

Economy & Growth Committee

Date of Meeting:	15 November 2022
Report Title:	Crewe regeneration programme update
Report of:	Jayne Traverse, Executive Director - Place
Report Reference No:	EG/21/22-23
Ward(s) Affected:	Crewe Central ward and other Crewe urban wards

1. Purpose of Report

- 1.1. To provide the committee with an update on progress with the Crewe town centre regeneration programme, including projects supported by funding from the Future High Streets Fund and Towns Fund.
- 1.2. To consider a specific recommendation from Crewe Town Board which, having considered cost and delivery risks across the Towns Fund programme, advises that a request be made to Government to remove one project from the programme and reallocate funding across the remaining projects.
- 1.3. This report relates to the Council's Corporate Plan priority "a thriving and sustainable place", specifically:
 - a great place for people to live, work and visit;
 - welcoming, safe and clean neighbourhoods;
 - a transport network that is safe and promotes active travel; and
 - thriving urban and rural economies with opportunities for all

2. Executive Summary

- 2.1. A comprehensive programme of regeneration is already underway in Crewe town centre, building on initial investment by the council in 2015 and including funding secured as a result of successful bids for Government funds including

the Local Growth Fund and the Future High Streets Fund, as well as drawing on allocations made more recently through the Towns Fund.

- 2.2. This report, and the associated verbal briefing, provide a high-level update on the comprehensive regeneration programme that is underway in Crewe town centre and follows previous reports to this committee in November 2021 ('Town Centre Regeneration Update') and to the council's cabinet in November 2020 ('Crewe Regeneration & Investment Programme').
- 2.3. It identifies the key issues or risks associated with these projects and mitigation measures - either in place or proposed - to address these.

3. Recommendations

- 3.1. To note the report and to agree to further regular briefings to this committee on the Crewe regeneration programme.
- 3.2. To approve the submission of a request to Government to remove the Lyceum Powerhouse project from the Towns Fund programme and to delegate authority to the Director of Finance & Customer Services, in consultation with the Executive Director Place and Crewe Town Board, to propose the reallocation of funding across the remaining Towns Fund programme.

4. Reasons for Recommendations

- 4.1. Crewe town centre has the largest regeneration programme in the borough and one of the most significant in the north-west. The council is responsible for managing this programme and most of the projects within it, and it also has responsibilities as the accountable body for the grant funding that has been secured.
- 4.2. Previous Full Council and Cabinet decisions have delegated responsibility for most decisions related to the regeneration programme to the Executive Director – Place and/or the Director of Finance & Customer Services. Where appropriate, officers provide briefings to local members, but it was previously agreed that this committee would receive regular update briefings.
- 4.3. Crewe Town Board (CTB) has undertaken an independent review to consider the cost and delivery risks facing the projects in the Towns Fund programme, particularly in relation to the increasing risk and potential impact of cost inflation. The outcome of this, which has been agreed by CTB at its meeting on 28 October, is to request the withdrawal of the Lyceum Powerhouse project from the programme, which would create a saving of £4,998,000 which could be reallocated across the programme. As accountable body for CTB and the Towns Fund, the Council's S151 Officer is required to approve any change requests to Government. Given the significance of this decision, Committee approval is sought to support this this decision.

Other Options Considered

4.4. In relation to the briefing elements of this report:

Option	Impact	Risk
Do nothing	Committee members would receive very limited information on the Crewe regeneration programme.	This would result in committee members being unaware of much of the regeneration programme activity.

4.5. In relation to the decision to submit a request to remove the Lyceum Powerhouse project from the Towns Fund programme:

Option	Impact	Risk
Remove one or more other projects from the Towns Fund programme and retain the Lyceum Powerhouse Project within the programme.	This would result in other projects being stopped at a stage where legal and commercial activity is well advanced.	There would be a high likelihood of significant reputational risk, particularly in relation to those projects that have well-articulated social and community benefits. This could result in third party legal challenges to such decisions which the Council, as accountable body, could be exposed to.
Retain all projects within the Towns Fund programme.	This would require all projects to seek alternative funding to address any unfunded cost increases, or descope projects to remain within budget.	It is highly likely than many projects would be unable to identify additional funding which could place the Council at risk, financially and/or reputationally whether projects proceed or terminate prior to completion. Although some projects may be capable of being descope, this can cause further delay and exposure to cost inflation, and the outcomes of the project would be at risk of non-delivery in terms of quantity and/or quality.

