Report

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NCNF Outline Infrastructure Funding Strategy

March 2013

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1. Executive Summary

1.1 Fareham Council (the Council) has commissioned a study to examine innovative funding solutions to deliver the significant infrastructure requirements for the New Community North of Fareham (NCNF) development.

1.2 The proposed new community of c. 6590 homes and employment of up to 78,650m^2 will require substantial new infrastructure including transport links to the M27, improvements to the motorway junction, green infrastructure, a secondary school, three or four 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.

1.3 The economic downturn continues to place increasing pressure on both housing supply and the construction and development industry. The amount of risk that banks are now willing to undertake such as infrastructure costs or speculative development is at an all-time low.

1.4 A strategic approach to infrastructure funding will be crucial to ensure delivery. An approach that shares risk and reward between appropriate parties and delivers a funding package that works for all parties and the NCNF development as a whole is essential.

1.5 In this light this report examines opportunities for the Council and its partners to enable development through assistance in the delivery of infrastructure.

Infrastructure Requirements

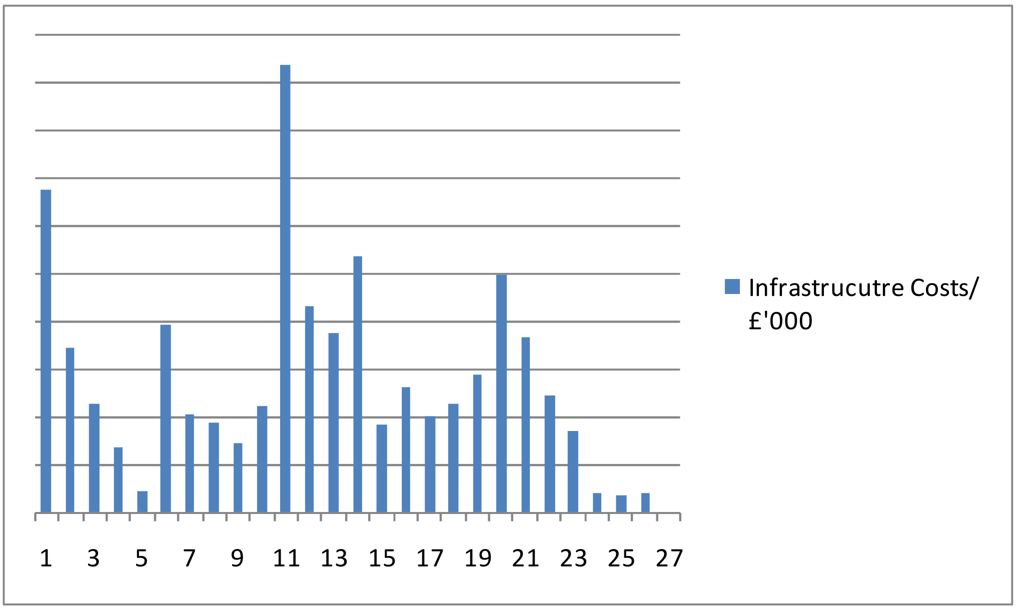
1.6 Alongside preparation of the NCNF Plan, the infrastructure requirements for the development have been assessed and mapped against the following infrastructure categories.

- Social;
- Green;
- Transport; and
- Utilities.

1.7 The initial estimate of the total infrastructure investment required is over £300M (including contingency).

1.8 The cost of infrastructure delivery, inevitably, is not spread evenly across the development period as the Figure 1.1 shows. For example, in the peak cost year (year 11 of the development), there are significant infrastructure items to be delivered including the utilities distribution network and off-site utilities reinforcement, Bus Rapid Transit and dedicated public transport corridors and substantial green infrastructure.

Figure 1.1 – Phasing of Infrastructure costs



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

Potential Funding Sources

1.10 This report reviewed potential best practice, currently available and future sources of infrastructure funding and deliver opportunities that could help enable the NCNF development.

1.11 Figure 1.2 demonstrates those finance and funding mechanisms and their associated repayment and delivery approach that could be used to enable the development.

Figure 1.2 – Overall assessment of approaches

Funding / Finance Options	**Repayment Mechanism**	**Delivery Approaches**
What Resources could be used to fund investment up front	What income streams could be used to repay investment over time?	What delivery approach(es) could best be used to achieve goals
• Prudential Borrowing • Capital Receipts • Government / EU Grant • Government / EU Investment - Growing Places Fund - Get Britain Building - Regional Growth Fund - Locally Led Large Scale Development Initiative - Guarantee schemes • Banks • Equity Investment	• Retained Business Rates • Tax Increment Finance • Developer Contributions – s106 / Community Infrastructure Levy • New Homes Bonus • Roof tax • Profit from private sales • Residential Rental streams – affordable / private sector • Hypothecated Council tax • Equity returns • Fees and Charges • Service Incomes	• Development vehicle - 100% owned subsidiary - 50/50 JV company • ESCO/MUSCO • Revolving Investment Fund • Council led development • HRA development • Public sector loans to developers • Fareham influence / knowledge / enabling tools

1.12 In addition to those opportunities identified in Figure 1.2, affordable housing is the single largest "infrastructure" burden on the NCNF development.

