

FAREHAM

BOROUGH COUNCIL

Report to the Executive for Decision 07 July 2014

Portfolio: Policy and Resources
Subject: **Welborne Infrastructure Funding Strategy**
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 Infrastructure Funding Strategy for Welborne, prepared by the Council's consultants (GVA Financial Consulting) and to agree an update to the Council's position statement on Infrastructure Funding.

Executive summary:

The Welborne Infrastructure Funding Strategy (IFS) forms an important part of the Council's strategy for ensuring the successful delivery of the new community; when combined with the outcomes of work completed to prepare an Infrastructure Delivery Plan and economic viability appraisal it will help demonstrate the deliverability of the proposal.

Building on the Outline IFS completed in March 2013, the Council's consultants have prepared an IFS that includes a range of options available to the Council, the prospective developers and other parties to support the delivery of infrastructure for Welborne. The report includes modelling of the impact of some of these options on scheme viability and recommendations on which options should (or could) be progressed further as the details of the development emerge (at which stage it may be necessary to update this IFS). The IFS is now recommended to the Executive for approval, to be published to support the evidence base previously submitted to support the Welborne Plan at Examination.

Recommendation:

That the Executive:

- (a) notes the Infrastructure Funding Strategy report attached at Appendix A to this report and agrees that it be published to support the Council's overall strategy for the delivery of Welborne; and
- (b) agrees the update to the Council's position statement on infrastructure funding for Welborne attached at the Appendix B to this report.

Reason:

To provide further detail on the Council's overall strategy for the delivery of the Welborne new community.

Cost of proposals:

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

Appendix A: Welborne Infrastructure Funding Strategy report
Appendix B: Welborne Infrastructure Funding Strategy Fareham
Borough Council Position Statement Update, June 2014

Background papers:

FAREHAM

BOROUGH COUNCIL

Executive Briefing Paper

Date: 07 July 2014

Subject: Welborne Infrastructure Funding Strategy

Briefing by: Director of Finance and Resources

Portfolio: Policy and Resources

INTRODUCTION

1. The proposed new community of approximately 6,000 homes and 20 hectares of land for employment development 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, and utilities and telecommunication infrastructure.
2. A comprehensive assessment of the infrastructure requirements and viability of the development are included in the documents published as evidence to support the Welborne Plan at Examination. The scale of infrastructure required inevitably presents challenges for overall viability and/or development cash-flow. On the basis of development viability work to date, the Council remains confident that a viable and deliverable development can be achieved. Nevertheless, the challenges of substantial early infrastructure costs and affordable housing requirements remain.
3. Therefore, the Council decided to supplement the work on infrastructure requirements with the preparation of an Infrastructure Funding Strategy, in particular to assess the options for public sector support for the provision of the Welborne infrastructure requirements (including affordable housing). GVA Financial Consulting has been retained to prepare the IFS, working closely with the consultants (GVA and AECOM) who undertook assessments of viability and infrastructure requirements. The first stage of IFS preparation was an outline IFS which was endorsed by the Executive in April 2013. This outline IFS included wide range of options for supporting infrastructure development and made a range of recommendations for further exploration of various options.
4. Following finalisation of the Welborne Infrastructure Delivery Plan and Viability Assessment a further, more focussed, IFS has been prepared by GVA Financial Consulting, which presents a robust and credible infrastructure funding strategy. In particular, the IFS quantifies the beneficial impacts of various options, including support through the LEP, Local Infrastructure Fund (LIF) and recycling of New Homes Bonus. Together with the Infrastructure Delivery Plan and economic viability appraisal it will

