability. Under this option, the Fund would be used to help prospective home owners raise the equity required to invest in a home, providing support to the demand side of the market.

A.2 Critical success factors

Critical Success Factors (CSFs) reflect the essential attributes the Fund options must achieve. These were ultimately used as criteria to assess and sift through the long list of options, and get to a preferred way forward. CSFs were first developed through a literature review of a number of relevant policy documents, including:

- **Investment and Intervention Framework and Toolkit** – provides the basis on which the Regional Cabinet will formally evaluate and prioritise investment projects for the City Deal Wider Investment Fund.
- **Cardiff Capital Region Industrial and Economic Plan** – guides CCR in the deployment of funding, policy decisions, and targeted effort to ensure future economic growth and economic inclusion in the region.
- **Future Generations Assessment –** used by local and national public bodies across Wales to demonstrate how projects or initiatives will improve the social, environmental, economic and cultural well-being of Wales and contribute to the seven national well-being goals.
- **HM Treasury / Welsh Government Green Book –** provides guidance on how to build a business case in the UK, and lists considerations on critical success factors.

Five CSFs for the Housing Investment Fund were identified:

1. **Ability to meet CCR and Welsh Government's economic, environmental and social objectives.** The Fund will be coming from a combination of City Deal WIF and Welsh Government. Thus the options should align to the core economic, environmental and social objectives of CCR and Welsh Government. This comprises:
    - Economic growth in the CCR (i.e. job creation, investment leverage and GVA uplift);
    - Economic inclusion in the CCR (i.e. creating opportunities for all residents);
    - Affordable housing;
    - Well-being of Future Generations;
    - Zero carbon targets;
    - Optimising outcomes from the Metro;
    - Economic Prosperity for All; and
    - Welsh Housing Quality Standards
2. **Ability to deliver a financial return on investment.** It should be considered if the options could enable leveraging public and private investment to generate a financial return on investment (ROI) and directly contribute back to the Fund, where appropriate.
3. **Complementary and additional to mechanisms already available in the CCR housing market.** The options should be a complement to existing funding and financing schemes, and should provide additional support in unlocking sites and accelerating housing supply in CCR; not crowd out existing sources.
4. **Achievability and deliverability.** The amount that has be provisionally allocated to the Fund is £30m.The options for the Fund should be achievable and deliverable given the potential size of the Fund and the administrative burden.
5. **Addresses CCR-specific housing market failures.** There are number of reasons why housing supply and quality does not always align to market demand and Local Authorities economic growth objectives; ranging from factors at the initial planning stage through to detailed design and delivery. The Fund should aim to address the specific and distinct housing market failures bespoke to CCR, and how these differ between different parts of the region.

A.3 Strengths, weaknesses, opportunities and threats (SWOT) of the long-listed options

The long listed options were ranked on a scale of 1 to 3 based on a qualitative assessment of how well they achieve each of the five Critical Success Factors. This means the maximum score an option can get is 15. The following table summarises the score of each option.

Table 1. SWOT analysis of long-listed options

	Ability to a deliver financial return on investment	Ability to meet CCR and Welsh Government's economic, environmental and social objectives	Complementary and additional to mechanisms already available in the CCR housing market	Achievability and deliverability	Addresses CCR-specific housing market failures	Total Score
Option 1: revenue funding to LAs	-	✓✓✓	-	✓	✓✓✓	**7**
Option 2: enabling infrastructure to unlock stalled sites	✓✓	✓✓✓	✓✓	✓✓	✓✓✓	**12**
Option 3: training in the construction sector	-	✓✓✓	-	✓✓✓	-	**6**
Option 4: support to SME builders	✓✓*	✓✓✓	✓✓	✓✓*	✓✓✓	**12**
Option 5: support for custom build homes	✓✓*	✓✓	✓	✓✓*	✓✓✓	**10**
Option 6: LA-delivered homes	✓✓	✓✓✓	✓	✓	✓✓✓	**10**
Option 7: boosting construction sector productivity	✓	✓✓✓	-	✓	✓	**6**
Option 8: Help-to-buy equity loans	✓✓	✓✓	-	✓✓✓	-	**7**

Option 1: Provide more revenue funding to Local Authorities' Planning departments received a total score 7/15. This option aims to address the housing market failure of CCR, whereby LAs' lack sufficient resources in their planning departments (as discussed in the Welsh Government's Affordable Housing Review). If given the capability and capacity to effectively and efficiently deliver housing, this could contribute to addressing CCR and Welsh Government's wider objectives. Although an important overall element of the housing delivery and development cycle, this option was deemed fundamentally unsuitable for the CCR given its requirement for ongoing revenue support. It does not provide CCR an option to achieve financial ROI and in addition, would overlap with Welsh Government responsibility for funding such programmes at an LA level.

Option 2: Funding support to deliver enabling infrastructure and unlock stalled sites received a total score 12/15. This option addresses a CCR-specific market failure identified within the Savills research, whereby many large sites are stalled due to high upfront capital costs required for land remediation and/or enabling infrastructure to make the site more viable for developers. Given the scale of housing that could be unlocked under this option, this could clearly result in economic and social outcomes strongly aligned to the objectives of CCR and Welsh Government, and contribute towards alleviating identified market failures. CCR could use this option to leverage public and private investment to generate a financial ROI and directly contribute back to the Fund. This can be achieved in the form of debt (including mezzanine) or equity (e.g. joint-venture). According to Savills research, many stalled sites would require a significant amount of funding (c. £10m), which could limit the overall amount of funding that could be undertaken at any point in time, meaning that the overall fund could be quickly absorbed. Detailed option design should ensure that there is no overlap with schemes already available in the market (e.g. DBW Stalled Sites Fund).

Option 3: Boost training in the construction sector received a total score 6/15. Whilst developing skills of the future is an objective of CCR and Welsh Government, and this option could be achievable given the size of Fund, there are many reasons this option scores relatively low against the CSFs. First, there would be no ability to attain a financial ROI under this option. Secondly, this option was not seen to address a CCR-specific housing market failure. Lastly, whilst there are no training programs directly funded/administered by Welsh Government or CCR, there exists in Wales the Construction Wales Innovation Centre (CWIC). CWIC, in partnership with University of Wales Trinity Saint David's, delivers training courses and engagement events for all levels and all industries within the construction sector (e.g. housing, transport, commercial real estate). CWIC works in partnership with federations, associations, professional and other industry bodies to ensure programmes are targeted to areas where the is a particular skills gap in the construction sector in Wales, such as construction management and quantity surveying. Thus this option would not be additional to what is already available in the market.

Option 4: Direct financing support to SME builders received a total score 12/15. Under this option, CCR can finance small housing developments and leverage private investment to generate a financial ROI to the Fund. This would be subject to the level of risk CCR is willing to take on. According to Savills research, almost half (49%) of the housing pipeline in CCR is located on small sites (i.e. less than 500 units). Thus the scale of housing that could be unlocked, as well as the increasing densification of CCR, could result in the economic and social outcomes aligned to the strategic objectives of CCR and Welsh Government. While there are financing options currently available to SMEs, Savills research suggests SMEs currently have limited access to commercial debt finance at a reasonable cost. This is particularly challenging at pre-planning stage since this is seen to lenders as a higher risk. This option is seen as achievable and deliverable given the size of the funds available (£30m) and the amount of funding/financing SMEs would need to make small site viable (c. £300k-£1m). However, depending on the procurement route taken, this could be administratively burdensome to CCR. Lastly, this option addresses a CCR-specific housing market failure, whereby many small sites are not seen as attractive to large developers, and not taken on to SMEs due to limited financing options available.

Option 5: Direct financing support for custom-build homes is similar in principle to Option 4, but targeted to custom-build homes and micro SMEs. This option received a total score 10/15. Similar to Option 4, a ROI could be attained for the fund. However these are potentially higher risk due to lack of knowledge and credit worthiness of the developers this Fund would target. The scale of housing to be unlocked would be less than that of Option 4 and therefore its alignment to CCR and Welsh

Government are relatively limited. Through discussions with key stakeholders, it is understood that DBW are looking to develop a custom-build fund in Spring 2020. Depending on how this is designed, this option may not be additional to what will be available to custom-build homes and micro SMEs. Similar to Option 4, this option could be achievable and deliverable given the size of the loan involved, but could also be administratively burdensome to CCR. Lastly, this option addresses a CCR-specific housing market failure for similar reasoning as Option 4.

Option 6: Supporting Local Authorities to deliver housing received a total score 10/15. Under this option, the Fund would be used to provide LAs, housing associations, and local development corporations with capital funding to deliver housing. As developments would be public-sector led, or led by a housing association, the majority of housing developed would likely be targeted to affordable housing. Whilst this is aligned to Welsh Government's priority to deliver affordable and social housing, the ability to generate a ROI could be limited. LAs and Housing Associations have the ability to deliver housing now, so this option was not seen as a complement to existing capabilities. This option could address CCR-specific housing market failures if developments are targeted to large, stalled sites. However, this would impact achievability and deliverability since this would require large, upfront capital costs from land remediation and/or enabling infrastructure; resulting in a limited scope of what could be delivered with the size of the Fund (£30m).

Option 7: Boost productivity and innovation in the construction sector received a total score 6/15. In February 2017 Welsh Government announced the Innovative Housing Program (IHP) which provides revenue and capital funding to the construction sector to conduct R&D and invest in novel technology or equipment innovation. This demonstrates that this option, whilst a strategic priority for Welsh Government may not be additional to programs already available in this space. It is also noted that the IHP is part of the Welsh Government's affordable housing programme, and is limited to the private sector for the purpose of market housing due to State Aid rules. This indicates that this option may not be achievable and deliverable, beyond what is already provided in the IHP. This also indicates the ability to generate financial ROI will be limited.

Option 8: Help-to-buy equity loans for prospective home owners received a total score 7/15. A financial ROI could be achieved under this option, as the program would be designed to have prospective owners pay back their equity loans over time with interest. This option was also seen as achievable and deliverable given the size of the funds available (£30m) and the amount financing prospective homeowners would need. However, Welsh Government currently provides a shared equity loan to buyers of new-build homes. The scheme supports the purchase of homes up to £300,000 in value. This demonstrates that this option, whilst a strategic priority for Welsh Government, is only partially additional to what is already available to prospective home buyers. Fundamentally however, whilst this option could help certain groups into housing affordability in the short term, it would not address the main constraints that impact the rate of housing supply in CCR. Indeed, this option could worsen the housing market in CCR if housing demand increases and supply constraints are not addressed, and ultimately end up increasing the number of households pushed into an unaffordability scenario over the long-term.