1.13 Given the scale of affordable housing likely to be delivered, it is likely that the Council and the developers will want to spread the risks associated with provision of this item by adopting a range of different approaches to its delivery.

1.14 Chapters 6 and 7 of this report 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 to deliver the required affordable units 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 agreements.
- Self-build or custom-build schemes.

Preferred Approach

1.15 An appraisal of the identified opportunities was undertaken to understand which solutions represented the most appropriate route for the Council to help enable the NCNF development, with the opportunities being graded Red, Amber and Green rating.

1.16 The results of this appraisal are detailed in Table 8.1 and can be summarised as

Green: The Council and its partners should actively pursue.

- Grant funding;
- Locally led large scale housing delivery funding;
- LEP funding (including Growing Places Fund and Regional Growth Fund);
- New Homes Bonus;
- Community Infrastructure Levy;
- Engagement with utilities to ensure inclusion of off-site reinforcement in 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;
- Council (FBC and possibly HCC) investment;
- Local authority guaranteed housing purchase;

- Local Housing Company and possible joint venture(s) with other authorities and/or registered providers;
- MUSCO/ESCO;
- Self-development of affordable housing; and
- Revolving Infrastructure Fund(s).

Amber: The Council and its partners should explore as potential options if required and/or if suitable (following further exploration).

- EU funding;
- Business rates retention (renewable energy); and
- Overage agreements to trigger increase provision or commuted payments for affordable housing.

Red: The Council and its partners should not currently pursue these options, but they should be kept under review in the light of changes to the policy or funding environment and/or the needs of the development.

- Business rates retention (general); and
- 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.

Next Steps

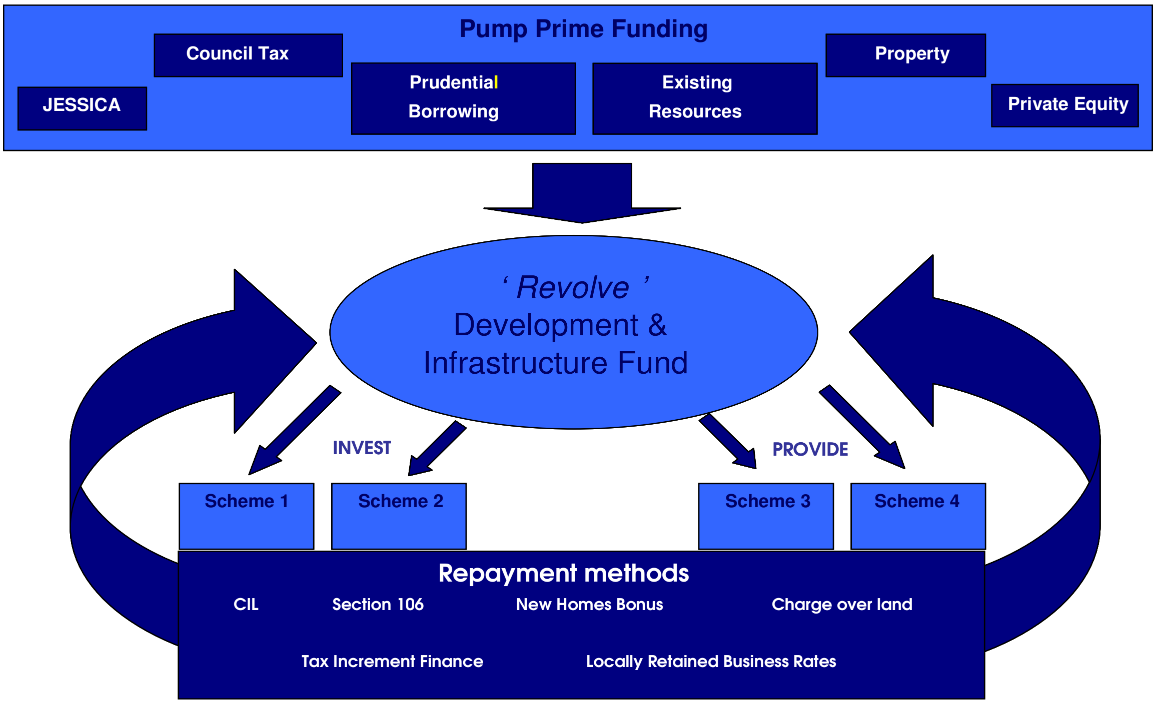
1.17 It is readily apparent that there is no one approach that can (or should) be employed to ensure deliverability of the infrastructure required for the NCNF; a combination of mechanisms is very likely to be required and desirable (e.g. for spreading risk). One approach to coordinating and combining 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 funding will need to be developed in phase 2 (preparation of the detailed IFS) and 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.

1.18 This approach is illustrated in the Figure 1.3

Figure 1.3 – Revolving Fund Mechanism



1.19 Care will need to be taken to balance the potential for a proliferation of revolving funds (each with its associated overhead costs) and the need to move quickly and ensure sufficient control to enable the NCNF to proceed as planned.

1.20 This will require discussion with a range of partners, in particular the Solent LEP and Hampshire County Council.

2. Introduction

2.1 Fareham Council (the Council) has commissioned a study to examine innovative funding solutions to deliver the significant infrastructure requirements for the New Community North of Fareham (NCNF) development.