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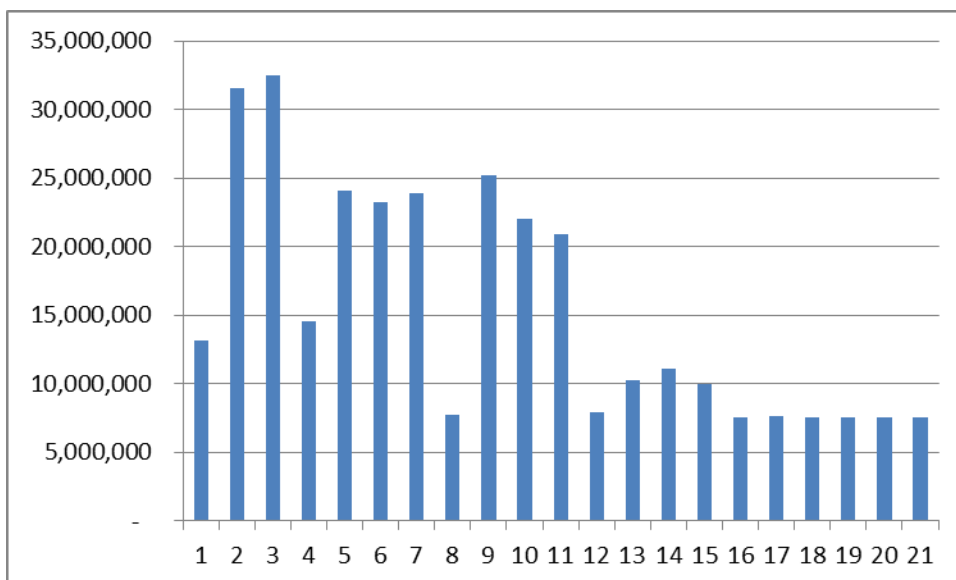
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help demonstrate the deliverability of the development. It should be noted that at this stage the IFS has been prepared on the basis of the Council’s concept masterplan, estimate of infrastructure requirements and costs and phasing proposals for the development and may, therefore, need to be refreshed in future when details of the planning application(s) are known – in particular to support negotiations on section 106 agreements

INFRASTRUCTURE REQUIREMENTS

- Alongside preparation of the Welborne Plan, the infrastructure requirements for the development have been assessed. The initial estimate of the total infrastructure investment required is c.£323m (including contingency). The cost of infrastructure delivery, inevitably, is not spread evenly across the development period as the figure below shows. For example, the high level of infrastructure need in the first 10 years includes significant infrastructure items such as the utilities distribution network and off-site utilities reinforcement, Bus Rapid Transit and dedicated public transport corridors and substantial green infrastructure

Phasing of infrastructure costs/£’000s



- In addition, up to £240m will be required for affordable housing (depending on the total quantum of affordable housing to be delivered).

FUNDING OPTIONS

- It is important to re-iterate that the starting point for infrastructure funding will be developer funding; as the Council’s 2011 and January 2014 Infrastructure Funding Position Statements say:

“The Council is clear that the developer must pay its fair share of infrastructure costs either through direct provision or through planning obligations. The Council expects that together these will form the largest single contribution to infrastructure investment.”

- Nonetheless, as mentioned above, 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 re-phasing infrastructure delivery; and (as recognised in the 2011 and January 2014 Position Statements) “a joint long term, innovative and more risk-tolerant approach to the delivery and funding of infrastructure, involving a range of partners.” The IFS further progresses this joint funding approach by analysing options and recommending approaches for the Council to consider at different stages of the planning and development process.