A.4 Summary of SWOT analysis

Based on the assessment of the long listed options against the CSFs, four options were shortlisted. Given similarities between options the four options were categorised into two broad fund areas:

1) Viability Gap Fund

- Funding support to deliver enabling infrastructure and unlock stalled sites

- Supporting Local Authorities to deliver housing

2) SME Finance Fund

- Direct financing support to SME builders
- Direct financing support for custom-build homes

These two broad fund areas were taken to OBC stage for detailed design.

A.5 Approach to developing the short-listed options

A.5.1 Precedents and Market Review

In order to develop detailed short-list options to assess under each of the two broad fund areas, existing products and services in the UK market were reviewed. The purpose of this review was to:

- Be able to identify potential detailed solutions in Wales that are genuinely additional;
- Understand precedents used elsewhere but not currently in existence in the Wales market; and
- Develop robust parameters for the value for money analysis of options
- Develop criteria for assessing key qualitative impacts of options – such as practical deliverability, e.g. for resource costs and wider commercial implications such as for State Aid.

A set of key stakeholders were identified and engaged (via telephone interviews and meetings) in order to gain greater understanding of products and services already offered to address similar market failures to those identified in CCR. In addition, a further literature review was undertaken to capture the broadest range of information from known housing funds across the country. The extent of stakeholder engagement and research conducted is summarised in the table below.

Table 2. Summary of precedents and market review research conducted

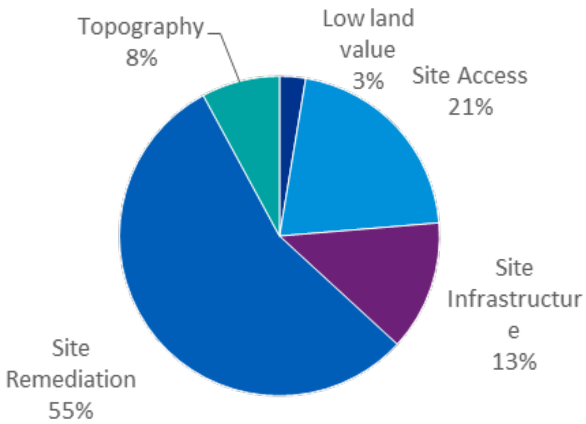
Stakeholders interviewed	Funds researched
• Welsh Government • Development Bank of Wales • Principality • Homes England • Greater Manchester • Greater London Authority (GLA) • Federation of Master Builders • Royal Town Planning Institute	• Property Fund • Stalled Sites Fund • Self-build Wales • Homes England Housing Delivery Partnership • Homes England Home Building Fund • Homes England Housing Growth Partnership • Homes England Stalled Sites Fund • Homes England Land Assembly Fund • Greater Manchester Housing Investment Fund • West Midlands Land Remediation Fund • GLA – Housing Zones Loan Finance • GLA – Housing Bank • Sheffield City Region Housing Fund

A.5.2 Data Gathering

In addition to the stakeholder engagement and research exercises described above, a data gathering exercise was undertaken with CCR Local Authorities to better understand the nature and constraints at their strategic stalled sites. For the exercise, Local Authorities were asked to identify the key, strategic stalled sites in their area that would be unlikely to come forward without viability funding support, but would provide significant economic and strategic benefits if unlocked. In total, 38 site specific responses were received, with nine out of ten Local Authorities providing at least one response.

The figure below provides a breakdown of viability constraints (and definitions of constraints) across 38 sites in the CCR. Of the data received on stalled housing sites in CCR, more than half (55%) of the cause of the viability constraint was due to site remediation. This includes work to stabilise ground conditions, and removing of contamination, to prepare land for residential development. This is consistent with the known legacy challenges of industrial activity in the region. Including topography challenges in this category would increase the size of the wider-remediation challenges sample to 63%. The cost of onsite and off-site infrastructure to connect houses to public utilities and the transport network are also common factors preventing developers bringing sites forward. Both site access (21%) and on-site infrastructure (non-remediation) (13%) costs were identified as the second and third main factors preventing development coming forward.

Figure 1. Breakdown of viability constraints (and definitions of constraints) across 38 sites in the CCR



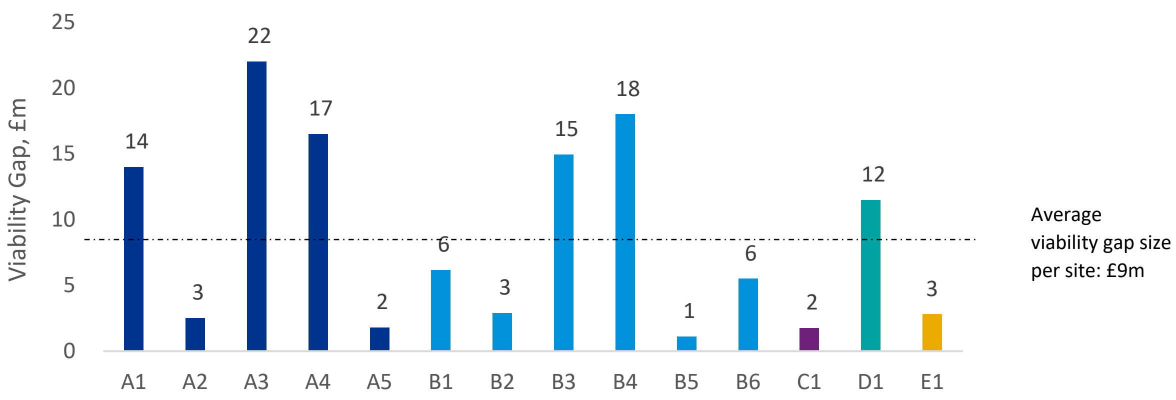
Viability Constraint	Description
Site Remediation	The process of removing pollutants & contaminants from a plot of land in preparation for residential development. This can include soil capping, the removal of hazardous waste (e.g. asbestos), land reclamation. Typical of brownfield sites with formal industrial use.
Site Access	A site can be stalled if the costs associated with connecting the site to the road network (as obligated to developers under planning permission) are too high. This includes extensive off-site infrastructure investments like bridges, roundabouts and widening.
Site Infrastructure	Site infrastructure includes all onsite preparations made to connect residents to utilities (water, sewage, gas etc.), as well as installing drainage infrastructure for areas susceptible to flooding.
Topography	Topography can constrain development if extensive preparations are necessary to prepare the land for residential development. This can include levelling the site, clearing woodland and stabilising soil.
Low Market Value	This constraint refers to situations where sites would typically be viable but for extremely low local demand, making the normal costs associated with development disproportionately high.

Figure 2 presents the monetary magnitude of viability constraints[1] facing sites in the CCR. While the average overall viability gap was estimated to be £9m, Figure 2 demonstrates that viability gaps vary

[1] Viability constraints were based on the size of abnormal costs identified in each site so as to be consistent across local authorities.

significantly, irrespective of LA. This implies that although there are known, large sites with major remediation costs in the region, there could also be the potential to spread funding across a number of sites with smaller remediation gaps in order to ensure a spread of benefits throughout the region.

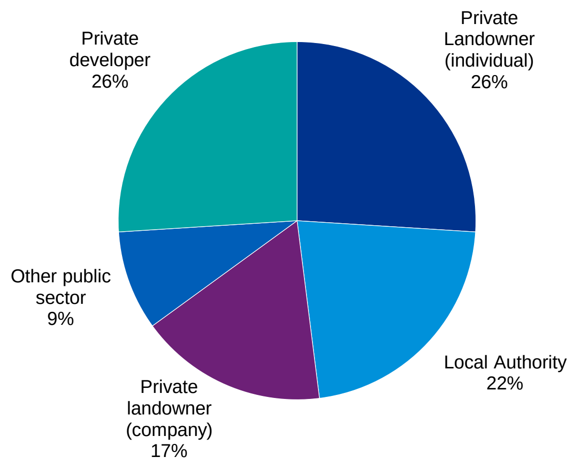
Figure 2. Size of Overall Viability Gap by Site and Local Authority



The data also indicates that ownership is discernibly varied, as shown in the Figure below. That said, over two thirds (69%) of stalled sites are owned by privately owned; either by a developer, private company, or individual as land owners. Private owners will typically hold onto land earmarked for residential development until its residual value is at a sufficient level for them to profit (for developers this is typically 20% of the Gross Development Value of the completed site).

Local authorities own 22% of stalled sites in the sample, reflecting their active strategic role in bringing housing development forward. 'Other public sector' includes national governing bodies like the Welsh Assembly, as well as utility providers like National Grid. In total 9% of sites are under their ownership.

Figure 3. Breakdown of Site Ownership in the CCR



Once sites are weighted according the amount of housing units unlocked on each site, the viability gap (per home) is less variable. Figure 10 and Table 3 summarise the data gathered from CCR Local Authorities on the viability gap of housing developments in the local area. On average, the viability gap is estimated to be £26,000 per home, and the average housing site size is 346 homes.