5. Background

5.1. All town centres play an important role in the economic, social and cultural function of their towns and hinterland and, as the borough's largest town, Crewe town centre has an important role to play both locally and in the wider sub-region.

5.2. This is a pivotal time for Crewe town centre. It is faced with wider economic challenges, such as the decline in demand for physical retail space, recovery from the pandemic and the cost-of-living crisis, but it also has huge potential in terms of both recent growth of its population and economy, and as the first northern hub for HS2 services.

5.3. To address these, a comprehensive programme of regeneration is already underway in Crewe town centre, which:

- builds upon key plans including the town's Regeneration Delivery Framework and Cultural Strategy which, with strong stakeholder support, seeks to place culture and heritage at the heart of Crewe's regeneration and culture-led economic growth;
- follows initial investment by the council in 2015, including funding secured as a result of successful bids for Government funds including the Local Growth Fund (LGF);
- incorporates projects developed in response to the Government's Future High Streets Fund (FHSF), which the Council was successful in bidding £14.1m for; and
- has been extended to include other projects following Crewe's selection as a town eligible for the Government's Towns Fund, which has involved supporting the establishment and operation of Crewe Town Board, including the development a Town Investment Plan (TIP) which led to £22.9m being allocated for a range of projects.

5.4. This programme has potential to grow further, with:

- a) the prospect of Crewe becoming the headquarters of Great British Railways (GBR), following the town it being shortlisted as one of only six potential locations;
- b) bids submitted by the Council in August through the Government's Levelling Up Fund (LUF) which would support regeneration projects at Nantwich Road, adjacent to Crewe railway station;
- c) the submission in August of the borough's Shared Prosperity Fund Investment Prospectus, which is expected to secure £11.5m to support

economic development priorities over the next 30 months, including within Crewe.

- d) the submission of an expression of interest to Government to establish a Investment Zones in Cheshire East, including four locations in Crewe, as well as other potential locations elsewhere in the borough.

5.5. The regeneration programme is essentially based on a drive to ‘provide more reasons for more people to visit the town centre, more often’. A visual plan of the projects within the regeneration programme ‘pipeline’ is provided in Appendix 1.

5.6. Appendix 2 provides a summary update on all the projects in the Crewe regeneration programme. The most significant project-specific matters to highlight at the current time are:

- a) Royal Arcade Phase 1: This is progressing to the timetable confirmed in spring this year, with the interim bus station expected to be operational from January to December 2023, at which point the new permanent bus station will become operational. The new multi-storey car park is expected to be completed at the same time, and will free-up capacity at other town centre car parks, enabling other regeneration projects to proceed;
- b) Royal Arcade Phase 2: The council’s development partner, Peveril Securities, are in dialogue with commercial occupiers/investors. As appropriate, over the next few months, the Council will engage in confidential commercial negotiations with Peveril with the intention of securing a commercially viable development which makes a significant positive contribution towards the regeneration of the town centre;
- c) Earle Street Bridge link: As part of the Future High Streets Fund (FHSF) programme, the Council had secured funding to undertake technical assessment and enabling activities which require further funding, to support the creation of a new pedestrian and cycle link over the west coast mainline from Earle Street to Vernon Way. Following extensive design development and dialogue with Network Rail, it is evident that there is no design solution that would both address NR requirements and provide a satisfactory route. As a result, in accordance with delegated powers, a recommendation will be made for an officer decision to be taken to authorise that the Council submit a ‘change request’ to Government, advising that the project will be withdrawn from the FHSF programme, and requesting that the remaining unspent grant relating to this project be reallocated to other FHSF projects that are experiencing cost pressures as a result of construction cost inflation.
- d) The significant and persistent cost inflation in the construction sector represents a major risk to all capital projects, in particular those that are included in the Crewe Towns Fund programme, which is led by Crewe Town Board and

supported by the council as accountable body. To assess the risk and the ability of projects to address cost increases (e.g. through descoping or identifying additional sources of funding), a review of the existing Towns Fund programme has been undertaken with the support of project leads, and external experts (Ekosgen and Currie & Brown).