2.2 The economic downturn continues to place increasing pressure on both housing supply and the construction and development industry. Bank lending is restrained as lenders have reduced both the level of bank funding as a percentage of cost and the amount of funding available. Whilst many of the major housebuilders have been able to re-finance, small and medium size developers in particular are suffering from a lack of access to development finance.

2.3 The amount of risk that banks are now willing to undertake such as infrastructure costs or speculative development is at an all time low. Indeed, many projects that are in themselves viable are suffering as a result of the current stance taken by the UK finance industry.

2.4 One of the key barriers facing the development market in this environment is how to provide finance and funding for major new infrastructure on sites that require remediation, access or social and green infrastructure to thrive.

2.5 This is particularly acute in large new communities, such as the development proposed north of Fareham, which is inhibited by the up front infrastructure costs that are common with a development of this type and scale.

2.6 A strategic approach to infrastructure funding and delivery will be crucial to ensure delivery. An approach that shares risk and reward between appropriate parties and delivers a funding package that works for all parties and the NCNF development as a whole is essential.

2.7 .Recognising these issues the Government has shown a firm commitment addressing these funding issues with a number of programmes aimed at encouraging sustainable development:

- The **Get Britain Building** programme intended to address difficulties in accessing development finance faced by some house builders and to help bring forward marginal sites by sharing risk.
- The imminent implementation of the **Local Government Resource Review**; broadly rewarding Council's for housing growth and increasing business rates;
- The **Growing Places Fund (GPF)** which is focussed on unlocking deliverable projects through investment in infrastructure which can start or re-start very soon whilst achieving good value for money;

- **Enterprise Zones** to promote commercial development through the retention of business rates, high speed internet and accelerated capital allowances; and
- **Local Enterprise Partnerships (LEP)** that have been allocated funding to provide as loans to developers to promote development where there is a lack of bank funding.

2.8 In addition, recent developments across the UK in developing an approach to Tax Increment Finance, the implementation of the Community Infrastructure Levy, locally retained business rates, New Homes Bonus, Infrastructure guarantee schemes and the new Local Infrastructure Fund have all begun to define new income streams and funding approaches that can potentially be used to deliver significant infrastructure projects such as this.

2.9 This report sets out an outline funding strategy for the Council, identifying where gaps in infrastructure provision may occur and how an integrated funding strategy, using the new tools available, may be used to help deliver the New Community North of Fareham.

3. The Scheme Overview

3.1 This section will outline the details of the scheme in terms of an overview. It will draw on links to the corporate objectives to not only set out the physical scheme but place this in the context of the Council's strategic plan.

3.2 The New Community North of Fareham (NCNF) represents a very significant strategic development of 6,500 homes and 78,650 square metres of employment floorspace on a largely greenfield site to the north of the M27 at Fareham. Development is planned to commence with infrastructure works in late 2015 and to deliver housing from 2016 to approximately 2041.

3.3 The principle of the new community was established in the borough Core Strategy, adopted in August 2011. The Borough Council is currently working on a New Community North of Fareham Plan. It will include planning policies to guide decision-making on future planning applications for the site.

3.4 The examination of the NCNF Plan is scheduled for summer 2014 and planning applications are anticipated to follow in mid-2014.

3.5 This Infrastructure Funding Strategy, to be prepared alongside separately commissioned work (already underway) on infrastructure planning and development viability, will be a vital element of the evidence base to support the NCNF Plan at examination.

4. Infrastructure requirements and phasing of the delivery

4.1 This section will draw on work by AECOM to assess infrastructure requirements for the NCNF and set out a high level assessment of the nature of the infrastructure, the phasing and the costs.

4.2 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 initial Infrastructure Delivery Plan and draft NCNF plan on infrastructure requirements, costs, thresholds for delivery and expected timescales for when it is required.

Infrastructure Assessment

4.3 The infrastructure requirements for the NCNF have been assessed through the delivery of the LDA Masterplan and mapped against the following categories:

- Social;
- Green;
- Transport; and
- Utilities.

4.4 A more detailed assessment that identifies significant and material items of infrastructure will be made available in due course in an Infrastructure Delivery Plan.

Quantum of Infrastructure Required

4.5 Given the complexity of the proposed scheme, in terms of scale, mix of uses, phasing and cash-flow, the financial viability and in particular the phasing of the infrastructure requirements a high level assessment has been undertaken, to be refined as the scheme progresses.

4.6 A programme based cost plan cash flow is based upon the land delivery schedule provided by GVA (who are undertaking a viability assessment of the development) – together with the trigger level dates for the social infrastructure works as defined by AECOM as part of their overall viability work.

4.7 The total quantum of infrastructure required is estimated to be over £300M excluding affordable housing as detailed in NCNF – Infrastructure Delivery Plan Review 2013: Stage 1 Report.