Figure 4. Size of viability gap per home (as per local plan) by site and local authority

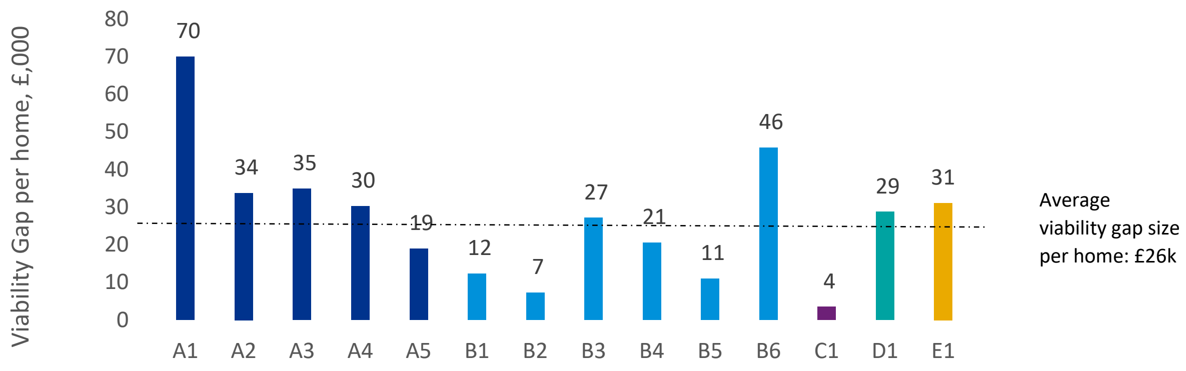


Table 3. Overall size of viability gap, viability gap per home, and viability constraint-type, by site

Site Ref.	Viability Constraints	Overall size of Viability Gap	Housing figures	Viability Gap per home
A1	Site Remediation	£14,000,000	200	£70,000
A2	Site Remediation	£2,500,000	74	£33,784
A3	Site Remediation	£22,000,000	630	£34,921
A4	Site Remediation	£16,500,000	545	£30,275
A5	Site Access	£1,800,000	95	£18,947
D1	Site Remediation	£11,500,000	400	£28,750
B1	Site Remediation	£6,160,000	500	£12,320
B2	Site Remediation	£2,900,000	400	£7,250
B3	Site Infrastructure	£14,933,397	550	£27,152
B4	Site Remediation	£18,006,208	875	£20,579
B5	Site Remediation	£1,100,000.00	100	£11,000
B6	Site Infrastructure	£5,500,000	120	£45,833
D1	Site Remediation	£1,750,000	500	£3,500
E1	Site Remediation	£2,800,000	90	£31,111

A.6 Detailed design of the Viability Gap Fund

The Viability-Gap Fund is focused on targeting sites that are not commercially viable, on account for the need to undertake on site remediation or on or off-site infrastructure investment, but where in principle, the economic and social case for investment will outweigh the financial costs of the solution. There are two key options identified for how these market failures could be overcome.

The first option is for CCR to provide conditional capital funding to LAs who are aware of sites that are stalled, but with willing existing developers should the viability-gap be removed. In this case, the Local Authority could support the delivery of on-site infrastructure that achieves a sufficient return for the developer to commence, or it could deliver off-site infrastructure that is either fundamental to mitigate the impacts of delivery, or raises local residual land value in order for development to come forward

The second option is for CCR to provide conditional capital funding to Local Authorities who have plans to develop their own land for sale to the private development sector but face a known viability-gap on these sites.

Having reviewed locally gathered data on viability gaps at large sites (more than 250 units) in Cardiff Capital Region, it was determined that both approaches would be used for the Viability Gap Fund.

For the purposes of economic modelling, it was assumed the Fund could be used for both options as they were considered similar enough in terms of economic outcomes to be assessed together. From a cost perspective, both options offer the opportunity for financial returns to the fund – from either overage against private sector sales values or direct sales of publically improved land at market values, if the appropriate conditions are established (i.e. the realisation of residual values) for this to be achieved. The differences between value for money and end-outcomes for variants of this combined option will therefore depend on the Prioritisation Framework adopted by CCR.

A.7 Input assumptions to the economic model

A.7.1 Overview of model inputs

For economic modelling purposes, input assumptions to the economic model are based on the detailed design of the detailed shortlisted options. The following table summarises the input assumptions which were used to model economic outcomes of the Viability Gap Fund.

Table 4. Economic model input assumptions for the Viability Gap Fund

Financial model assumptions	Viability gap fund
Fund terms	
Fund drawdown period	FY2022 to FY2024
Average viability-gap size per site (central case)	£9m
Overage (% of sites that will achieve a positive residual land values)	10%
CCR profit share of overage incurred	50%
Homes delivered	
Number of homes per site	346
Build out period	6 years
Other economic model assumptions	
• Time value of money discount rate of 3.5% used as per Green Book Guidance • Appraisal period of 10 years	

A.7.2 Approach to estimating net homes delivered

For the ‘average’ scenario of homes delivered, and for the analysis within the OBC, through the data collection exercise, discussed in Appendix A.4.3, it was determined that the average viability gap size was £9 million and the average size of sites with a viability gap in CCR was 346 homes per site. These averages were used to estimate the homes delivered through the Viability Gap Fund. Ultimately the estimated homes delivered are driven by assumed size of the fund.

It was also confirmed through the data collection exercise that the sites brought forward by Local Authorities would not be delivered without public intervention. Thus it was assumed that all homes delivered through the Viability Gap Fund would be additional at a CCR level. It is important to note that net homes delivered estimates are local impacts and do not represent net additional impacts at a Wales or UK level.

For the ‘optimised’ approach, it is assumed that sites would be delivered from highest to lowest value for money. This sees sites delivered according to their cost per home (VfM) and necessarily means a significantly higher forecast, but more aligned to the realistic number of homes to be delivered via the prioritisation framework set out.

A.7.3 Approach to estimating inclusivity benefits

In order to estimate inclusivity benefits, assumptions on where the net homes delivered were made. Given the data collected, it was assumed that homes would be delivered equally across all ten CCR Local Authorities. From there an inclusivity score was used by ranking each Local Authority according to its placing in the UK Competitiveness Index.

The following table summarises the assumptions used to estimate inclusivity benefits of the Viability Gap Fund.

Table 5. Assumptions used to estimate inclusivity benefits

Local Authority	% share of net homes delivered	UKCI 2019 Ranking
Blaenau Gwent	10	379
Bridgend	10	288
Caerphilly	10	369
Cardiff	10	141
Merthyr Tydfil	10	375
Monmouthshire	10	174
Newport	10	227
RCT	10	323
Torfaen	10	342
Vale of Glamorgan	10	238

Whilst this analysis assumes homes would be spread evenly, in reality an even spread of housing cannot be ensured as it will be dependent on the outcomes of the Value for Money analysis as part of the prioritisation process. The fund programme minima objectives will therefore be to rank sites according to value for money and readjust the prioritised fund pipeline to ensure 50% of expenditure in the 50% least competitive Local Authorities.

The exact approach in terms of scrutiny of site viability analyses will be defined in agreement with local stakeholders and in conjunction with CCRs technical advisors operating the housing fund. The principle should expect to see a significant increase in the number of homes delivered in the least competitive Local Authorities.

The FBC uses the UKCI index to determine economic inclusion based on the City Deal objectives to boost GVA, and reflection of the role of well-connected housing in boosting access to economic opportunity and creating denser labour markets and job matching.

A.7.4 Approach to estimating private investment leveraged

Private investment leveraged is the ratio between gross development value of the homes delivered and the size of the fund (i.e. the public contribution. This ratio reflects the relative scale of private (developer) funding unlocked in relation to the scale of public invested.

Gross Development Value is based on local sales price assumptions across the region. This is not considered a net economic gain to the national economic as will not represent additionality (i.e. to an extent will be displacing investment in housing elsewhere), however it is a useful metric to represent local investment benefits which will have a positive impact for the CCR economy (as with local GDP impacts immediately.

The following table summarises the local housing prices used to estimate gross development values and, in turn, private investment leveraged.

Table 6. Average housing prices by CCR Local Authority

Local Authority	Average housing prices by LA
Blaenau Gwent	£100,827
Bridgend	£163,317
Caerphilly	£141,567
Cardiff	£228,763
Merthyr Tydfil	£115,277
Monmouthshire	£275,377
Newport	£179,610
RCT	£122,556
Torfaen	£151,321
Vale of Glamorgan	£251,223

Source: MHCLG, Mean price paid (existing dwelling) by local authority

A.7.5 Approach to estimating gross economic output

Local economic output is driven by the gross development value directly generated from the Fund, as well as the indirect supply chain impacts and inducted expenditure from additional wages. A multiplier of 2.2 was applied to GVA estimates to estimate gross economic output at CCR level. The multiplier was derived using KPMG's Spatial General Equilibrium modelling. It is important to note that economic output numbers are local impacts and do not represent net additional impacts at a Wales or UK level.

As set out in the FBC document, net-additional economic outcomes will be expected to be derived from a) bringing unproductive land back into productive use (as set out in the DCLG / MHCL Appraisal Guide), and b) bringing forward sites which provide net-regional improvements to the level of connectivity to economic opportunity (as set out in DfT Level 2 impacts guidance). The Technical Annex and Application form, in particular the detailed viability analysis, are designed to enable CCR to capture the information required to assess these benefits at the prioritisation phase.

Appendix B Supplemental information for the Financial Case

B.1 Input assumptions to the financial model

The following table summarises the input assumptions, which were used to model the affordability of the Viability Gap Fund in the 'average' pipeline scenario.

Table 7. Financial model input assumptions for the Viability Gap Fund

Financial model assumptions	Viability gap fund
Fund operating start date	FY2021
Fund drawdown period	FY2022 to FY2024
Fund terms	
Infrastructure costs per home	£23,000
Share of homes that attain residual values	10%
CCR share of residual value	50%
Homes delivered	
Number of homes per site	346
Build out period	6 years
Fund operations	
Management fees	£1.5m in totality across 4 years of fund operation
Other financial model assumptions	
• Nominal discount rate of 6% used to derive NPV • CCR's financial year is between 1st April and 31st March (e.g. FY 2021 means 1st April 2020 to 31st March 2021)	

As discussed in the Management Case it is assumed that the fund begins operating in in the beginning of FY2021 (April 2020). It is assumed that funds are drawn down evenly over a three year period, which will be used to address the specific viability-gap of the site. This is also known and referred to here as the unlocking period.

Based on data received from CCR Local Authorities and Savills, the average viability gap size is estimated to be c£23,000 per home. In comparison with the economic analysis described above and in the FBC, for prudence the financial analysis is undertaken in accordance with the 'average' viability-gap prioritised pipeline scenario rather than the 'optimised' pipeline. An 'optimised' scenario is presented in the FBC, alongside an 'average' scenario used for the sensitivity testing in the FBC.