In relation to the Lyceum Powerhouse project, identified risks include the current funding gap and the uncertainty as to when/how this will be closed, delivery arrangements (including the requirement for soft-market testing to confirm operator interest), and the proposed programme which exposes the project to greater inflationary risk compared to projects which can secure contracts at an earlier stage.

As a result, the Town Board has requested that a 'change request' be submitted to Government proposing that the Lyceum Powerhouse project be withdrawn from the Towns Fund programme, and requesting that the remaining unspent grant relating to this project be reallocated to other Towns Fund projects/activities that are experiencing cost pressures as a result of construction cost inflation. The background paper to Crewe Town Board relating to this is included as Appendix 3.

5.7. As identified in Para 8.6, risk management forms a fundamental part of the programme and project management. The most significant issues and risks facing the overall programme currently are:

a) **Cost inflation:** The cost of materials and contractors has seen significant growth over the past 18 months – it has generally exceeded RPI inflation and is forecast to continue, with high interest rates and labour shortages exacerbating the problem. Many projects within the regeneration programme have been costed prior to this period of inflation and, even those costed more recently, are facing significant issues which will require either additional funding and/or 'value-engineering' - i.e., changing the scope - for example by reducing the size of a project, or changing the materials to be used in the project - for example by using lower cost, lower quality materials. The removal of the Lyceum Powerhouse project from the Towns Fund programme and subsequent reallocation of funding would reduce the risk of overspends across the remaining projects.

b) **Revenue costs:** Almost all the funding secured for projects is capital, with the expectation that revenue costs are funded/absorbed by the organisation leading the delivery of the project. Whilst the council has operational mechanisms in place to identify these costs for those projects it is responsible for, there is a significant and growing revenue funding requirement, exacerbated by cost inflation - for example energy costs or increasing statutory obligations for maintenance/management". This is a

key consideration for the Council in terms of its Medium-Term Financial Strategy.

- c) **Staffing capacity:** The number of posts within the Growth & Enterprise directorate remains at the same level as three years ago, and the same staff are now managing a significantly larger and more complex mix of projects, as well as ensuring the necessary governance at a programme level (e.g., monitoring of project expenditure, reporting to government, etc). The same is true of enabling services that provide key technical inputs to support the delivery of the projects, including officers in Legal, Planning, Communications and Estates services. The Council will review other priorities across the teams in order to ensure adequate capacity within the existing resources

6. Consultation and Engagement

- 6.1. Consultation and stakeholder engagement has been undertaken throughout the development and delivery of this programme, including in the development of:
- Crewe Town Centre Regeneration Delivery Framework
 - Crewe Cultural Strategy
 - Crewe Town Investment Plan (led by Crewe Town Board)
- 6.2. Each project is also required to consult and/or engage with key stakeholders including users, and this is monitored at programme level. In the context of the recommendation relating to the withdrawal of the Lyceum Powerhouse project from the Towns Fund programme, Crewe Town Board has been actively engaged, and local members as well as the project managers have been informed of the review and its recommendation.

7. Implications

7.1. Legal

The schemes set out in this report have been the subject of previous reports and so are subject to their own decision-making processes. The report highlights the risks associated with delivering projects and managing schemes during a period of cost inflation with limited resources. The legal team will continue to advise on the governance and decision-making matters that arise within each scheme and upon ongoing negotiations and contracts (existing and contemplated) and associated risks and liabilities.

7.2. Finance

Although this is an update report and there are no financial implications related to the recommendations in this report, Paras 6.7 a) and b) identify key issues in relation to cost inflation and revenue costs that require further comment.

In the main these have either been addressed separately through previous decisions, or delegations from Council/Cabinet/Committee(s), and/or are being managed as delegations under the Council's Constitution and schemes of delegation.

The cost of materials and contractors has seen significant growth over the past 18 months – it has generally exceeded RPI inflation and is forecast to continue, with high interest rates and labour shortages exacerbating the problem. Many projects within the regeneration programme have been costed prior to this period of inflation and we are starting to see more recent real costings considerably exceed our inflationary assumptions. If these are repeated then projects will require additional funding and/or 'value-engineering' - i.e., reducing the scope or quality of the project.

The removal of the Lyceum Powerhouse project from the Towns Fund programme and subsequent reallocation of funding will reduce the risk of overspends across the remaining projects.

With regards to the pressures on revenue budgets there is a need to articulate the level of growth bid being sought as part of the Council's Medium Term Financial Strategy.