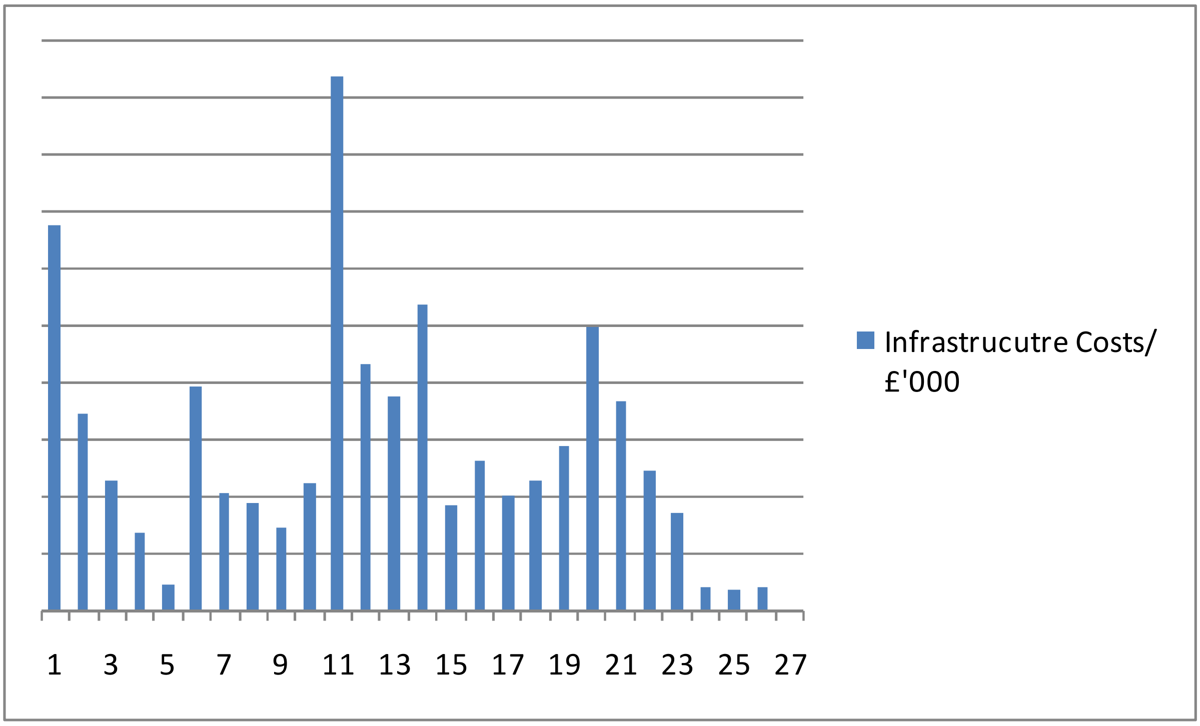
4.8 The affordable housing requirements, based on policy compliant delivery, are estimated to be up to c£240M.

4.9 At this stage, and without an agreed masterplan, this represents an estimate of the timings and quantum of infrastructure required.

Phasing of Infrastructure

4.10 The initial assessment of the infrastructure phasing (excluding affordable housing) is detailed in Figure 4.1.

Figure 4.1 – Phasing of Infrastructure costs



4.11 Peak infrastructure cost occur in Year 11 (currently estimated to be 2025) of the development. Significant items to be delivered in this year of the development include the Utilities Distribution Network and off-site utilities, Bus Rapid Transit, dedicated public transport corridors and the delivery of green infrastructure.

Affordable Housing Requirement

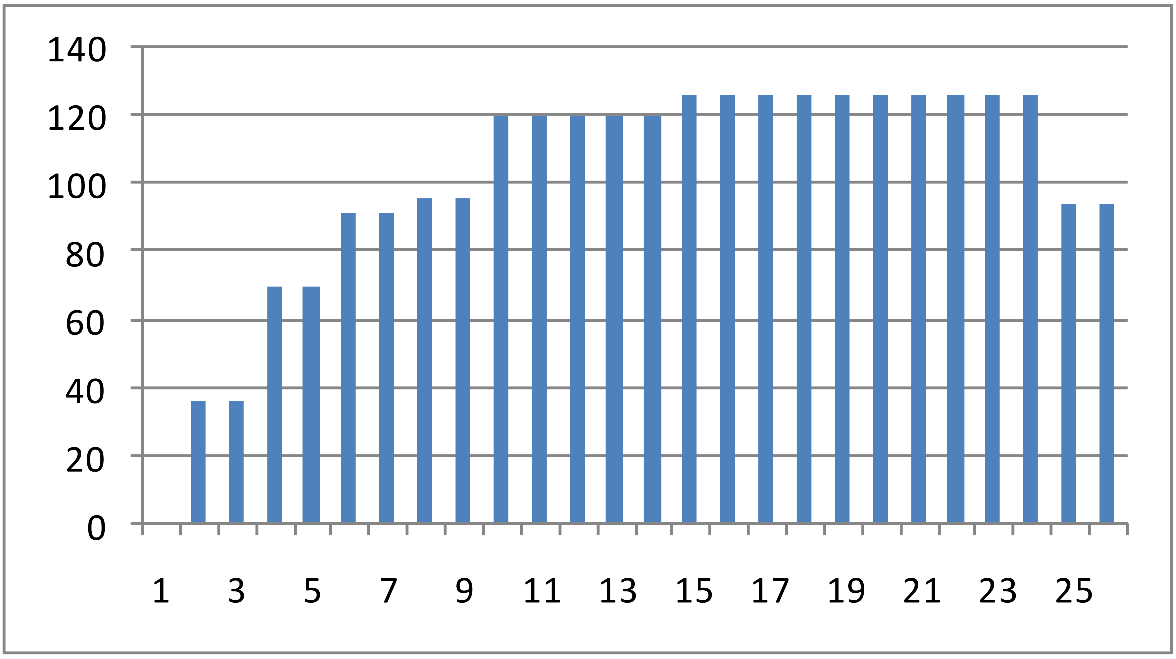
4.12 The affordable housing requirement is based on the policy compliant allocation of 40%. This is at the higher end of the Council's aspirations for 30-40% of the total dwellings to be affordable.

4.13 The LDA masterplan has allocated 6,590 units on the NCNF development, of these, 2,636 units will be affordable to achieve the compliant number. For the purpose of this stage of the review, no tenure classification has been applied and the costs are based on capital costs plus fees.

Phasing of affordable units

4.14 Figure 4.2 shows the annual number of units delivered over the life of the development.

Figure 4.2 – Annual delivery of affordable units / units per annum



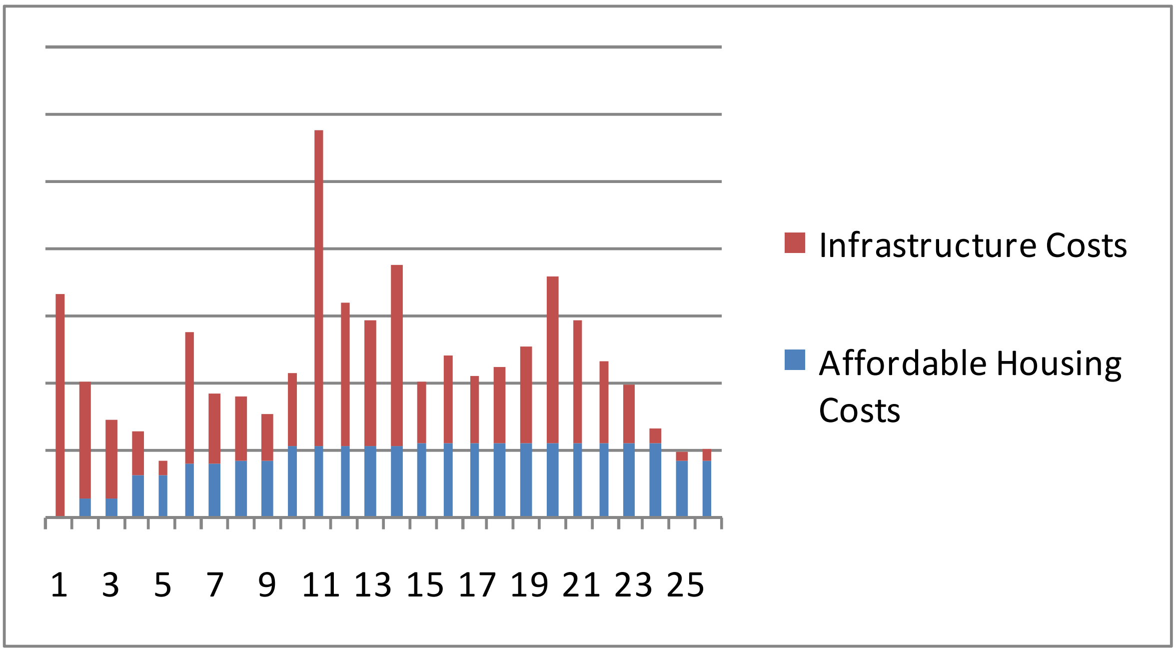
4.15 In this scenario, delivery of the affordable units is pari-passu with private units. Peak delivery is from Year 14 onwards, (currently modelled at 2029/30), with 126 units per annum delivered.

Estimated Total Annual Costs of Infrastructure and Affordable Housing

4.16 The cumulative impact of both the infrastructure and the affordable housing is a total new cost on the NCNF development of over £540M. This is based on today's prices and represents delivery over a period of 26 years (2015-2041).

4.17 Figure 4.3 provides the annual costs for all infrastructure and affordable housing.

Figure 4.3 – Annual costs for infrastructure and affordable housing associated with the NCNF development



4.18 Peak costs occur in Year 11 (2024/25).

Other on-site delivery

Total Private Units Delivered

4.19 Based on the LDA masterplan a total of 3,954 private sale units will be delivered on the NCNF development site. This equates to approximately 101.4 ha of land available for this provision.

4.20 A further 23.7 ha of land has currently been designated as employment land.

5. Potential sources of finance, funding and delivery models

5.1 This section provides an overview of a number of sources of finance that have been used to deliver similar schemes to the NCNF. It assesses funding streams that are focussed on delivery of infrastructure and affordable housing that are available both to the Council and developers in order to repay any finance.

5.2 A wide range of finance and funding sources are identified, although some that may not be directly applicable to this scheme. Many successful funding strategies have used a wide range of complimentary finance and funding approaches to deliver enabling infrastructure. The long list created will be appraised and challenged by the Council and the landowners to identify those mechanisms that merit further work.