For clarity, the 'optimised' scenario is derived according to the VfM prioritisation process described in the Technical Annex above, using the same pipeline of data received from Local Authorities and Savills. That is, the same list of sites is awarded funding from best to lowest value for money (rather than just taking the average), reflecting the way that the prioritisation process would happen in practice. In this scenario, the average viability gap per home was worked out at £11,500. This scenario does not account for adjustments based on achieving the economic inclusion balance criteria, which would likely have the effect of increasing the viability-gap per home. The 'average' and 'optimised' scenarios therefore represent pessimistic and optimistic ends of potential outturn scenarios for the fund respectively.

As mentioned above, it is assumed CCR could recover some overage from residual land values, where possible. This would either be from direct overage agreements between Local Authorities and developer partners (based on site-level sales values achieved), or from direct sales at market levels by publically-owned land enhanced by the fund. See below assumed residual land values per hectare, by Local Authority. In order to get residual land values in nominal terms these values are inflated over the lifetime of the fund by RPI.

Table 8. Assumed residual land values per hectare by CCR Local Authority.

CCR Local Authority	£ Residual value per hectare
Blaenau Gwent	1,290,967
Bridgend	1,665,320
Caerphilly	1,477,024
Cardiff	2,352,132
Merthyr Tydfil	1,386,470
Monmouthshire	1,895,805
Newport	1,706,230
RCT	1,389,150
Torfaen	1,549,540
Vale of Glamorgan	1,893,659

Source: KPMG analysis of ONS and Stats Wales data

As discussed in the Economic Case, an economic model was developed to estimate the number of homes that are delivered and sold, and the distribution of the homes across the Region. It is assumed 10% of homes delivered through the Viability Gap Fund attain residual values, of which CCR captures half (50%) of the monetary value.

Management fees are assumed to be £1.5m for the four years of operation of the fund, encompassing the application and evaluation and prioritisation windows in the first year of operation, and three years of ongoing site monitoring and reporting.

Appendix C Indicative assessment of the SME Finance Fund

C.1 Recap of the SME Finance market failure

Through Savills' market research of the CCR housing market, it was determined that small sites (i.e. individual sites of 50 units or less) with and without planning permission make up a significant portion of the housing pipeline in the Cardiff Capital Region, with c. 5,000 units in the planning pipeline on small sites of less than 50 units.[2] The composition of the planning pipeline suggests that small sites are likely getting delayed either before going through the planning process, or are stuck once planning has been approved, possibly due to insufficient capital to commence development.

Approximately 2/3 of the homes on small sites in the planning pipeline are either at or before the outline planning (i.e. reserved matters) stage of the delivery cycle. For these sites that are early in the planning pipeline, upfront costs and risks associated with dealing with the planning system and paying professional fees for upfront costs (surveying, architecture, design, project management, etc.) are identified as a significant burden for SME developers. Most private lending institutions, as well as DBW, do not typically consider lending to developers at this early stage of the delivery cycle. Lenders will usually seek confirmation of planning permission as well as pre-sale agreements before considering lending applications.

For small sites that are later in the pipeline of development, access to finance can still be a challenge for SME firms with limited amounts of available equity or lack of development experience, for a variety of reasons. Generally, market failures for SMEs seeking access to finance at this stage exist either because the market cannot bear the cost burden of overcoming the asymmetry of information in undertaking due diligence, or the developer does not have equity sufficient to access finance at a high enough loan-to-cost or loan-to-value to finance the project.

C.2 Economic Case Summary

C.2.1 SME Finance Fund design options

Through stakeholder engagement, market research and data collection, four designs of the SME Finance Funder were considered:

Table 9. Summary of SME Finance Fund options

Senior Debt	**Upfront access to finance** is a solution to provide senior debt finance to cover upfront costs of the development cycle. This includes costs for dealing with the planning process and pre-planning costs, not including land acquisition. Typically this covers between 8-12% of total build costs. Under this option lending would be targeted at the lower size of the SME developer spectrum (i.e. those that most struggle to access finance), but not to go below the £150,000 DBW threshold criteria – which is deemed an already high tolerance for small principal amounts. Given up upfront costs represent 8-12% of total build costs, typical loan arrangements costs would be up to £20,000 per loan. This is much lower than the loans available in the market for house builders. In discussions with commercial lenders, loans of principal amounts lower than £2-3m per loan are typically commercially unattractive. Currently, across Wales, DBW provides residential loans for principal sums as low as £150,000.
	High loan-to-cost (LTC) lending is a solution which seeks to cover up to 100% loan-to-cost for SME developers who may have low levels of equity or cash capital, especially for new

[2] Market research undertaken by Savills

	market entrants,. For context, in typical private lending markets, developers can receive 60-70% LTC, requiring developer to inject between 30%-40% of equity investment. Under this option CCR would at higher LTC or LTV than the private market would see it take on significant additional risk than the market in terms of loan to collateral. As DBW is already lending at up to 100% LTC via its Stalled Sites Scheme, and given the range of built-up expertise within that organisation, it would not be additional or an efficient use of public funds for CCR to also develop a funding programme to operate in this area. **This option was therefore not tested further in the value for money analysis.**
Mezzanine Finance	**Mezzanine finance** is a further lending arrangement, separate to senior debt, which can provide the finance needed to stretch developer equity to unlock these sites. It is a more complex product than both senior debt and equity offers, and it is not clear that there is known and established market demand from the SME sector. For clarity, there are two related but slightly separate definitions to mezzanine interventions in the housing market, as follows: 1) A commercial 'mezzanine' facility would see CCR providing a subordinate lending arrangement to a development project, on terms that are junior to senior debt, and is reviewed as part of the SME Finance short-list detailed options. The purpose of this type of mezzanine finance is primarily to enable (subject to agreement from the senior debt provider) the filling of an equity gap on the part of the developer. It leverages senior debt lending available in the market, but which will not cover the higher LTC requirements of the developer. Typically it is required that if senior debt is limited at 60-70% of total loan-to-cost, mezzanine investment of 20-30% will be required. Because of the high risk of mezzanine and the high exposure versus collateral at higher LTC rates, some developer equity is usually required. 2) An organisation takes on responsibility either directly or by covering the capital costs for delivering the upfront infrastructure components on behalf of the developer who takes on the 'de-risked' build out of the site. This option is akin to the LA preparation of sites approach explored in the Viability-Gap fund.
Equity	An **equity arrangement** would have CCR would work with a major private lender to set up a SPV that is able to take JV stakes in developments. The option has a high-degree of risk exposure as investments are not collateralised in relation to senior and junior debt. It enables SME firms, especially new market entrants, with low capital and difficulty raising other forms of debt to finance upfront costs and start development.

C.2.2 Input assumptions to the economic model

For economic modelling purposes, input assumptions to the economic model are based on the detailed design of the detailed short-list options. The following table summarises the input assumptions, which were used to model economic outcomes of the SME Finance Fund.

Table 10. Economic model input assumptions for the SME Finance Fund

Financial model assumptions	Upfront cost facility	Mezzanine facility	Equity facility
Fund operating start date	October 2020 (mid FY2021)	October 2020 (mid FY2021)	October 2020 (mid FY2021)
Fund drawdowns begin	October 2020	October 2021	October 2022
Home build out			

Financial model assumptions	Upfront cost facility	Mezzanine facility	Equity facility
Fund operating start date	October 2020 (mid FY2021)	October 2020 (mid FY2021)	October 2020 (mid FY2021)
Fund drawdowns begin	October 2020	October 2021	October 2022
Homes per site	15	34	30
Build out period	2 years	2 years	2 years
Other financial model assumptions			
• Time value of money discount rate of 3.5% used as per Green Book Guidance • Appraisal period of 10 years			

The overall demand for loans is assumed capped at 12 per year in the central scenarios. This is based on an expected upper-bound for the size of the SME developer market in South Wales at c70 firms, and the known DBW Property Fund loan book (as a local comparator) currently creating approximately 20 loans per year – but which is not targeted exclusively to SME developers.

C.2.3 Value for Money Analysis – SME Finance Fund

The three shortlisted options that progressed through the detailed qualitative assessment, are therefore tested for value for money immediately below which incorporates data from the financial case, combined with an economic benefits assessment for the delivery approaches. Outcomes are tested against three possible fund sizes, £10m, £30m and £60m.

The following table summarises the value for money analysis of three SME Finance Fund options.

Table 11. Estimate economic Outcomes of SME Finance Fund options

	Scenario	Homes Delivered	Private investment leveraged – GDV, ratio	Economic output – local GDP impact for CCR	Inclusivity Benefits (no. new homes in most deprived areas)
Upfront Cost	**£10m Fund**	655	£132m (13:1)	£249m	224
	£30m Fund	1243	£250m (8:1)	£444m	426
	£60m Fund	1243	£250m (8:1)	£444m	426
	£30m (Upside Sensitivity)	1907	£383m (13:1)	£702m	653
Mezzanine	**£10m Fund**	259	£52m (5:1)	£97m	89
	£30m Fund	612	£123m (4:1)	£214m	210
	£60m Fund	612	£123m (2:1)	£214m	210
	£30m (Upside Sensitivity)	760	£153 (5:1)	£278m	260
Equity	**£10m Fund**	451	£91m (9:1)	£155m	154
	£30m Fund	451	£91m (3:1)	£155m	154
	£60m Fund	451	£91m (2:1)	£155m	154
	£30m (Upside Sensitivity)	903	£182m (6:1)	£311m	309

Across the three fund options the Upfront Costs senior debt option performs best for economic outcomes. This largely reflects the fact that the size of the loans, being focused on upfront costs (assumed to be 10% of overall build costs), are small relative to the GDV unlocked per house.

There is also assumed to be greater levels of market demand for the product in relation to other products given that it is available to the whole spectrum of SME developers on small sites (i.e. does not require the higher principal sums needed to entice the private sector finance partners required to run the mezzanine and finance options).

The mezzanine option provides lower economic outcomes than the upfront cost facility across all fund sizes. There is lower demand (in the central scenarios) which limits the number of originations which can be made per year, and caps the overall value which can be lent per annum.

The equity fund performs better per arrangement than the mezzanine fund but is capped at a lower expected level of demand, which means that there is no expected benefit to running a fund above £10m. As shown in the financial case, the high management costs to low fund demand imply a low financial value for money.

Ultimately, the ability for the option to breakeven is still limited as the running costs will be high relative to the small expected principal sums from targeting costs at the pre-planning delivery phase. Whilst risks are higher at this stage, overall default assumptions are not considered more risky than other options on account of the high relative proportion of collateral to loan size.