7.3. Policy

The programme and projects identified in this report align with the Council's existing Crewe Town Centre Regeneration Delivery Framework, as well as the Cultural Strategy, Housing Strategy and Local Transport Plan.

7.4. Equality

There are no direct equality implications related to the recommendations in this report but it should be noted that every project is usually required to undertake an equality impact assessment as part of the project's initial scoping and subsequent delivery.

7.5. Human Resources

Para 6.7 c) identifies issues associated with staffing capacity, but there are no direct human resource implications related to the recommendations in this report. Separate proposals are being developed, as part of the council's Medium Term Financial Strategy, to increase staffing capacity within the Economic Development team, to ensure there is adequate capacity to support the delivery of the regeneration programme and the projects within it. In addition, the Council will review other priorities across the teams in order to ensure adequate capacity within the existing resources

7.6. Risk Management

Key project level risks (and issues) are identified as part of the programme update in Appendix 2. In terms of programme-level risks, Para 6.7 identifies some key risks/issues but the monitoring of risks forms a fundamental part of the programme and project management and are included as part of 'highlight reports' that are provided every month to the operational programme boards and the executive Place Board that oversee these projects.

7.7. Rural Communities

There are no direct implications for rural communities related to the recommendations in this report, although the benefits of regeneration in Crewe town centre extend beyond the communities of Crewe into other the town's wider hinterland.

7.8. Children and Young People/Cared for Children

There are no direct implications for children, young people and cared for children related to the recommendations in this report, but it should be noted that some of the projects being delivered as part of the Crewe town centre regeneration programme have a direct and positive benefits for children and young people, particularly the YouthZone and Youth Club projects.

7.9. Public Health

There are no direct public health implications related to the recommendations in this report, but it should be noted that several projects within the programme are expected to have direct and positive impacts on public health, including the Valley Brook and Mill Street Corridor projects and the Southern Gateway project which all promote active travel, as well as Pocket Parks, YouthZone and Youth Club projects that will also promote more physical activity.