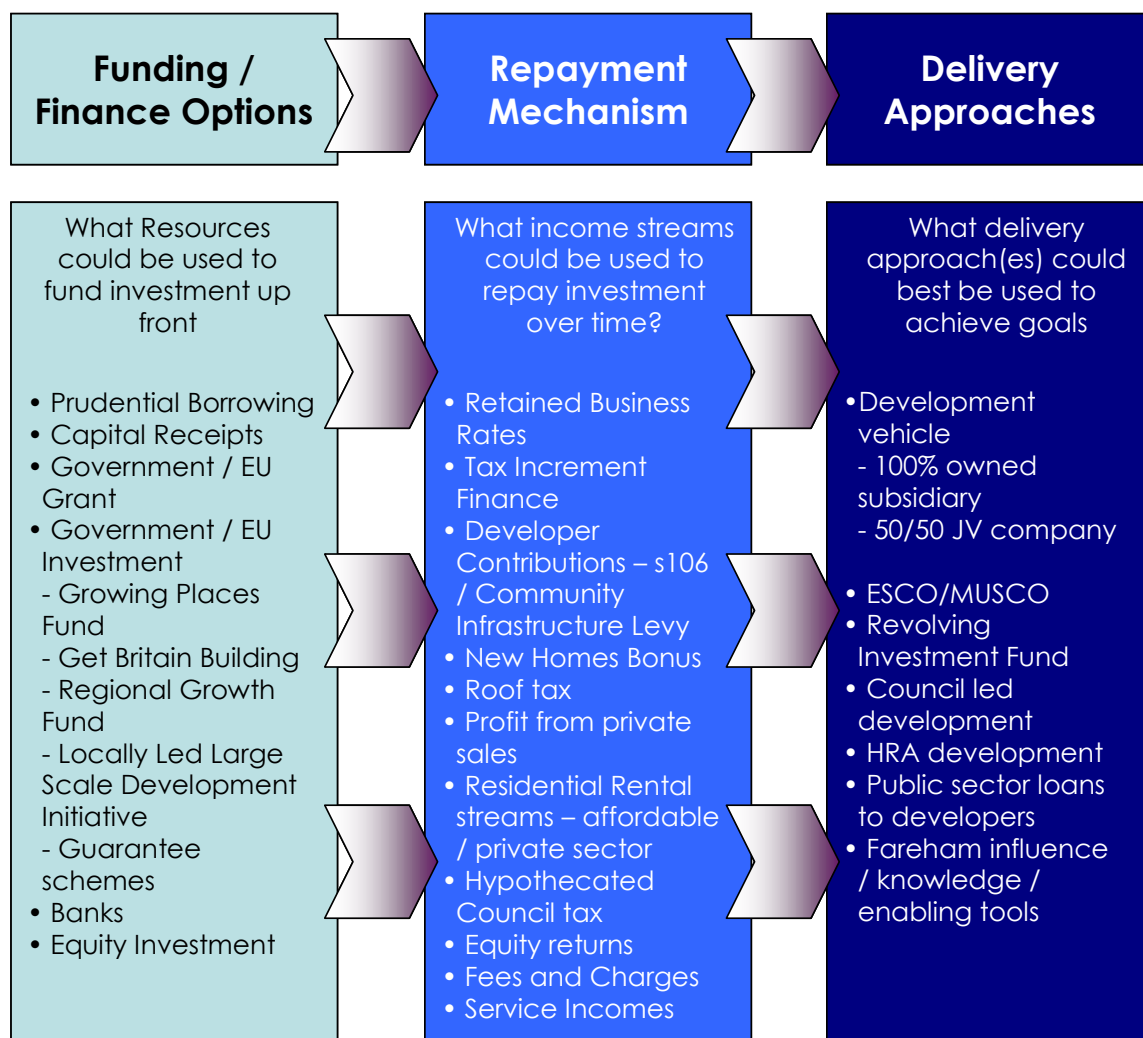
Grants/third party funding

9. The IFS analyses the impacts on development viability of applications already made to the LEP and LIF and shows that these applications, if successful, would have the following beneficial impacts on development viability:
 - The Hampshire County Council application to the Solent LEP for £41.2m in grant for highways improvements associated with J10 of the M27 would have a net beneficial impact on development viability (measured in terms of residual land value, at a fixed internal rate of return of 20%) of £31m.
 - The developer’s application to the Solent LEP for £24m support for utilities and highways improvements would have a net beneficial impact on development viability (measured in terms of residual land value, at a fixed internal rate of return of 20%) of £21m.
 - The developer’s application to the HCA for £45m (loan/equity) support for infrastructure improvements would have a net beneficial impact on development viability (measured in terms of residual land value, at a fixed internal rate of return of 20%) of £8m.
10. In addition, grant funding is likely to be available during the life of the development for certain infrastructure. Examples of the types of infrastructure which may attract support are public transport, Smarter Transport Choices and green infrastructure. At this stage it is not possible to predict what quantum of funding might be available or the timing of such funding and therefore only illustrative modelling is possible. However, for illustration, (a further £8m of successful grant funding shows a net beneficial impact on development viability (measured in terms of residual land value, at a fixed internal rate of return of 20%) of £2.5m.
11. As the economy (and public finances) recover in the coming years it will, as set out in the 2011 and January 2014 Position Statements, 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.
12. The Council and the prospective developers are also recommended in the 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.
 - Residential care/supported accommodation, for which the Council and County Council should explore the potential for self-funded private sector provision (for which new funding mechanisms are set to emerge as the market picks up).