5.3 The section draws on and updates work already completed for the Council by Almond Tree Strategic Consulting Limited.

5.4 Appendix A provides a more in depth review of each of the finance and funding methods, with a number of case studies to support this as an approach.

Public Sector Finance

5.5 There is a lack of appetite for private sector development and bank finance. In recognising this, the Public Sector is investigating a number of different finance approaches to support the construction and development industry; both in Hampshire and the wider UK marketplace.

Potential Sources of Finance

5.6 There are four key sources of Public Sector finance being used for this type of investment:

- *Local Authority;*
- *Central Government;*
- *Public Sector Pension Funds; and*
- *European funding*

5.7 It is important to emphasise that consideration is being given here to financing upfront development and enabling infrastructure costs i.e. sourcing the finance. A funding strategy to repay this finance will be considered later in this section.

Local Authority Finance

5.8 A local authority can utilises powers under the Prudential Code to borrow to finance the infrastructure or development needs of a particular site.

5.9 The Local Authorities (Capital Finance and Accounting) Regulations 2003 contains legislation for the current capital finance system (the "prudential system") for local authorities.

5.10 In accessing finance in this manner a local authority must demonstrate, acting prudently, that a secure income stream is available to support the costs associated with the debt.

Central Government Funding

5.11 Central Government provide the finance for the infrastructure and development cost in a similar way to that provided by the local authority, however, in rare circumstances grants may be available.

5.12 The capital outlay is made to fund infrastructure in the early years; with repayments directly back to the Government, or it's administering body, from developer contributions on an agreed profile and in line with development.

5.13 The Government has shown a firm commitment to addressing these funding issues with a number of programmes aimed at encouraging sustainable development:

- Locally led large-scale housing sites;
- The Growing Places Fund (GPF);
- The Get Britain Building Programme; and
- Regional Growth Fund.

5.14 More recently the Central Government has reinforced its commitment to future economic and housing growth. Central to delivering this are "enhanced roles" for both Local Enterprise Partnerships (LEPs) and the local chambers of commerce.

5.15 The Government's response to the Heseltine Review[1] (included in the 2013 National Budget which also identified a range of funding streams to support growth)is likely to be key to the Government's future approach to growth. The review set out a number of recommendations, including:

- local communities empowered and incentivised to collaborate for growth

[1] November 2012 – Lord Heseltine Review: No stone unturned

- a rejuvenated partnership between the public and private sectors involving both local and central government
- a dynamic, strategic central government with wealth creation at its heart, working more effectively in the national interest to support wealth creation and embracing a culture of both public and private sector decision making
- a private sector led business support infrastructure accessible everywhere
- a system for producing the skills that our economy needs now and in the future
- businesses, irrespective of size, sector or location which are engaged with their wider communities and ambitious to grow.

Public Sector Pension Funds

5.16 The Local Government Pension Scheme (LGPS) is one the UK's largest public sector pension scheme with over 4.6 million members. The scheme is administered locally for participating employers through 99 regional pension funds.

5.17 With assets of over £143BN[2] there is significant potential for the scheme to invest in suitable high quality assets.

5.18 As the Government looks at options to fund the estimated £250BN of infrastructure required in the UK, it has suggested that the LGPS should be investing in infrastructure programmes across the country.

5.19 There are signs that the LGPS is becoming increasingly interested in infrastructure investment – Berkshire, Essex and Tyne and Wear are but three local government funds to have recently raised their investments in this area in addition, Manchester City Council is looking at strategic local property acquisitions to boost the local economy.

5.20 Another way to encourage the LGPS and other pension funds, with access to approximately £2TR of assets, would for them to invest in the National Infrastructure Bank (mentioned in Appendix A).

[2] Independent Pension Consultant - John Ralfe

EU Funding

5.21 The EU provides finance, funding and grants for a broad range of projects and programmes.

5.22 The Commission makes direct financial contributions in the form of grants in support of projects or organisations which further the interests of the EU or contribute to the implementation of an EU programme or policy.

5.23 There are a wide range of areas that are eligible for funding, with funding generally linked to specific programmes e.g. Green and Renewable Projects; London LEEF Fund; European Social Fund (Employment); European Regional Development Fund (Growth); and JESSICA (Sustainable Development).

5.24 Applications are made directly to the EU or through National Governments, who receive a programmed allocation to distribute based on national priorities.

5.25 A number of potential European assisted funds have been established to help fund infrastructure and development. Initiatives in the North West, Midlands and London have established JESSICA funds using ERDF monies with the intention of helping to kick start development by the forward funding of infrastructure or development, with Scotland following soon.

5.26 The funding is placed as a loan, or in the future as potentially equity finance, that is repaid over time from the development.

5.27 The European Investment bank is increasingly looking at investing in high value knowledge economy, infrastructure and social housing. Opportunities for investments on large scale sites that provide maximum return are the preferred route.

5.28 European Investment Bank funding usually requires the funding to be matched by local authority or developer/private funding, with funding allocations usually in excess of £50m per application with a robust fund management structure required.