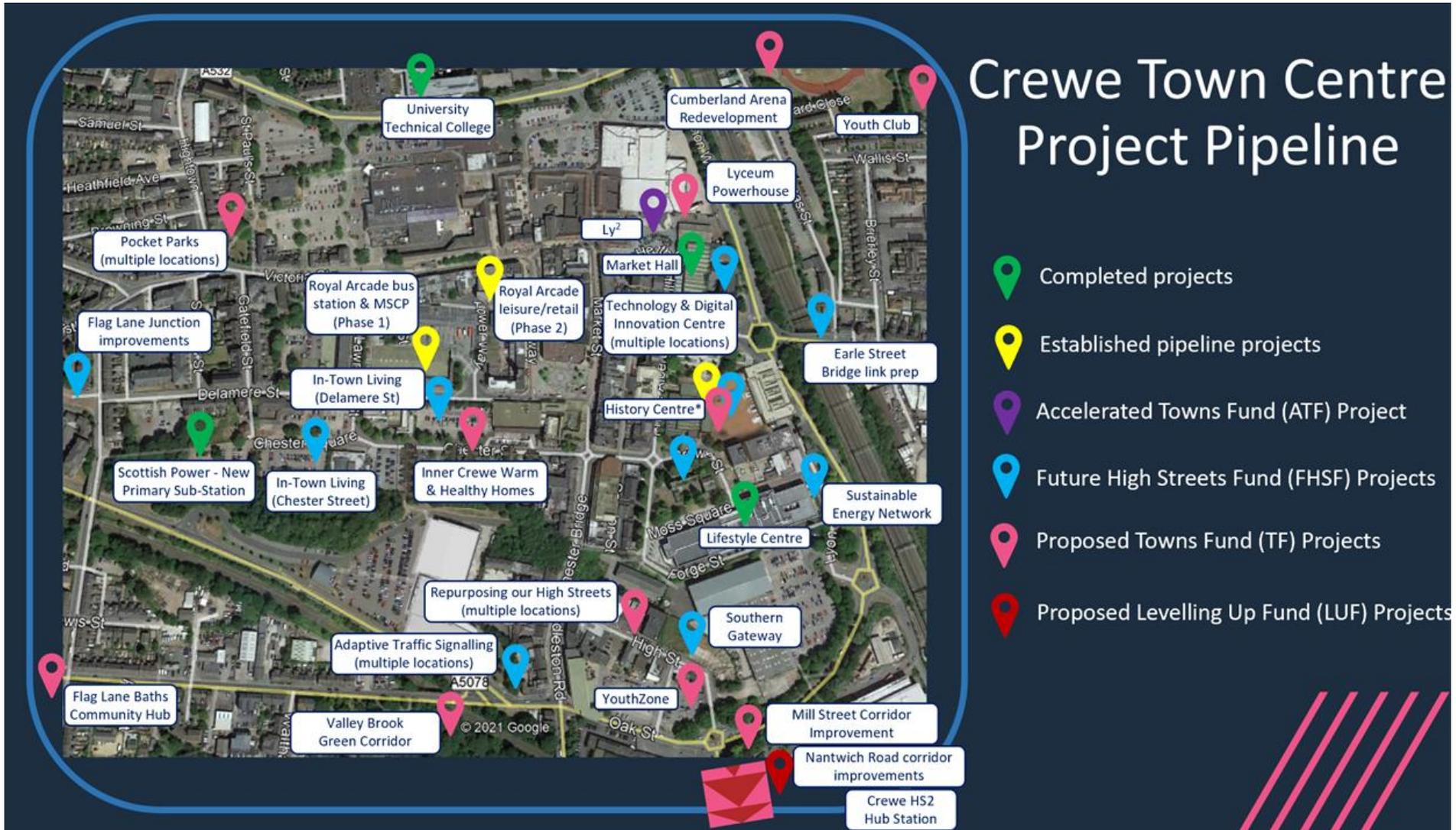
7.10. Climate Change

There are no direct climate change implications related to the recommendations in this report, but it should be noted that several projects within the programme are expected to have direct and positive impacts on climate change, including the Sustainable Energy Network. All projects that involve construction will, as part of any planning consent, will need to demonstrate how any climate impacts are mitigated.

Access to Information

Contact Officer:	Jez Goodman jez.goodman@cheshireeast.gov.uk 01270 685906
Appendices:	Appendix 1: Crewe Town Centre Project Pipeline Appendix 2: Crewe town centre regeneration programme update Appendix 3: Crewe Town Board report on Crewe Towns Fund programme
Background Papers:	None

Appendix 1: Crewe Town Centre Project Pipeline



Economy & Growth Committee 15 November 2022

Appendix 2: Crewe town centre regeneration programme update

Project Name	Summary Description	Lead/Key Delivery	CEC Budget commitment	Other budgets	Funding Sources	Current forecast completion/ operation	Current status	Issues/Risks
Royal Arcade Phase 1	New bus station and multi-storey car park	CEC/Peveril Securities Ltd	£15.85m		CEC	Dec 2023	Stage 1 demolition completed. Temp. bus station operational Jan 23. Heritage Wall consultation complete mid Nov,	Design development / refinement at RIBA Stage 4. Remaining risk items may require use of allocated CEC contingency.
Royal Arcade Phase 2	Cinema-anchored, leisure-led mixed-use development	Peveril Securities Ltd	£3.5m	tbc	PSL, CEC	2025/26	Awaiting satisfaction of other pre-commencement conditions in Development Agreement	Cost inflation; market conditions in commercial sector
History Centre	Demolition of former library and civic centre car park, creation of new history centre including Cheshire archive, with new public realm	CEC / Cheshire West & Cheshire Council	£10m + £1.5m	£10m CWaC, NLHF budget +£1½m FHSF +£¼m TF	CEC, FHSF, TF, NLHF	2024/25	Awaiting NLHF application outcome- due Dec 2022. Planning application for demolition/public realm and History Centre submitted early Nov. Demolition target completion: Late 2023	Cost inflation, estimated time for planning permission to be approved
Flag Lane Link	Creating new connection for vehicles from west of Crewe to Flag Lane/Delamere St. junction	CEC /Ringway Jacobs	n/a	£1.5m	FHSF	March 2023	Utility diversion works commence November 22 to be complete mid-December '22. Main Scheme starts after Christmas	Reduced risk budget due to construction inflation. Co-ordination of Utility companies.
Earle Street Bridge	Feasibility and land assembly (not construction)	CEC/ Ringway Jacobs	n/a	£1.2m	FHSF	N/A	Feasibility work for new Bridge completed alongside Network Rail.	NR requirements mean that a practical new bridge structure is undeliverable.
Southern Gateway	New pedestrian and cycle route from Oak St. to Forge St.	CEC / Ringway Jacobs	n/a	£3.8m	FHSF	March'24	Planning Application submitted. Heads of Terms for land acquisition agreed.	Cost inflation means that original budget is exceeded. A residual risk that land agreement does not proceed to legal completion.

Adaptive Signalling	Updating traffic control infrastructure to provide demand-responsive signalling	CEC / Ringway Jacobs	£0.22m	£0.31m	FHSF, CEC	November 23	New system installed at Oak Street / Eddleston Road. To be 'activated' at Christmas '22. System on Nantwich Road to be installed in November '23.	On target. Although outside of the original scope, the additional widening of South Street is not possible within budget due to poor ground conditions.
In Town Living: Chester Street	Social housing on current car park site	CEC	n/a	£1.4m +	FHSF, developer	2025	Retendering has commenced through the Housing Development Framework and the tender submission deadline is 27 th October 2022	No compliant tenders are received due to economic climate Design – risk it may not meet expectations
In Town Living: Delamere Street	Social housing on current car park site	CEC	n/a	£1.5m +	FHSF, developer	2025	Retendering has commenced through the Housing Development Framework and the tender submission deadline is 27 th October 2022	No compliant tenders are received due to economic climate Design – risk it may not meet expectations
Technology & Digital Innovation Campus (TADIC)	Flexible co-working office accommodation utilising underused assets	CEC	n/a	£3.0m	FHSF	2024/2025	Feasibility completed, survey work being assessed for Christchurch and agreement for main TADIC site being sought.	Cost inflation; listed building and other consents for Christchurch; timescale for securing asset for main building.
Sustainable Energy Network	Carbon reduction and energy resilience for some of our town centre assets.	CEC			FHSF, PSDS	2023/24	Contractor appointed and RIBA Stage 4 design completed. Assessing value-for-money and optioneering.	Cost inflation, may require change in strategy; Lead-in times for equipment; Energy costs impacting on business case.
Ly ²	New public event and activity space	CEC	£0.23m	£1.06m	ATF, CTC, SPF, CEC	May 2023	Planning approval May 2022; Condition Discharge submission June 2022, Variation to approval be submitted Oct 2022, entering into contract with main works contractor Oct 2022	Cost Inflation, Planning timescales, Ongoing management responsibilities and revenue costs.
Lyceum Powerhouse	New live music and arts venue	CEC		£5.3m	TF	2025/26	Business case and funding approved by DLUHC/CTB, subject to further review of outstanding conditions.	Subject to market testing including £0.6m contribution and £0.4m funding gap, before any further cost inflation.

OFFICIAL

Flag Lane Baths	Community Hub – Multiuse spaces (Café, Social Supermarket etc)	Always Ahead Charity		£3.1m £800k	TF / Match Funding	December 2023	Business case and funding approved by DLUHC/CTB. Feasibility complete. Planning Permission has been granted; PCSA with Main Contractor has been agreed and awaiting final signoff. Match funding is on-going (as planned)	Cost Inflation / Unknown site conditions (Structural surveys to be undertaken)
Cumberland Arena	Improvements & extension to the pavilion, improved spectator provision and accessibility to the site.	CEC/EH&L	£0	£1.9m	TF	Projecting opening for Summer 2024	Business case and funding approved by DLUHC/CTB. Submission of a planning application followed by the procurement of a Contractor to lead the build phase.	Cost increase / inflation leading to insufficient funding to deliver full scope, potential issues with achieving planning consent.
Mill Street Corridor	Active travel route featuring high quality public realm that will link Crewe Station and future HS2 hub with the town centre. The link will also feed into the Valley Brook project.	CEC / Ringway Jacobs		£2.8m	TF	Feb 2025	Business case and funding approved by DLUHC/CTB. Feasibility designs completed. Next stage will be to jointly procure OPEN/Jacobs to produce detailed designs for a planning application. Engagement with key stakeholders/landowners now underway.	Cost inflation Land assembly Revenue/management costs post delivery
Warm & Healthy Homes	Grant scheme to support energy improvements to older homes.	CEC		£1.7m	TF	2025/26	Business case and funding approved by DLUHC/CTB. Mobilisation commencing.	Planning and listed building consents; securing match; cost inflation and lead-in times.
Repurposing Our High Streets	Grant scheme to support businesses taking leases on vacant town centre premises,	CEC		£1.5m £0.1m	TF Other	Operating from Jan 2023-Dec 2025	Now approved by CTB and DLUHC. Seeking capacity to develop the detailed criteria, processes, publicity and engagement plan.	Sufficient demand for premises; Confirmation of scheme management arrangements.
Pocket Parks	Improvements to eight pocket parks, with more attractive and better equipped spaces for physical and social activity.	CEC / ANSA / Wishing Well Charity	£0.06m	£0.93m	TF, CEC	Feb 2024 (Jubilee site) Mar 2024: 4 Parks May 2025: 2 Parks Mar 2026: 2 Parks	Concept Designs & Engagement for first 4 Parks. External Funding Applications for further £400K to be submitted.	Planning Permission (site adj. Jubilee Gardens); external funding applications; Cost Inflation; Presence of Contaminated Land

OFFICIAL

Valley Brook Corridor	Unlocking Crewe's hidden water course – improving green & blue spaces plus developing walking and cycling infrastructure across the town	CEC / Environment Agency / Crewe Town Council	£0	£2.7m	TF	Phased delivery – fully open by Spring 2025	Business case and funding approved by DLUHC/CTB. Beginning detailed design for the project – progressing key dependencies & statutory consents.	Cost inflation / increases, not acquiring key land, not receiving all partner funding, not achieving required statutory consents.
Youth Zone (Oak Street)	New purpose-built multi-use facility for young people, including recreational/social activities and training/support.	CEC / OnSide	£2.2m	£2.0m + tbc	TF YIF / OnSide	Soft opening Jan 2025 and public opening April 2025	Business case and funding approved by DLUHC/CTB. RIBA Stage 2 / 3 and Planning application early November. Awaiting sign-off of Grant Funding Agreement with OnSide and major funding milestone expected end of October with YIF outcome.	Cost inflation; market conditions in commercial sector
Crewe Youth Club (Mirion Street)	New boxing/fitness facility on site of former youth club.	Crewe Youth Club Charity		£0.6m	TF	Anticipated Nov 2023	Business case and funding approved by DLUHC/CTB. RIBA Stage 1 / 2. Planning application is planned for November.	Cost inflation; market conditions in commercial sector

KEY

ATF	Accelerated Towns Fund
CTB	Crewe Town Board
CTC	Crewe Town Council
FHSF	Future High Streets Fund
NLHF	National Lottery Heritage Fund
PSL	Peveril Securities Ltd
SPF	Shared Prosperity Fund
TF	Towns Fund
YIF	Youth Investment Fund

Appendix 3: Crewe Town Board Briefing Report

BRIEFING PAPER

Version 1

Crewe Town Board

Date of Meeting: 28th October 2022

Report Title: Towns Fund Cost & Delivery Risk Review (supporting Agenda Item 4.)

1.0. Introduction

- 1.1. At its meeting on 30th September 2022, the Crewe Town Board (CTB) was advised of an ongoing review that had been requested by Board's Towns Fund Projects Sub-Group (TFSG), which had been commenced to consider the cost and delivery risks facing the projects in the Towns Fund programme, particularly in relation to the increasing risk and potential impact of cost inflation. A review of all ten Towns Fund projects has been completed by independent advisers, Ekosgen and cost consultants Currie & Brown.
- 1.2. All ten projects in the programme have now been approved by both the Board and the Department for Levelling-Up Housing & Communities (DLUHC). The review has found that the approach to addressing contingency to address inflation risks has been inconsistent across the ten projects, partly due to the nature of each project and the extended timeframe – over the past year – that the projects' business case and financial appraisals have been undertaken.