- Schools, in partnership with the County Council.

Public sector and other investment options

13. 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). Such public sector support mechanisms tend to operate in two principal 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 further down the prioritised list of infrastructure requirements); and/or enabling earlier provision of certain infrastructure items than the development would otherwise be able to support.
14. 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); government sources (such as New Homes Bonus); locally retained business rates; and direct returns on the development (e.g. sales/rental of houses etc). This approach is summarised in the figure below (taken from the IFS):
15. In particular the IFS has modelled the impact of the Council's commitment to ring-fencing New Homes Bonus (NHB) from Welborne for use in supporting infrastructure provision associated with the development. The Council cannot provide this funding directly to the developers of the scheme and therefore any benefit should be used for Council direct investment in the area such as third party land acquisition, open space adoption, non-essential infrastructure or on-going maintenance of infrastructure adopted by the Council such as open space or leisure facilities. On this basis the modelling shows a net beneficial impact of NHB re-investment, on development viability (measured in terms of residual land value, at a fixed internal rate of return of 20%) of £5m.
16. The IFS also details various mechanisms for managing the risks associated with any Council investment in infrastructure for Welborne including governance structure or a revolving fund approach and charge over land mechanisms. At this stage there is no imperative to pursue these further but their use should be kept under review as the development progresses and circumstances change.
17. At this stage the IFS does not place any emphasis on ESCO/MUSCO options for energy/utilities infrastructure but recommends the Council keep an open mind on this and keep it under review. In addition, use of any retained business rates to support Welborne infrastructure is ruled out for the foreseeable future given the low likelihood that this would constitute a significant funding source for the Council.



Affordable Housing

18. Affordable housing is the single largest “infrastructure” cost at Welborne 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. The IFS describes and assesses a range of options (in addition to traditional approaches with registered providers) that could be available to the Council and/or the developers. These include:

- Local Housing Company options, including the Council’s Joint Venture with Eastleigh Borough Council, First Wessex and Radian Housing Association linked, as appropriate to options such as guaranteed purchases and/or charge over land supported guarantees, self-development by the Council on land provided by the developers through the section 106 agreement.
- Overage arrangements (where threshold land values trigger either payments of commuted sums or increased on-site delivery).
- Commuted sum arrangements for off-site provision of affordable housing, possibly linked to overage arrangements.

CONCLUSIONS

19. The IFS has assessed in more detail a number of opportunities and structures that could be used to delivery significant investment into the Welborne development. It has assessed both public and private sector intervention and draws on current best practice to ensure that delivery of the schemes is brought forward in a timely manner.
20. The IFS has worked up a base case using the Council's concept masterplan, estimate of infrastructure requirements and costs set out in the Council's Infrastructure Delivery Plan, and estimates of build costs and values. Using this as a basis, the IFS has demonstrated the impact that options and measures set out therein can achieve.
21. The overall cumulative beneficial impact of the options modelled in the IFS is estimated to be £67.5m. As negotiations are on-going with the developers, it is premature to determine the ultimate financial impact these mechanisms could have on development viability. However, the modelling results show a significant positive shift in financial viability and confirm that a combination of Council and third party support for Welborne has significant potential to support viability and achievement of the Council's wider objectives for the development.
22. The Executive is asked to endorse the IFS attached at Appendix A to this report for publication and to agree to publication of the associated updated Position Statement on Infrastructure Funding (Appendix B), which takes account of the IFS and changed circumstances since the last such statement was published in January 2014.

FINANCIAL IMPLICATIONS

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

Reference Papers: