

FAREHAM

BOROUGH COUNCIL

Report to the Executive for Decision 15 April 2013

Portfolio:	Policy, Strategy and Finance
Subject:	Outline Infrastructure Funding Strategy for the New Community North of Fareham
Report of:	Director of Finance and Resources
Strategy/Policy:	Fareham Borough Council Local Plan
Corporate Objective:	Maintain and extend prosperity Leisure for health and fun A balanced housing market Strong and inclusive communities Dynamic, prudent and progressive Council

Purpose:

To seek endorsement for the outline Infrastructure Funding Strategy (IFS) for the New Community North of Fareham (NCNF), prepared by the Council's consultants (GVA Financial Consulting) and to agree the focus of the second phase of work to prepare the detailed IFS by Autumn 2013.

Executive summary:

The NCNF Infrastructure Funding Strategy will form an important part of the evidence base to support the final NCNF Plan at Examination; when combined with the outcomes of work already underway to prepare an Infrastructure Delivery Plan and economic viability appraisal it will help demonstrate the deliverability of the new community.

At this stage the Council's consultants have prepared an outline IFS that includes a range of options that could be available to the Council, other public sector partners and the prospective developers, including recommendations on which of these should be pursued further in phase two of this work (preparation of the detailed IFS). The outline IFS is now recommended to the Executive for approval, to be published as part of the evidence base to support the proposed public consultation on the emerging NCNF Plan (the subject of a separate report in the agenda for this meeting).

Recommendations:

That the Executive:

- (a) Supports the outcomes of the Outline Infrastructure Funding Strategy report as summarised in Appendix A to this report,
- (b) Agrees to the publication of the Outline IFS alongside the NCNF Plan as one of the supporting documents for the proposed 6 week public consultation; and

Reason:

To provide supporting evidence for the proposed consultation on the draft NCNF Plan proposed elsewhere on this agenda and to agree the focus of phase 2 of the work to prepare the detailed IFS for the NCNF that will be submitted as evidence to the Examination of the Plan.

Cost of proposals:

The costs of preparation of the IFS are covered within existing budgets.

Appendix A Extract from Outline Infrastructure Funding Strategy

Table 8.1 Assessment of opportunities for public support on the NCNF development

Recommendations and Action Plan

Background papers:

NCNF Outline Infrastructure Funding Strategy report

Reference Papers:

NCNF Infrastructure Funding Position Statement – published by FBC in 2011

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Executive Briefing Paper

Date: 15 April 2013

Subject: New Community North of Fareham - Outline Funding Strategy for Infrastructure

Briefing by: Director of Finance and Resources

Portfolio: Policy, Strategy and Finance

INTRODUCTION

1. The proposed new community of c 6,500 homes and employment of up to 78,650 sqm will require substantial new infrastructure including transport links to the M27, improvements to the motorway junction, green infrastructure, a secondary school, three primary schools, community and health facilities, waste and recycling facilities, water supply, waste water treatment and sewerage, energy, heat generation and its distribution and telecommunication infrastructure.
2. While assessment of the precise infrastructure requirements and viability work is on-going, the scale of infrastructure required will inevitably present challenges for overall viability and/or development cash-flow. On the basis of the early findings of the on-going development viability work for the new community, the Council remains confident that a viable and deliverable plan can be achieved. Nevertheless, the challenge posed by the current weakness in the housing market is acknowledged.
3. Therefore, the Council agreed to supplement the work on infrastructure requirements with the preparation of an Infrastructure Funding Strategy (IFS), in particular to assess the options for public sector support for the provision of the NCNF infrastructure requirements (including affordable housing). GVA Financial Consulting were appointed to prepare the IFS, working closely with the consultants (GVA and AECOM) who are undertaking the assessments of viability and infrastructure requirements. The first stage of IFS work is the preparation of an outline IFS, through which the Council can consider the emerging options and agree the direction of travel for phase 2 of the work. Phase 2 will produce a detailed IFS by Autumn 2013, having an on-going regard to infrastructure requirements, prioritisation, viability and funding.

4. The final, detailed IFS will present a robust and credible infrastructure funding strategy to support the final NCNF Plan at Examination. Together with the Infrastructure Delivery Plan and economic viability appraisal it will help demonstrate the deliverability of the proposal.