Potential Funding Sources

5.29 Potential sources of Public Sector finance have been identified that can assist with the upfront and ongoing costs of infrastructure and delivery of the development. This section now goes on to assess how this investment could be repaid using current funding opportunities. The following options are methods of repaying any Public Sector finance secured.

New Homes Bonus

5.30 New Homes Bonus (NHB) is the government's flagship housing policy, aiming to start "… a local house building revolution where communities who go for growth by building new homes reap the benefits and at the same time deliver a much needed economic boost to their local area"[3]

5.31 Through the New Homes Bonus the Government will match the council tax raised from new homes for the first six years. The bonus available for an affordable home will be up to 36 per cent more than for a similar market home, equivalent to an extra £350 per house premium every year. Empty properties brought back into use will also receive the cash bonus for six years.

5.32 The Borough Council has indicated that it will ensure that New Homes Bonus receipts arising from dwellings completed in the new community will be spent within the new community.

5.33 Based on an average Band D dwelling (c. £1,400 p.a.) this equates to approximately £8,400 over the six year period per unit.

5.34 The Council could use this cash to support borrowing to deliver infrastructure and growth within the area.

Community Infrastructure Levy

5.35 Until recently, contributions for infrastructure from new development could only be secured by Section 106 Agreements. These agreements had to mitigate against impacts arising directly from the development, a requirement that was underpinned by the tests laid out in Circular 05/05 (Planning Obligations).

5.36 Circular 05/05 also stated that such contributions could be pooled in the form of a tariff where the combined impact of a number of developments created the need for infrastructure. Because this was a Circular it could provide only guidance rather than offering any legal basis which an applicant or a local authority was bound by. Whether or not an obligation was valid or material in a particular case was a matter for the Courts.

5.37 What this enabled in the past was a large degree of negotiation and flexibility between a developer and a local planning authority in agreeing what contributions could be made in respect of a particular planning application.

[3] http://www.communities.gov.uk/news/corporate/1846706

5.38 Prior to the change of government in May 2010, the previous Labour administration introduced a new mechanism – the Community Infrastructure Levy (CIL) – which seeks to pool contributions in an area in order to fund a wide range of infrastructure items. The intention is that this will work alongside planning obligations so that contributions from development can be used to fund the infrastructure required to address the full range of impacts across an area.

5.39 Section 216 of the Planning Act 2008 (as amended by CIL Regulation 63) provides a wide definition of the types of infrastructure that can be funded by CIL, including roads and other transport facilities, flood defences, schools and other educational facilities, medical facilities, sporting and recreational facilities, and open spaces. CLG has confirmed that this list is not exclusive and that the definition has intentionally been left open in order to avoid having to update the Regulations on a regular basis.

5.40 Before a local authority has adopted a CIL charge (which will be subject to examination by an independent inspector) it must publish a list of the items that it wishes to include, and only these items can be charged for.

Case Study – Greater Norwich Development Partnership (GNDP)

GNDP comprises four local authorities: Norwich City, South Norfolk, Broadlands District and Norfolk County. The GNDP area vision encompasses the development of some 37,000 new homes and 18,000 new jobs in a variety of city centre, urban extension and new settlement developments at a range of scales. It was agreed through the governance structures of the four Authorities that GNDP would be utilised as the forum for the development of an infrastructure funding strategy across the area. As such GNDP have developed a detailed costed infrastructure needs assessment across the region.

From this needs assessment a funding strategy has been developed over a 15 year period that includes the usage of the Community Infrastructure Levy to deliver 60% of funding across the area with a differential tariff structure for different regions of the study area and a variety of other strategies for the delivery of additional infrastructure that is likely to include an asset backed vehicle approach, the utilisation of prudential borrowing as a forward funding source, the application of New Homes Bonus and Business Increase Bonus and potentially a Shadow Toll mechanism for one road scheme.

GNDP have just been successful in becoming a Community Infrastructure Levy "frontrunner"

S106 Payments

5.41 Section 106 (S106) Planning Obligations are legally binding agreements entered into by persons with an interest in a piece of land (often a developer) secured by a legal agreement or deed.

5.42 They are designed to mitigate for a particular impact that would arise from a development.

5.43 All planning applications are assessed on a case by case basis and not all developments will require obligations. When a planning application is submitted to the Local Authority, an assessment is made of the likely type and level of mitigation required for a particular development.

5.44 Planning Obligations can include:

- Affordable Housing
- Primary and Secondary Education
- Creation, maintenance and adoption of open spaces and recreational facilities
- Provision or adoption of new highways and public rights of way
- Library books and materials
- Healthcare facilities
- Police facilities
- Community facilities
- Travel Plans
- Local employment and training strategies

Local Government Resource Review (Business Rates Retention) including Tax Increment Finance

5.45 The Government has consulted on proposals to radically reform the way in which local authorities are funded, providing a strong incentive for local authorities to change their behaviours and encourage growth whilst ensuring all local authorities have adequate resources to provide services to local people

5.46 The current local government funding system is one of the most centralised in the world. Business rates are collected by local authorities, pooled centrally by Government and redistributed to local authorities (including police and fire and rescue authorities) through formula grant.

5.47 This centralised approach means that there is no real financial incentive for local authorities to promote growth, even though they have a huge influence over their local economies through planning, investment in local infrastructure and building strong relationships with businesses.