C.3 Commercial Case Summary

C.3.1 Overview of Commercial Approach and Commercial Feasibility of Proposals

As demonstrated in the Economic Case the Preferred Option for the SME Finance Fund is the Upfront Cost option. Under this option the SME Finance Fund would be targeting the smaller end of sites (i.e. 5-50 homes per site), as the smaller principal sums are those most likely to be unable to access finance.

The four broad commercial arrangements were considered follows:

Option 1. Cardiff Capital Region to directly employ the colleagues required to run the fund and setup a housing fund management arm within the Capital Region / City Deal office. It is not deemed that this would be an appropriate allocation of resources. It would not be proportional with the resource budget or operational structure of the City Deal. It would incur significant costs to the City Deal in terms of human resource and associated activities. It would not provide a useful separation of investment decisions away from CCR senior management and stakeholders (as could be achieved in partner-working arrangements 2 and 3).

Option 2. Cardiff Capital Region to hire a regulated FCA organisation to manage the fund on its behalf. The commercial arrangement here would see Cardiff Capita Region pay a proportion of the operating costs of the fund, which are determined by the lending parameters set for the fund.

Option 3. Cardiff Capital Region could setup a joint venture partnership with a commercial or non-commercial lender from which to invest funds. The commercial arrangement would see Cardiff Capital Region leverage funds of a second organisation / shareholder in a joint venture arrangement, sharing the resource costs for management. However, it is expected that the burden to Cardiff Capital region for hiring and governance of its own staff as part of the joint-venture arrangement would provide similar challenges to option 1.

Option 4. Cardiff Capital Region could transfer the funds to one of the Local Authorities with experience or capabilities with fund management, and provide resource cost support to manage the fund. It is understood that none of the Local Authorities within the Cardiff Capital Region have the required capabilities or experience to undertake this role. Even if resource costs could be raised, it is expected to be less efficient than option 2, and furthermore would lead to potential conflict of interest constraints given the need for impartial allocation of funds across the 10 Local Authority partners.

Option 2 was deemed the most appropriate mechanisms to take forward the commercial management of the SME Finance Fund.

C.3.2 Implementation/Procurement strategy and route

For the SME Finance Fund, CCR will require appropriately skilled professionals to manage and operate the capital. Experience from existing housing funds throughout the UK highlight the critical importance of ensuring that skilled and experienced finance professionals are involved both in the development of the final fund.

A key task in the early stages of procurement and leading through to the FBC process will be to understand if the market is able and willing to provide services against these key commercial terms. These commercial principles will need to be confirmed as part of the FBC and into the ultimate go/no go decision for this fund. Logically they should continue be refined after the completion of the OBC and detailed market testing could commence immediately.

C.3.3 Payment Model

The fund manager would need to be procured and incentivised using a combination of the following forms of payment mechanisms:

- **Performance payment -** This element links a proportion of the fees paid to the fund manager for the performance of the service. Specified performance targets should ensure that the service provider continues to deliver the agreed outputs throughout the lifespan of the service. These should include measures in relation to the successful operation of the fund including homes delivered, applications processed, customer service and other relevant SLCs.
- **Transaction/volume payment -** This element links a proportion of the payment mechanism to the achievement of successful loans provided and recovered. The parameters will need to be tested determined as part of the early procurement phases.

C.3.4 Fund Criteria

CCR will be responsible for setting out the eligibility criteria for developers to receive financing. These will be finalised in the FBC, but initially are set out as follows:

- Financing is eligible for sites of between 5 and up to approximately 50 homes. (the lower bound enables a likely differentiation between SMEs and custom / self-builders. The approximate upper bound is an expected limit of capacity for SME builders, and reflects the expected overall size of the fund).
- The scheme is only open to SME developers as defined by the European Commission (i.e. firms with less than 250 permanent headcount)
- Finance will only be available to projects within the boundaries of one of the 10 CCR Local Authorities
- Eligible bids will be subject to financial due diligence and Know Your Client (KYC checks)

- Due diligence will entail
    - Financial due diligence, with the key assumption that finance is expected to be fully recoverable (grant funding will not be considered)
    - Deliverability checks
- CCR Local Authorities will make colleagues in their planning departments available to provide an early steer on applications as required
- Any lending will take place using a defined State Aid Matrix (see appendix), which accounts for the EC base rate, creditworthiness and collateral or the developer applicant
- The funding is targeted towards the private sector, although registered affordable housing providers and joint ventures will be considered
- Applications to the fund are available on a continuous basis
- The minimum application amount is £150,000. There is no upper limit subject to the SME developer and c50 unit upper limits.
- The applicant must be able to show that other funding sources have been explored and exhausted
- The applicant must be able to show a clear intent to deliver in terms of plans.

At FBC stage, a fully refined eligibility criteria document will be tested, along with the development of an associated application template, which can serve as a basis for the criteria to be implemented by the fund manager.

C.3.5 Contractual arrangements

The contract between CCR and the Fund Manager would run for 3 years initially with an option for annual renewal. If the contract is not renewed, Cardiff Capital Region will make provision for the transfer of outstanding investments to an alternative fund management arrangement.

Once applicants meet the eligibility criteria, approval to receive financing will be premised on the applicant signing to the loan terms and conditions. These will be finalised in FBC, but initially are set out in the table below:

Table 12. Proposed loan conditions

Loan to Cost	a maximum of [80%] of scheme development costs (excluding finance and interest charges), and a maximum of 100% loan to land/property value
Pricing	Minimum based on that allowed under State Aid rates with an appropriate margin applied
Loan Term	A maximum of [2 years] from proposed start on site to repayment of the Fund's loan will be permitted. Appropriate refinancing incentives included where refinancing risk is evident.
Security	First-ranking charge over the land/property, subject to any arrangements agreed with other senior lenders. A debenture over the applicant organisation will be secured where possible.
Priority of Drawdown	Developer equity and/or additional borrowing will be expended before the Fund's loan starts to be drawn, or expended side-by-side with the Fund (excluding the value of the up front land introduced by the developer).

Priority of repayment	The Fund repayment will have priority over receipts from disposal of the property (including any rental income), subject to any arrangements agreed with other senior lenders.
Arrangement fees	Arrangement fees may be charged on the Loans and Monitoring Fees will be paid by the borrower such that satisfactory independent monitoring is undertaken.

C.4 Financial Case Summary

C.4.1 Overview of the approach

A financial model was developed which estimates the affordability of the various designs of the SME Finance Fund i.e. upfront cost facility; mezzanine finance; and equity finance. Affordability of the SME Finance Fund is driven by the net cash flows to the Fund, which comprise annual drawdowns, interest payments received, principal payments received, equity payments received, and management fees incurred. Net cash flows are presented in both nominal and Net Present Value (NPV) terms.

The following table summarises the approach to estimating each of the elements of the net cash flows.

Table 13. Approach to estimating affordability of the SME Finance Fund

Annual drawdowns	Annual drawdowns to the fund are driven by the market demand of the product (i.e. how many capital arrangements are expected per annum), and the average size of the loan/equity injection, which varies by design of the SME Finance Fund product. This, together with the constraint of the overall size of the fund, drives how much in loans/equity injections are released per annum. For all designs of the SME Finance Fund in the financial modelling, drawdowns are assumed to be able take place for up to ten years.
Interest payment received	Interest payments received are based on the interest rate assumption and the length of the loan term. It is assumed these are paid in the form of coupon payments, where interest is paid for the length of loan term and principal is paid at the end. A default rate assumption is applied to adjust the interest rate income expected to be received by CCR. These assumptions vary by design of the SME Finance Fund product.
Principal payments received	Principal payments received are driven by the estimated average size of loans given and the number of finance arrangements per annum. As above, it is assumed that the full principal amount is paid at the end of the loan term, within the constraint of a default rate assumption.
Equity payments received (SME equity facility only)	Equity payments are dependent on when houses are built and sold, which come from the Economic model. It is assumed CCR receives an equity share of the JV profit margins from the sale of a site. A risk adjustment is applied to get a more representative estimate of equity payments CCR could expect to receive under an SME equity facility.
Managements fees	Through the stakeholder engagement exercised, an estimate for the amount of resources required to operate and manage the SME Fund under the different design options has been derived. This includes a range of functions including business development, transaction arrangement and monitoring, legal service, due diligence and risk

	oversight and governance. The resource requirements are discussed in more detail in the Management Case.

C.4.2 Assumptions

For financial modelling purposes, input assumptions to the financial model are based on the detailed design of the detailed short-list options. The following table summarises the input assumptions, which were used to model the affordability of the different SME Finance Fund products.

Table 14. Financial model input assumptions for the SME Finance Fund

Financial model assumptions	Upfront cost facility	Mezzanine facility	Equity facility
Fund operating start date	October 2020 (mid FY2021)	October 2020 (mid FY2021)	October 2020 (mid FY2021)
Fund drawdowns begin	October 2020	October 2021	October 2022
Term sheet			
Average loan/capital size	£210,000	£1,200,000	£400,000
Interest rate	6%	12%	n/a
Default rate	20%	40%	40%
Average loan term	3 years	2 years	n/a
Gross profit margin	n/a	n/a	20%
CCR equity share	n/a	n/a	50%
CCR equity as a share of development cost	n/a	n/a	10%
Home build out			
Homes per site	15	34	30
Build out period	2 years	2 years	2 years
Fund operations			
Market demand (i.e. number of finance arrangements p.a.)	12	3	3
Management fees	£1.6m p.a.	£2.0m p.a.	£2.0m p.a.
Other financial model assumptions			
• Nominal discount rate of 6% used to get to NPV • CCR's financial year is between 1st April and 31st March (e.g. FY 2021 means 1st April 2020 to 31st March 2021)			

C.4.2.1 Upfront cost facility,

Given the estimated timings of procuring a fund manager, it is assumed that fund operations begin mid FY2021[3], or October 2020. It is also assumed funds begin drawing down at this time.

Average loan size is driven by two key assumptions: the size of the site and the share of professional fees (e.g. quantity surveyors, architects, etc.) as a percentage of build costs, which are the costs to which loans from the fund would be targeted to. On the former, from the pipeline analysis of sites undertaken as part of the Savills market research, the average size of a small site in CCR (i.e. defined as sites of less than 50 units) is 15 units. On the latter, it is assumed professional fees represent 10% of build costs, or c.£14,000 per home[4]. This provides an average loan size per site of £210,000. A

[3] CCR's financial year is between 1st April and 31st March
[4] Based on evidence from local viability assessments and industry reports

principal sum of this amount is deemed to be clearly addressing the market failure of providing finance at principal amounts that would be unattractive to the private lending markets.

Assumed interest and default rate assumptions come from detailed design of the product, which is discussed in Section 3.5. For the purposes of financial modelling, interest rate and default rate of 6% and 20% are assumed respectively.

It is broadly assumed that build out rates for small sites are up to two years from the point of planning approval, which would generally align to the length of the loan term. However, since the upfront cost facility is a loan to developers at the early stages of the planning, it is assumed that the length of the loan term should be three years in total.

It is assumed 12 lending arrangements are agreed per annum, based on stakeholder consultations on market demand and precedent from similar product offerings from Homes England and DBW.[5]

Management fees are assumed to be £1.6m per annum, which are based on resourcing assumptions discussed in the Management Case. These costs are appropriately inflated over time to get to a nominal figure using UK Government Departmental guidance, which forecasts the percentage increase of nominal earnings.

C.4.2.2 Mezzanine facility

As with the upfront cost facility, it is assume fund operations begin mid FY2021. However, given the timings to come to mezzanine finance agreements, including the joint (additional) due diligence requirements from working in tandem with a private, senior debt provider, it is assumed that funds begin drawing down one year after fund operations commence.

In the detailed design of the mezzanine facility, it is estimated that the overall loan size will be between £0.4m and £2m. For the purposes of financial modelling we use the mid-point (i.e. £1.2m) as the average loan size. The assumed interest and default rate assumptions come from detailed design of the product. For the purposes of financial modelling, an interest rate and default rate of 12% and 40% are assumed, respectively. The loan term is assumed to be two years, which aligns to the assumed build out rate.

There is limited precedent on the number of lending agreements CCR could expect per annum. It is assumed reasonable that the total number would be less than senior lending products due to less favourable lending terms (i.e. higher interest rates), and it being a less well known product. It is also likely only to be applicable to the larger end of the SME developer spectrum because of higher principal amounts likely to be required by the senior debt lending partner, who will also likely not be willing to take on the most risky propositions (even from a senior debt position), i.e. new market entrants, or smaller firms with limited evidence of creditworthiness, requiring loans of smaller principal amounts. For prudence we assume 3 lending arrangements are agreed per annum. Management fees are assumed to be £2.0m per annum, which are based on resourcing assumptions.

C.4.2.3 Equity facility

As with the upfront cost facility and mezzanine facility, it is assumed that fund operations begin mid FY2021. However, given the timings to come to equity finance agreements, associated with the need to work with an experienced private finance partner to setup a Special Purpose Vehicle able to take joint-venture equity stakes in private developer companies, it is assumed funds begin drawing down two years after fund operations commence.

Average equity injections are driven by two key assumptions: the overall size of the site and the size CCR's equity share. As set out, a small site is defined to be 5-50 units per site. An equity facility it is likely to be relevant only to sites in the higher side of this spectrum, particular in regard to the requirements of the SPV partner for searching and JV setup costs in relation to overall potential profit from equity. For the purposes of financial modelling, it is assumed the site size to be double the average of a small site i.e. 30 units. Assuming development costs to be £140,000 per home, this comes to an average development cost of £4.2m.

It is assumed that 20% of development costs are paid for with equity, of which CCR would have a 50% equity stake under a JV arrangement with the developer. In other words, CCR's (i.e. the SPV's) average equity injection would be 10% of development costs, or £400,000.

Unlike the upfront cost facility and mezzanine facility, where returns back to the fund are in the form of interest payments and principal payments, under the equity facility CCR gets its income from the sale of homes built. It is assumed homes are built over a 2 year period, with the sale occurring one year thereafter.

The approach to estimating the gross development value from an equity facility is described in the Economic Case. Whilst these are presented in real terms in the Economic Case, they are inflated by by RPI in the Financial Case to get to nominal equity returns. The industry average gross profit margin in the development sector of 20% is assumed, of which CCR receives 50% the monetary value. A risk adjustment of 40% is applied (double the assumption for the upfront cost facility) to reflect the inherent riskiness of equity income.

As the equity facility would be targeting similar SME developers as the mezzanine facility, it is assume 3 lending arrangements are agreed per annum. Management fees are assumed to be £2.0m per annum.

C.4.3 Summary of results: SME upfront cost facility

The following table summarises the results of the SME upfront cost facility, including fund operations, nominal cash flows, the net present value of cash flows using a 6% discount rate, and the discounted proportion of initial capital.

Table 15. Summary of results of the SME upfront cost facility

	Fund size	£10m	£30m
Fund operation	Start date	2021	2021
	End date	2025	2030
	No. years operational	5	10
	Total no. of financial arrangements	48	114
Nominal cash flows	Total Drawdown within 10 year period (£ m)	-£10.0	-£23.9
	Assumed value of defaults (£ m)	£2.0	£4.8
	Principal payments recovered (£ m)	£8.0	£19.2
	Interest payments recovered (£ m)	£1.4	£3.4
	Total value recovered (£ m)	£9.4	£22.6
	Total management costs incurred (£ m)	-£8.2	-£19.1
	CCR net cash flows (£ m)	-£8.8	-£20.5
NPV	Discounted Net cash flows (£ m)	-£8.5	-£17.1
	Discounted capital recovery (%)	-1%	1%

As set out earlier, annual drawdowns to the fund are driven by the market demand of the product, and the average size of the loan. This, together with the constraint of the overall size of the fund, drives how much in loans are released per annum. It is also assumed drawdowns can take place for up to ten years, which the consistent modelling period applied to all options.

As demonstrated in the table above, no more than £24m in loans are given out over the ten year period. This is because market demand is assumed to be capped at £2.5m in loans per annum (i.e. 12 loans per year, with an average loan size of £210,000) for up to ten years. [6] Thus a £60m fund would result in the same outcomes as a £30m fund under a ten year operating period.

This table also demonstrates that the total value recovered almost matches the funding fees incurred. Thus capital recovered in discounted terms is close to zero.

C.4.4 Summary of results: Mezzanine facility

The following table summarises the results of the mezzanine facility, including fund operations, nominal cash flows, the net present value of cash flows, and the discounted proportion of initial capital.

[6] Recall in the first year it is assumed the Fund is operational in mid FY2021.

Table 1: Summary of results of the mezzanine facility

	Fund size	£10m	£30m	£60m
Fund operation	Start date	2021	2021	2021
	End date	2025	2030	2030
	No. years operational	5	10	10
	Total no. of financial arrangements	8	25	26
Nominal cash flows	Total Drawdown within 10 year period (£ m)	-£10.0	-£30.0	-£30.6
	Assumed value of defaults (£ m)	£4.0	£12.0	£12.2
	Principal payments recovered (£ m)	£6.0	£18.0	£18.4
	Interest payments recovered (£ m)	£1.4	£4.3	£4.4
	Total value recovered (£ m)	£7.4	£22.3	£22.8
	Total management costs incurred (£ m)	-£9.9	-£23.1	-£23.1
	CCR net cash flows (£ m)	-£12.5	-£30.8	-£30.9
NPV	Discounted Net cash flows (£ m)	-£11.0	-£23.5	-£23.6
	Discounted capital recovery (%)	-33%	-11%	-10%

As demonstrated in the table above, the difference between outcomes of a £30m fund and £60m fund dedicated to a mezzanine facility is limited. This is because market demand is assumed to be capped up to £3.6m in loans per annum (i.e. 3 loans per year, with an average loan size of £1.2m). This means no more than £31.6m in loans are given out over an eight and half year period.[7]

This table also demonstrates that whilst capital recovery improves as the size of the fund becomes larger, ultimately the management fees incurred are greater than the returns to the fund and no capital is recovered under the mezzanine facility option.

C.4.5 Summary of results: Equity facility

The following table summarises the results of the equity facility including fund operations, nominal cash flows, the net present value of cash flows, and the discounted proportion of initial capital.

[7] Recall in the first year it is assumed the Fund is operational in mid FY2021, and mezzanine arrangements begin drawing down funds one year after fund operation.

Table 2: Summary of results of the equity facility

	Fund size	£10m
Fund operation	Start date	2021
	End date	2030
	No. years operational	10
	Total no. of financial arrangements	23
Nominal cash flows	Total Drawdown within 10 year period (£ m)	-£9.0
	Equity recovered (£ m)	£8.5
	Total value recovered (£ m)	£8.5
	Total management costs incurred (£ m)	-£23.3
	CCR net cash flows (£ m)	-£23.8
NPV	Discounted Net cash flows (£ m)	-£17.4
	Discounted capital recovery (%)	-184%

As demonstrated in the table above no more than £9m in loans are given out over a seven and half year period.[8] This means there is no difference in the outcomes of a £10m fund, £30m fund and £60m fund dedicated to an equity facility over a ten year operating period. This is because market demand is assumed to be capped up to £1.2m in equity injected per annum (i.e. 3 arrangements per year, with an average contribution of £400,000) for up to ten years.

This table demonstrates that, similar to the mezzanine facility, management fees incurred are greater than the returns to the fund and no capital is recovered.

C.4.6 Sensitivity testing

As demonstrated in the results of the different designs of the SME Finance Fund product, financial outcomes are largely dependent on the assumed market demand (i.e. number of arrangement per annum), and appropriately prudent estimates of market demand have been assumed based on market data and precedents. Estimated management costs also impact the estimated capital recovery since, in most cases, it overshadows the interest payments and returns the fund.

For each of the SME Finance Fund design options, sensitivity tests are applied to observe what happens when market demand doubles and management fees are reduced by 50%. We also consider the impacts when Welsh policy priorities are taken into consideration, particularly the zero carbon housing agenda and affordable housing agenda.

To model the zero carbon housing agenda we assume development costs per home rise by £5,000. For the upfront cost facility and mezzanine loan facility, this increases the size of the loan required per site. For the equity facility, this reduces the amount of homes unlocked (i.e. the equity injection does not take you as far).

The affordable housing lowers the development value to 80% of GDV. To model the affordable housing agenda we assume 20% of homes in a site are affordable housing.

[8] Recall in the first year it is assumed that the Fund is operational in mid FY2021, and equity arrangements begin drawing down funds two years after fund operation.

For consistent comparison between the design options, the discounted capital recovery is observed under a £30m fund size scenario. A summary of these sensitivity tests are presented in the table below.

Table 3: Sensitivity testing of SME Finance Fund options

Financial model assumptions	Upfront cost facility	Mezzanine facility	Equity facility
Fund size	£30m	£30m	£30m
Double Market Demand			
Baseline assumption	12	3	3
Sensitivity testing assumption	24	6	6
Half management fees			
Baseline assumption	£1.6m p.a.	£2.0m p.a.	£2.0m p.a.
Sensitivity testing assumption	£0.8m p.a.	£1m p.a.	£1m p.a.
Zero carbon housing agenda (higher average loan sizes.equity injection)			
Baseline assumption	£14,000 loan size	£1,200,000 loan size	£400,000
Sensitivity testing assumption	£14,500 loan size	£1,240,000 loan size	£415,000
Affordable housing agenda (lower average GDV)			
Baseline assumption	£172,984	£172,984	£172,984
Sensitivity testing assumption	£166,064	£166,064	£166,064

The following table compares the discounted capital recovery the baseline assumption against the sensitivity tests.

Table 4: Results of sensitivity testing of SME Finance Fund options

Discounted capital recovery (%)	Upfront cost facility	Mezzanine facility	Equity facility
Baseline assumption	**1%**	**-11%**	**-184%**
Double market demand	40%	25%	-49%
Half management fees	41%	28%	-49%
Zero carbon housing agenda (higher average loan sizes or homes unlocked per site)	4%	-7%	-178%
Affordable housing agenda (lower GDV)	1%	-11%	-188%

The table above demonstrates that, when market demand is doubled or management fees are reduced by 50%, some capital is recovered with an upfront cost facility and mezzanine facility. Whilst there are improvements to capital recovered in an equity facility, relative to baseline, the management fees still overpower the returns to the fund and capital is not recovered.

Under the zero carbon housing agenda the discounted capital recovery improves since average loan sizes increase and there are greater returns to the funds, whilst management fees remain fixed. Under the affordable housing agenda there are no changes to the discounted capital recovery for the finance facilities since these are not impacted by lowered gross development values. Under the equity facility the discounted capital recovery worsens.

The following table summarises the breakeven points for market demand per annum and management fees per annum. In other words, how much market demand or management fees would have to be in order for the discounted proportion of initial capital to be zero.

Table 5: Breakeven analysis of SME Finance Fund options

Breakeven	Upfront cost facility	Mezzanine facility	Equity facility
Per annum market demand	12	4	9
Per annum management fees	£1.7m	£1.7m	£1.3m

As demonstrated in the above table, under an equity facility, the number of equity arrangements would have be 3x the baseline assumption, or management fees would have to go down 35% to £1.3m in order for capital to begin to be recovered. Under the mezzanine facility, management fees would have to go down 15% to £1.7m or one additional financial agreement would need to be arranged.

C.5 Management Case Summary

As discussed in the Commercial Case, the preferred procurement option is to appoint an external Fund Manager to operate and manage the SME Finance Fund. The Fund Manager would be responsible for reviewing financing applications, conducting due diligence, and setting out the lending terms with applicant under the parameters of the SME Finance Fund.

CCR itself will appoint a named colleague to undertake contract monitoring and overall project management. A detailed plan will be established for how CCR will expect to engage with the Fund Manager over the course of the duration for which the fund is operational.

As reflected in the modelling assumptions of the economic and financial case it is assumed that, at least initially, the fund will run for a defined period, with a review point before any income from the fund is reinvested. That is, the fund will be run for a defined period of years after which an initial funding cycle will have been completed i.e. the lending arrangements have begun to provide returns into the fund. At this point, CCR will make a decision as to whether to continue to reinvest into the fund (recycle investments), or whether to conclude the operation of the fund.

This decision will be based on a range of criteria, but should primarily be determined by:

i) The success of the fund from a value for money perspective, and close outturn has been to forecast
ii) The prevailing strategic and economic conditions of the time, and CCR being able to take a view as whether, via strategic assessment, the funds could be put to greater economic or strategic value elsewhere.

Whilst the fund is operational, the CCR internal project manager will meet frequently with the externally appointed Fund Manager to review the performance of the fund, against plan and against expectations. The internally appointed Fund Manager will provide status reviews to senior management within the City Deal office, and also produce reports to CCR Governance forums as required.

C.5.1 Risk Management

Both CCR and the Fund Manager will maintain a risk register for the operation of the fund. CCR's risk register will respond to the key relevant risks from its perspective, which primarily will focus on its ability to achieve the expected benefits outcomes, managed against the overall cost impacts of running the fund.

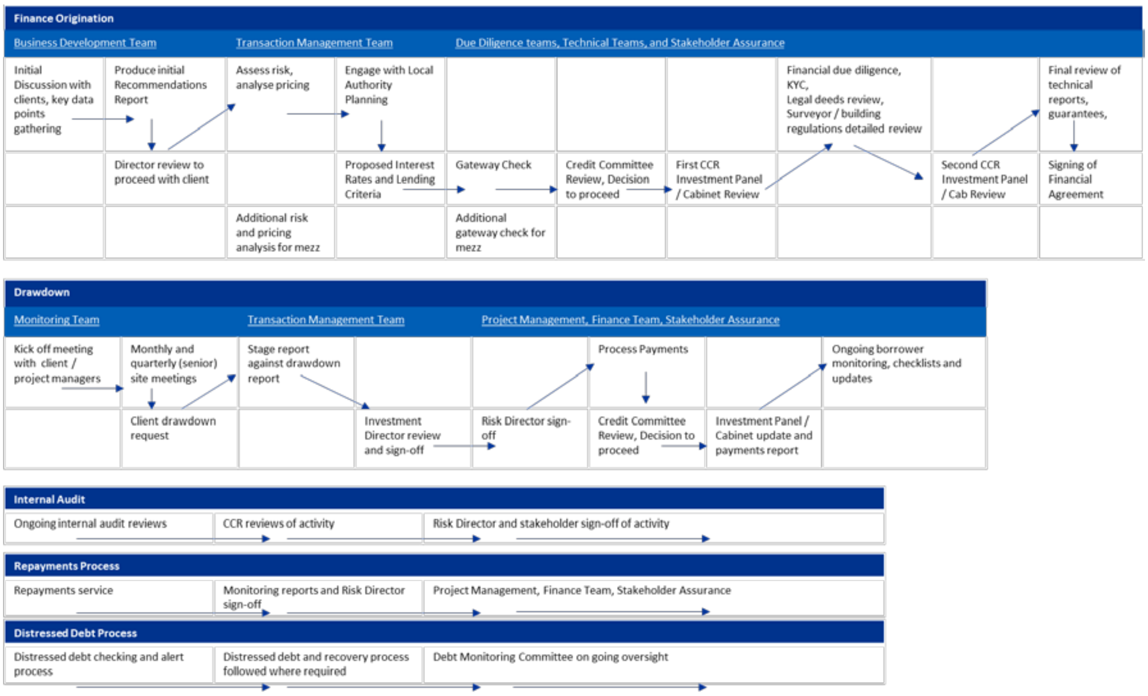
Risk	Impact	Mitigation
There is limited initial engagement from the market for financial products	Sunk resource costs will become comparatively more expensive in relation to economic and financial outcomes of the fund.	An effective marketing strategy will be established. A procurement arrangement which allows CCR to close the fund arrangement at appropriate monitoring and review points.
Limited procurement response from the market	Potential poor value for money in procurement	Review detailed procurement propositions with a specific senior debt specialist
Poor fund performance once established	Financial and economic value for money over time will be reduced against expectations	Ongoing monitoring by CCR internally appointed project manager, ongoing reporting arrangements to be established between externally appointed fund-manager and CCR. A procurement arrangement which allows CCR to close the fund arrangement at appropriate monitoring and review points.
Use of funds not aligned to objectives or fund-criteria	Risk of crowding-out and poor use of public funds should the lending arrangements diverge from the clear targeting of market failures identified.	A clear terms of operation shall be provided by the supplier, reflecting an understanding of the objectives and lending terms which will be formally set out by CCR. Ongoing monitoring by CCR of the use of the funds by the externally appointed fund manager.

The risk register will be maintained as a living document throughout the lifecycle of the project, to be reviewed by the CCR responsible colleague on a quarterly basis, in conjunction with senior management. Major risks which are identified as potentially having a material impact on overall value for money, and without a clearly defined route to mitigation, will be reported through the governance structures if it is required that a fundamental change in scope of project may be required.

C.5.2 Delivery process

The process diagram below shows the main stages in the lending origination and monitoring process that the external fund manager will need to undertake. CCR will also appoint an internal project manager to carry out monitoring and reporting engagements with the external fund manager, in order to be able to provide City Deal senior management and governance with regular updates on the outturn of fund operations.

Figure 5. Loan origination, monitoring and management. Required processes and team

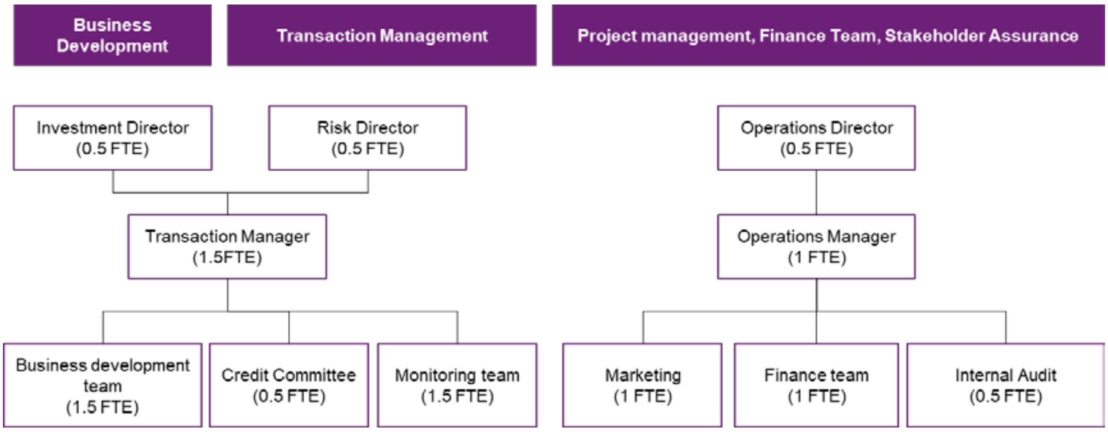


C.5.3 Resource and Structure

As above, CCR will appoint a project manager to oversee and monitor contracting arrangements with the external fund manager. Ongoing resource costs for the externally appointed fund manager are expected to be significant on account of the breadth of skills required for financial fund management, although not all required capabilities will require whole FTE if resource can be shared with a fund manager's existing funds. As set out in the Commercial Case, the final cost implications will be identified via the full market testing undertaken as part of the FBC process, and will depend on the ability of CCR and the supplier to share risk and reward in the delivery of the fund.