INFRASTRUCTURE REQUIREMENTS

5. The planning for the new community has been developed using a wide range of evidence sources, including the concept master-planning, a first stage assessment of infrastructure, and on-going site development viability work.
6. The initial assessment of infrastructure requirements has taken into account the emerging concept masterplan for the development as well as the various legislative requirements and policy aspirations for the new community. Overall this infrastructure planning has allowed an initial position to be set out in the outline Infrastructure Delivery Plan and draft NCNF plan on infrastructure requirements, costs, thresholds for delivery and expected timescales for when it is required.
7. At this point, the infrastructure identified in the Infrastructure Delivery Plan is considerable and the cost of infrastructure delivery, inevitably, is not spread evenly across the development period with significant investment required in the early stages.

FUNDING OPTIONS

8. As stated in the Council's 2011 Infrastructure Funding Position Statement, the starting point for infrastructure funding will be developer funding;

"The Council is clear that the developer must pay its fair share of infrastructure costs either through direct provision or through planning obligations (section 106) and the new Community Infrastructure Levy (CIL). The Council expects that together these will form the largest single contribution to infrastructure investment."

9. Nonetheless, the scale and phasing of these requirements will inevitably present challenges for overall viability and/or development cash-flow. Those challenges will need to be addressed in a number of ways including: prioritisation of infrastructure requirements; appropriate phasing infrastructure delivery; and (as recognised in the 2011 Position Statement) "a joint long term, innovative and more risk-tolerant approach to the delivery and funding of infrastructure, involving a range of partners including the developer and the County Council." The outline IFS seeks to progress this approach by identifying options and recommending the next steps towards preparation of a detailed IFS.

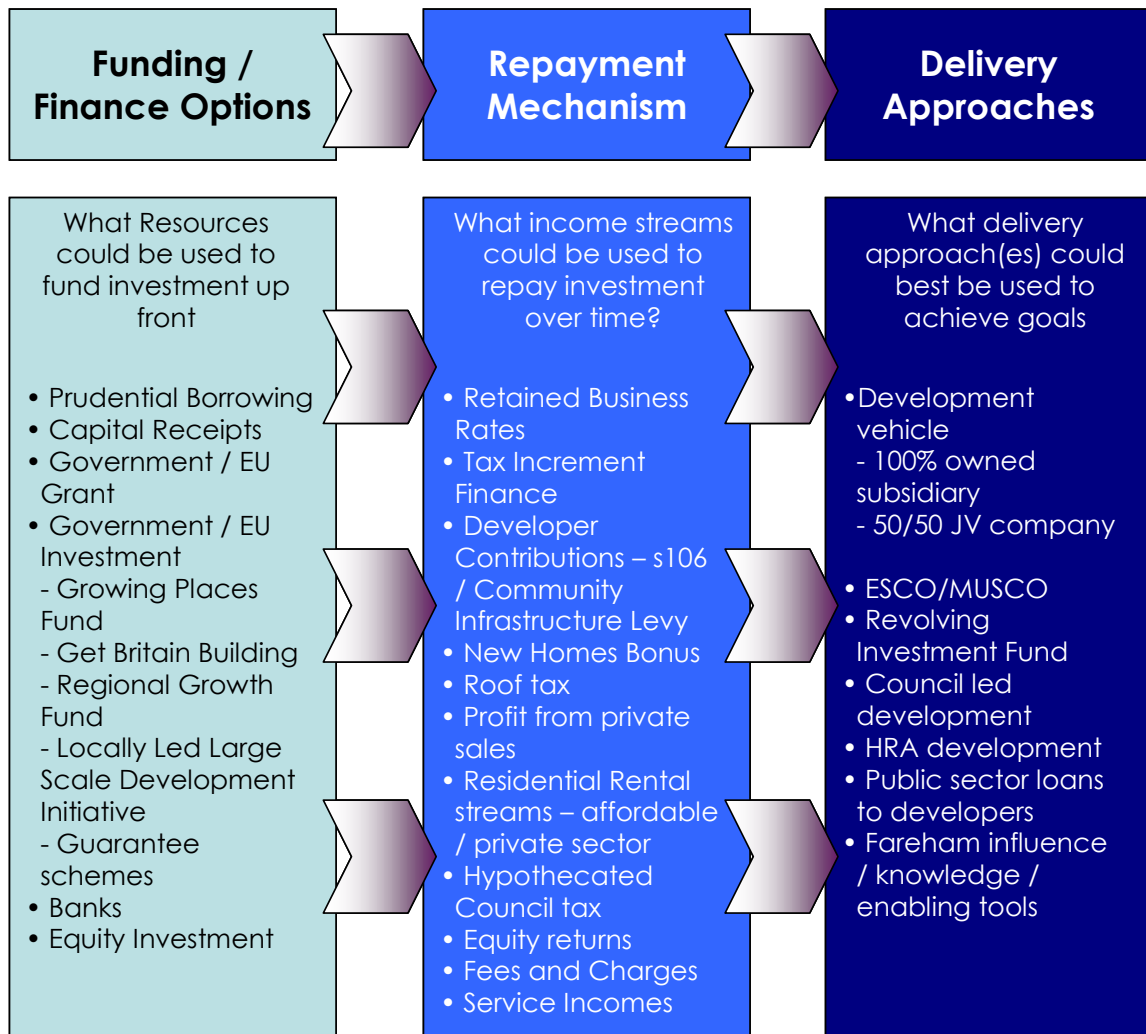
Grants/third party funding

10. With the onset of austerity in public finances, public sector grant funding has become increasingly scarce and, at this stage, is not forecast to make a substantial contribution to meeting the costs of infrastructure provision for the NCNF. Nonetheless, as set out in the 2011 Position Statement, it will be important for the Council and its partners to ensure it is well placed to bid for any such opportunities if and when they arise. For example, some EU funded grant programmes remain available (e.g. for environmental projects, schools and transport projects associated with the Trans European Network, which includes the relevant stretch of the M27) and there remain some UK Central Government grant programmes (e.g. for transport).
11. The Council and the prospective developers are also recommended (in chapter 7 of the outline IFS) to explore the potential for third party delivery of some infrastructure items including:
 - Offsite utilities reinforcement, which should be provided by utility companies through their 5-year investment planning cycle and regulatory controls.
 - Schools, in partnership with the County Council, with the possibility of EU funding on a Hampshire-wide basis.
 - Residential care/supported accommodation, for which the Council and County Council should explore the potential for self-funded private sector provision.

Public sector and other investment options

12. With the rapid contraction in grant funding, public sector support is increasingly being made available in the form of loans, guarantees (with appropriate security) or other forms of repayable public sector investment (such as equity or joint ventures). The four key sources of such support are:
 - Local Authorities;
 - Central Government;
 - Public Sector Pension Funds; and
 - European Union.
13. With recent announcements in the Budget and the government's response to the Heseltine Review it is also clear that Local Enterprise Partnerships will have a substantially increased role in, and influence over, central government support mechanisms in particular.
14. Such public sector support mechanisms tend to operate in two principle modes (often both at the same time): reducing the costs of securing private sector finance by reducing the risks associated with the development (and hence either bridging any viability gap or enabling the development to fund infrastructure further down the prioritised list of requirements); and/or enabling earlier provision of certain infrastructure items than the development would otherwise be able to support.

15. With any kind of investment (public or private) a strategy is required for repayment of the investment: i.e. one or more income streams from the development. Such sources could include: direct contributions from the developers (such as section 106 and Community Infrastructure Levy); government sources (such as New Homes Bonus); locally retained business rates; direct returns on the development (e.g. sales/rental of houses etc); other grant income; distinct and separate service organisations (e.g. MUSCOs, ESCOs, etc); or “PFI-style” arrangements such as Shadow Tolls. This approach is summarised in the figure below:



16. The advantages (including likely scale of support) and disadvantages (including risks) of the various options are set out in more detail in chapters 5 and 7 of the outline IFS.

Affordable Housing

17. Affordable housing is the single largest “infrastructure” burden on the NCNF development and, given the scale of affordable housing likely to be delivered, it is also likely that the Council and the developers will want to spread the risks associated with provision of affordable housing by adopting a range of different approaches to its delivery. Chapters 6 and 7 of the outline IFS describe and assess a range of options (in addition to traditional approaches with registered providers) that could be available to the Council and/or the developers for the NCNF. These include:

- Self-development by the Council on land provided by the developers through the section 106 agreement.
- A range of Local Housing Company options.
- Local authority guaranteed purchases and/or charge over land supported guarantees.
- Overage arrangements (where threshold land values trigger either payments of commuted sums or increased on-site delivery).
- Joint Venture approaches with registered providers, developers and/or other local authorities.
- Third party funding of affordable housing on land provided through the section 106 agreement.
- Self-build or custom-build schemes.