2.0. Update on the Review

- 2.1. At the TFSG meeting on 21st October, members received updates from its lead advisers, Ekosgen, on each of the ten projects, their respective costs assumptions and the wider delivery risks.
- 2.2. The review identified that most projects have insufficient budget allocated to meet current and future inflationary pressures, and whilst some of these had identified mitigation measures such as seeking additional co-funding or value-engineering (i.e. descoping the scale/quality of the project), significant risks remain).
- 2.3. Three projects are identified as facing 'significant' inflationary and delivery risks:
 - a) **Lyceum Powerhouse**: risks include the current funding gap and the uncertainty as to when/how this will be closed, delivery arrangements (including the requirement for soft-market testing to confirm operator interest), and the proposed programme which exposes the project to greater inflationary risk compared to projects which can secure contracts at an earlier stage.

- b) **Flag Lane Baths:** risks include the funding gap associated with the final phase of the project that relates to the outdoor space (outside the scope of the Towns Fund proposals) and the community-based retail units. Also, some cost increases linked to the core Towns Fund related investment, which are expected to be addressed through further fundraising, which is already being progressed.
- c) **Youthzone project:** risks include the outstanding funding gap, subject to a funding bid to the Youth Investment Fund, with a decision due imminently.

2.4. The TFSG discussed the implications of these findings, and identified that:

- 2.4.1.** Government and other estimates of 18% construction inflation over the lifetime of programme delivery represent a major risk to project delivery;
- 2.4.2.** Other Town Boards elsewhere in England had broached these issues with DLUHC, with the response that no additional grant funding can be made available, but that it would give fair consideration to any proposals to change the composition of projects within any Towns Fund programme;
- 2.4.3.** DLUHC has already indicated that it would not agree to any reallocated grant being used for 'general contingency' but must be fully allocated across the programme, or it would be likely to claw back unallocated funding;
- 2.4.4.** DLUHC has also indicated that it would review any proposed changes in the context of the overall outcomes of the programme and the 'Theory of Change' set out in the original Town Investment Plan, but any project receiving additional funding to deliver the same or similar outcomes would not be expected to provide an update Benefit:Cost Ratio (BCR) assessment.
- 2.4.5.** New project co-funding sources cannot be relied upon;
- 2.4.6.** Value-engineering of projects has the potential to undermine the impact of projects or have consequential impacts
- 2.4.7.** Progressing all ten projects within the current budget allocations is likely to result in one or more projects failing to be delivered, with consequential impacts for the project lead (e.g., potential

clawback of grant already spent, impact on the project lead organisations) as well as wider reputational impacts for CTB and its stakeholders;

- 2.4.8.** To mitigate these risks, it would be preferably to submit a request to DLUHC to withdraw one or more projects and reallocate the funding across the remaining projects in the Towns Fund programme. The basis for the reallocations to other projects would be to 'top-up' their Towns Fund budgets to cover the expected inflationary funding gap and provide funding to account for value re-engineering (e.g., taking into account changes made to some projects following the reduced allocations made in autumn 2021). The top-up funding would not be used to replace the commitments projects have sought for co-funding. Any remaining funding would be allocated to 'programme management' costs to support the governance, delivery and marketing of the programme.
- 2.4.9.** On further discussion at TFSG, it was agreed that the recommendation would be to withdraw the Lyceum Powerhouse project, which would create a saving of £4,998,000 which could be reallocated across the programme (this represents the full grant allocation of £5,258,000 less the £260,000 advanced payment made by DLUHC to project development costs (which is non-recoverable). This decision was arrived on after considering:
- the current funding gap and the uncertainty as to when/how this will be closed;
 - the likelihood that the proposed programme, and current delays, will expose the project to further inflationary pressures; and
 - the Theory of Change identified in Crewe's Town Investment Plan, and the fact that several social benefits in the project had already been descoped. The negative impact, relative to the other 'significant risk' projects are expected to deliver greater social and community outcomes.

3.0. Recommendations

- 3.1. As a result of this comprehensive and testing review, the TFSG recommends to the Crewe Town Board that:
 - 3.1.1. The CTB submits a request to DLUCH, through Cheshire East Council as accountable body, to withdraw the Lyceum Powerhouse project from its programme and the funding is reallocated across other projects;
 - 3.1.2. Further engagement with key stakeholders is undertaken, including with local councillors and the MP;
 - 3.1.3. It delegates a decision on the amount of funding to be reprofiled across the remaining programme to the Chair and Vice Chair of CTB, in consultation with the TFSG;
 - 3.1.4. TFSG reports back to Crewe Town Board on progress with these actions;
 - 3.1.5. TFSG continues to provide regular updates on cost and delivery risks to Crewe Town Board.