The flow diagram below shows the indicative range of skills required, corresponding to the process diagram above. Some costs will be for permanent FTE, other costs will be per-origination costs required for skilled experts and consultants. Application fees are not generally expected to cover these origination costs, especially where the objective is not to penalise access to finance as part of an initiative to overcome market failure.

Figure 2: Resource requirements for loan finance fund management



This Appendix 2 is exempt from publication because it contains 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.

HOMES FOR ALL THE REGION – ILLUSTRATIVE SPECIFICATION FOR TECHNICAL ADVISOR PANEL

The Viability Gap Funding element of the CCR Housing Fund will require support from a Technical Advisor Panel to deliver support during 3 key stages of the Housing Fund's set-up and operation. The FBC sets out the 'principles' on which the detailed application and evaluation processes will be based, with draft documentation being included within the FBC Technical Annexes.

The detailed preparation of a full commissioning strategy, timetable and documentation to facilitate the procurement of Technical Advisor Panel is currently being developed, however, in summary, it is envisaged that the support requirements amongst other matters will include the provision of the following services:

1. Project Co-Ordinator Support

- To act as the Project Co-ordinator for the Fund and provide support to the 10 LAs during the 'Call for Sites' period, expected to be circa six months;
- To assist LA's with the application process in respect of sites which may be put forward and in particular to offer a view on strategic fit with the Fund's Investment Strategy and Eligibility Criteria;
- To support LAs with the commissioning/co-ordination of surveys and other technical site information that will need to be submitted along with each application as part of the formal assessment process;
- To act as a link between the City Deal Office, the LAs and the wider Technical Advisor Panel on all matters pertaining to the Viability Gap Fund application process;

The Project Co-ordinator will be familiar with the regional/local housing markets and general site availability, have a background in the built environment, have a detailed technical understanding of other similar Viability Gap Funds and be familiar with the preparation and practical application of Development Appraisals.

2. Technical Advisor Panel

- To assist the City Deal Office with any minor refinements that may be required to the draft Application Form, Fund Investment Strategy and Eligibility Criteria to ensure these are fully aligned with the Prioritisation Framework;
- To prepare the detailed Prioritisation Framework and detailed Evaluation Methodology, Criteria, Weightings and Scoring Guidance for approval by Regional Cabinet;

- To support LAs with any technical questions or queries in relation to the above and to scrutinise and challenge potential applications/sites that may be put forward for consideration;
- To independently evaluate all formal applications received (including the need to undertake the necessary level of due diligence on Phase A documentation) and present the Prioritised List of Sites to Investment Panel for review and onward recommendation to Regional Cabinet;
- To undertake detailed due diligence on Phase B documentation in the support of conditional funding awards becoming unconditional, transitioning through to final legal agreement.

The appointed Technical Advisors will need to be able to access a range of professional, technical and engineering services that are necessary in assessing, approving and monitoring complex housing developments throughout their development lifecycle.

The Lead Team will be capable of quickly familiarising themselves with the regional/local housing markets, general site availability and longstanding marginal viability issues that have prevented key strategic sites from being delivered in the past. In addition, the Lead Team will have a detailed understanding of other similar Viability Gap Funds operating in Wales and the UK and have an extensive understanding of the preparation and practical application of Development Appraisals when assessing marginal viability.

The appointed Technical Advisors may benefit from having direct access to their own financial advisors, to work in collaboration with CCR's appointed legal advisors, to provide advice and support to issues that are likely to arise from complex applications received as part of the Fund. This could include matters such as company financial standing assessments, financial modelling, advising on security and risk, advising financing structures, State Aid, preparation of all supporting legal documentation etc. Where required, additional support can be made available via existing CCR arrangements that have been already procured and in operation.

3. Post Award Monitoring & Evaluation

- To provide ongoing support to LAs as developments are progressed in-line with agreed Project Plans and associated timescales;
- To assess progress against agreed project milestones and provide recommendation as to whether milestone payments should be released by the City Deal Office/Accountable Body in accordance with the terms of the funding agreement;
- Ongoing monitoring of delivery outcomes against agreed project milestones including the final out-turn position against the agreed Development Appraisal, to assess the likelihood of overage clauses being triggered and advise on the payment of profit share sums that may become due;
- To escalate issues in a timely manner where Project Plans fall outside agreed tolerances;
- To support the City Deal Office with the ongoing assessment and capture of outputs and outcomes associated with the approved Benefits Realisation Plan.

The appointed Technical Advisors will need to be able to access a range of professional and technical services that will be necessary in supporting the tasks outlined above during this critical phase of each development cycle. This aspect of service is likely to cover a number of years and will be linked to the delivery of phases of each approved developments, through to their conclusion. Therefore, the need to work in partnership with local stakeholders will be key, as will be the ability to provide knowledge transfer and have a flexible approach to working across the entire region.

Confidential Appendix 3

This Appendix 3 is exempt from publication because it contains 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.

Homes for all the Region - Indicative Revenue Resourcing Requirements

Viability Gap Fund

1. CCR Housing Fund Dedicated Resources	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Total**
	£s	**£s**	**£s**	**£s**	**£s**
a. CCR Employed Resources					
Senior Project Co-ordinator (8 months)	38,275	0	0	0	38,275
Project Admin Support (50% for 8 months)	9,290	0	0	0	9,290
Client Interface Role (4 months)	19,138	28,707	28,707	28,707	105,258
Project Admin Support (50% for 4 months)	4,645	13,935	13,935	13,935	46,450
Expenses (incl. Travelling)	1,250	1,250	1,250	1,250	5,000
	72,598	**43,892**	**43,892**	**43,892**	**204,273**
b. LA Application Support (Phase A & B)					
Match Funding Resources	300,000	200,000	0	0	500,000
Sub Total (1)	**372,598**	**243,892**	**43,892**	**43,892**	**704,273**

2. Technical Advisor Panel	**£s**	**£s**	**£s**	**£s**	**Total**
a. Project Co-ordinator					
Senior Project Co-ordinator (50% for 6 months)	121,875	0	0	0	121,875
Expenses (incl. Travelling)	2,500	0	0	0	2,500
	124,375	**0**	**0**	**0**	124,375
b. Technical Advisor Panel					
Review all documentation to date	15,150	0	0	0	15,150
Develop Housing Brochure & Associated Forms	22,725	0	0	0	22,725
Develop Prioritisation Framework & Detailed Exercise	22,725	0	0	0	22,725
Provide ad-hoc support and guidance	15,150	0	0	0	15,150
Evaluate up to 20 bids & make recommendations (Phase A)	200,000	0	0	0	200,000
Detailed D/D through Legal Agreements (Phase B)	39,375	118,125	0	0	157,500
General advice and support (incl. attending meetings)	12,120	12,120	3,030	3,030	30,300
Expenses (incl. Travelling)	3,000	3,000	750	750	7,500
	330,245	**133,245**	**3,780**	**3,780**	**471,050**
c. Scheme Evaluation, Monitoring, Certification & Escalation					
Senior Consultant (2 days per month for 1 yr)	0	45,000	0	**0**	**45,000**
Building Surveyor (4 days per month for 3 yrs)	0	28,800	28,800	28,800	**86,400**

Expenses (incl. Travelling)	0	5,600	2,200	2,200	**10,000**
	0	**79,400**	**31,000**	**31,000**	**141,400**
Sub Total (2)	**454,620**	**212,645**	**34,780**	**34,780**	**736,825**

3. Other Related Costs - Legal and Financial Support	**£s**	**£s**	**£s**	**£s**	**Total**
a. Legal and Financial Support					
Legal support	21,000	21,000	0	0	42,000
Financial modelling and support	7,500	7,500	0	0	15,000
Sub Total (3)	**28,500**	**28,500**	**0**	**0**	**57,000**

Viability Gap Fund Total	**855,718**	**486,037**	**78,672**	**78,672**	**1,498,098**

SME Finance Fund

	£s	**£s**	**£s**	**£s**	**Total**
FCA Fund Manager Procurement	125,000	0	0	0	125,000
SME Finance Fund - Total	**125,000**	**0**	**0**	**0**	**125,000**

Total Revenue Resource Requirements	**980,718**	**485,037**	**78,672**	**78,672**	**1,623,098**

Appendix 4

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.	Clear written process for Local Authority responsibility and ownership of detailed project management arrangements, with private sector partners as required. Local Authority due diligence and State Aid investigation on individual propositions, and commitment to ongoing internal audit Ongoing monitoring arrangements of project outcomes

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 secondar 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 ened 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 levlling 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?
Long Term Balancing short term need with long term and planning for the future	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 signe doff by Investment Panel
Collaboration Working together with other partners to deliver objectives	The scheme is a partnership across public and private and involves all ten councils, RSLs, developers and land owners and agents.	Ongoing co-ordnation and support will be offered through a co-ordinator role and the establishment of a dedicated fund to support all LAs
Involvement Involving those with an interest and seeking their views	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?
Prevention: Putting resources into preventing problems occurring or getting worse	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	
Integration: Considering impact on all wellbeing goals together and on other bodies	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.	Each scheme will need to demonstrate contribution to wellbeing goals as part of investment criteria.

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 inclusing 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 be developed via technical advisory panel

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 vale 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**