ASSESSMENT OF OPTIONS AND NEXT STEPS

18. The advantages (including scale of support) and disadvantages (including risks) of the various options are set out in more detail in chapters 7 and 8 of the outline IFS. Appendix A to this report provides a table along with the recommendations for the next steps the Council should take in respect of each option with categorisations as follows:

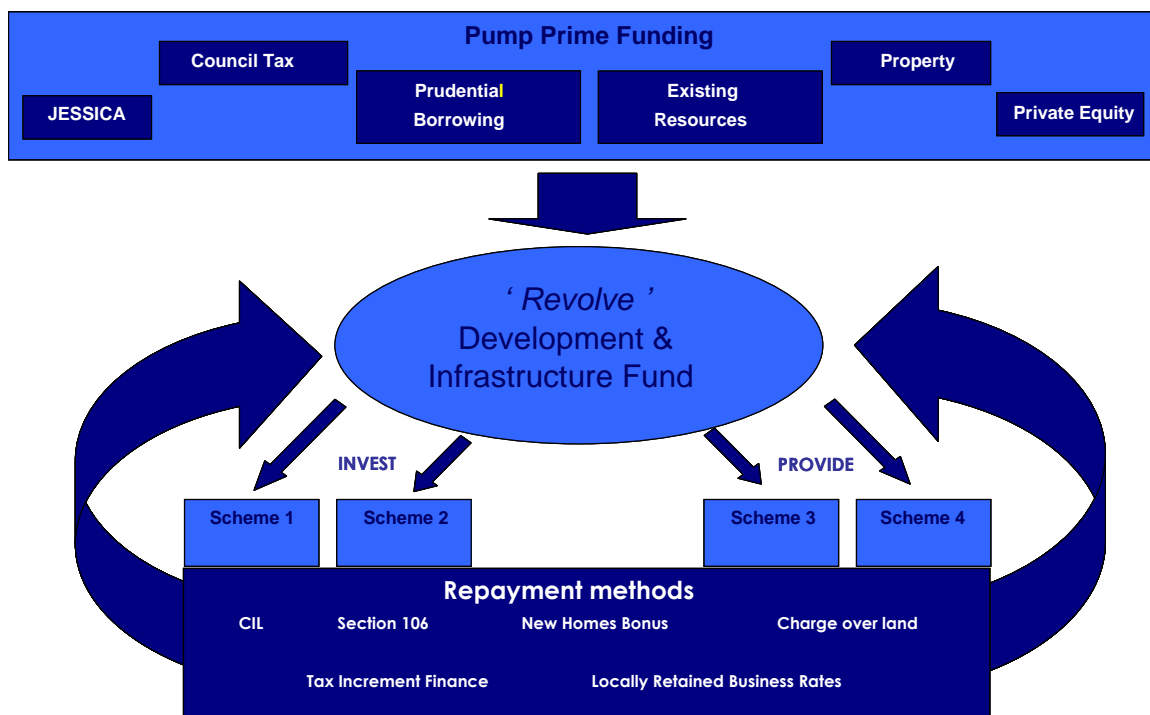
- “Green” – to be actively explored further. This includes:
 - Grant funding: with a particular emphasis on the upgrade to M27 junction 10, including possible EU funding.
 - Locally led large scale housing delivery funding
 - LEP funding (including Growing Places Fund and Regional Growth Fund): particularly important post-2015 when the government intends to bring these and other funding streams together and give LEPs significantly more control over them.
 - Engagement with utilities to ensure inclusion of off-site reinforcement in their nationally funded 5 year investment plans.
 - Third party funding of schools: to be pursued with the County Council and LEP, including exploration of EU funding.
 - Third party funding for residential care: the potential for this to be explored in discussion with the County Council and others.
 - Council (FBC and possibly HCC) support to help reduce risk, increase access to finance and/or accelerate delivery of specific infrastructure. After further exploration (including with the County Council) the Council will need to determine its appetite for risk in this regard.

- New Homes Bonus: including as a potential mechanism to support borrowing.
- Community Infrastructure Levy: including as a potential mechanism to support borrowing.
- Local Authority guaranteed housing purchase: to reducing financing costs.
- Local Housing Company and possible joint venture(s) with other authorities and/or registered providers.
- MUSCO/ESCO: as yet unproven approaches but with the potential to generate significant income streams to support borrowing and/or to underpin on-going maintenance liabilities. Some soft market testing is required to establish whether this should be pursued in more detail, and by whom.
- Self-development of affordable housing: the appetite for provision of land through the section 106 agreement will be critical in this regard.
- Revolving Infrastructure Fund(s): see below.
- “Amber” – to be explored further as potential options if required and/or if suitable (following further exploration). This includes:
 - EU funding: may require a Hampshire-wide approach and there is the obstacle of match funding requirements, including for energy, environmental, schools and transport projects.
 - Business rates retention (renewable energy): with the potential to retain 100% of business rates from renewal energy sites this should be explored as a potential way to support borrowing for renewable energy schemes in the NCNF.
 - Overage agreements to trigger increase provision or commuted payments for affordable housing when/if threshold land values are achieved (links delivery with the success of the development).
- “Red” – not to be pursued further at this stage but kept under review in the light of changes to the policy or funding environment and/or the needs of the development. This includes:
 - Business rates retention (general): this is unlikely to be a suitable source of income (e.g. to support Council borrowing) until at least after the first reset in 2020.
 - Joint Venture Development: initial discussions suggest there is little appetite for this from the landowners and the risks to the council could be very high.

19. It is readily apparent that there is no one approach that can (or should) be employed to ensure deliverability of the infrastructure required for the NCNF; a combination of mechanisms is very likely to be required and desirable (e.g. for spreading risk). One approach to coordinating and combining a number of approaches would be to establish a revolving infrastructure fund (as envisaged in the Council’s 2011 Position Statement and discussed in chapter 9 of the outline funding strategy). Criteria for establishing and operating such a fund will be developed in phase 2 (preparation of the detailed IFS) but could include:

- Ability to generate revolving returns that fund multiple schemes over time.
- Maximising the opportunity for investment from the private sector early in the establishment of any funding mechanism.
- Ability to utilise the Council's powers, income streams and borrowing capacity to facilitate the delivery of infrastructure provided a clear business case can be established.
- Ability to utilise the Council's assets to support a funding mechanism provided it is supported by a robust business case.
- Maximising the potential investment of other public sector bodies, such as the LEP, the County Council, European Investment Bank (EIB), and other grant investment approaches from the UK Government.
- Fast implementation of the chosen solution to ensure the funding mechanism can be put in place in the short term.

20. This approach is illustrated in the diagram below:



21. In considering the arrangements for such a fund, it will be appropriate to consider the opportunities for making use of existing similar arrangements. This will require discussion with a range of partners, in particular the Solent LEP and Hampshire County Council.

22. The Executive is asked to endorse the outline IFS findings and agrees the next steps recommended in the report (as detailed in Appendix A to this report). Phase 2 of the development of the IFS will progress these next steps (where appropriate), in particular in the light of any changes to the emerging viability assessment and Infrastructure Delivery Plan (including decisions on prioritisation). The intention is to engage a range of key stakeholders in the phase 2 including the key landowners, LEP, HCC, HCA, Highways Agency, and Registered Providers. The final detailed IFS will be fully quantitative and form a coherent package with the Infrastructure Delivery Plan and Viability Assessment when presented to the Examination of the NCNF Plan.

FINANCIAL IMPLICATIONS

23. The costs of preparation of the IFS are covered within existing budgets.
24. The outline IFS provides a direction of travel for further exploration, and this will take place during 2013, with a detailed report being presented to the Executive in the Autumn, when the work is concluded. It is at this second stage that the Strategy will set out the headline financial implications for the Council, but each mechanism will be subject to further very detailed modelling and review before any commitment is made.

CONCLUSION

25. The outline IFS has identified a wide range of options for funding infrastructure for the NCNF, including the potential for public sector support of various kinds. These have been categorised according to their potential and associated risks and the next steps for each has been identified. The Executive is recommended to endorse the outline IFS findings and agree the recommended next steps

Reference Papers:

NCNF Infrastructure Funding Position Statement – published by FBC in 2011

Extract from Outline Infrastructure Funding Strategy

Table 8.1 Assessment of opportunities for public support on the NCNF development
Recommendations and Action Plan

[\(Separate attachment\)](#)