5.48 Subject to an initial top-up and tariff system, local authorities should receive a financial benefit, by being able to retain a proportion of rates, if they achieve local growth in business rates. This will act as a financial incentive.

5.49 Under current proposals in the Local Government Resource Review local authorities are incentivised to maximise the revenue from NNDR. Future commercial development will increase the total revenue the Council would receive from Non-Domestic Rates.

5.50 On this basis any additional revenue received above an agreed threshold could be used to fund investment in major capital infrastructure projects or used to support other Council priorities.

5.51 Any development would have to be "additional" to the NNDR take by the local authorities and not merely a displacement from other areas of the local authority as the baseline level will be set across the borough.

5.52 Tax Increment Finance (TIF) is a mechanism proposed by the Government to enable Councils to borrow against income from locally retained business rates.

5.53 Additionally, it is the intention of Central Government to support renewal energy sources. As such, a special provision has been made whereby all business rates collected from renewable energy facilities will be retained locally.

Local Authority (Revolving) Infrastructure Funds

5.54 The creation of a local infrastructure fund by the Local Authority would require a significant capital resource against which developers could secure capital funding in a similar way to normal commercial borrowing.

5.55 The fund would operate on the basis of a rolling fund which would allow infrastructure projects to be forward funded by the local authority and the developer would undertake to repay the infrastructure fund within an agreed timescale or on the basis of completed development.

5.56 This would allow developers to commit to development projects and would allow the developer flexibility to meet repayments to the infrastructure fund from future cash flows; improving the developers return on capital which is currently insufficient to allow developers to commit to development on major projects.

5.57 The risk to a local authority would be significant, particularly in the current market but that risk would have to be taken balanced against the potential benefits in stimulating the local development industry and the resultant economic and wider social benefits in providing essential housing, commercial and infrastructure facilities.

Joint Venture Development Agreements

5.58 Joint Venture Development Agreements between the public and private sector developer may be suitable for the development of infrastructure and upfront development costs.

5.59 The Council would secure an equity interest in a development and would therefore be required to assume some development risk associated with that project.

5.60 The authority would agree the extent of its investment in a project and agree to fund the cost of the key infrastructure requirements such as new roads, schools and other physical works.

5.61 The joint venture development agreement would be structured to ensure that each party receives a proportionate share of development profit to reflect the respective risk exposure.

5.62 The advantage would be the ability to share in a significant return in excess of the original investment on the assumption that the property market will improve over the long-term but the corollary would be the potentially high risks of significant financial loss.

5.63 Alternatively, the Council may wish to structure an agreement that recycles its element of any profit back into enhanced provision, for example a high percentage of affordable housing or enhanced public realm.

5.64 Any decision to enter into such an agreement would require careful risk assessment including the involvement of appropriate commercial, financial and legal expertise.

5.65 Appendix A details different forms of JVs that have been taken forward by local authorities in the UK.

Public Sector Loans, Grants, Equity Stakes and Guarantees

Public Sector Loans

5.66 The prudential capital finance system allows local authorities to have relative freedom to make their own borrowing, investment and lending decisions, albeit governed by the Code which aims to ensure that capital investment plans are affordable, prudent and sustainable.

5.67 In making a loan to a development it would be classified as part of the Council's capital programme the treatment of the loan as capital expenditure is set out in the SI 2003 No 31464 - regulation 25 1) b):

4 Statutory Instrument 2003 No. 3146: The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

> 25.—(1) For the purposes of Chapter 1 of Part 1 the following expenditure of a local authority, incurred on or after 1st April 2004, shall be treated as being capital expenditure insofar as it is not capital expenditure by virtue of section 16(1) —
>
> > (b) subject to paragraph (2), the giving of a loan, grant or other financial assistance to any person, whether for use by that person or by a third party, towards expenditure which would, if incurred by the authority, be capital expenditure;

5.68 The Market Economy Investor Principle states the "If the State acts in a way that a private investor would in a market economy, for example in providing loans or capital on similar terms to that of a private investor, the funding will not be classified as State Aid"

5.69 The loan itself must be on commercial terms. This will include the interest rates and collateral provided together with other requirements that a private lender would ordinarily include in the loan agreement.

5.70 In addition, the "State" must ensure that fees and charges generally included as part of a normal commercial transaction are included in any financial assistance.

5.71 Although any loan from the Public Sector may give the development the opportunity to develop more flexible repayment schedules outside those of a normal banking relationship, the legislative requirement, under State Aid that any support must not impede the natural market means that money would be on the same rates.

Loan Guarantee

5.72 The Authority could act as a guarantor on behalf of developers. The developer secures funding from a commercial lending bank on normal commercial terms and undertakes to repay capital and interest. The Council underwrites the loan through an undertaking to the lender that in the event of a default it would step in and meet the obligations under the loan agreement. The benefits of this are that borrowing rates from commercial lenders will be reduced and/or the developer will be able to access finance that would otherwise not be available to it.

5.73 In providing the Guarantee the Council would need to act under the market principal guidance in State Aid and demonstrate it is not distorting the market. The Council would be required to levy the normal fees and charges associated with such a deal.

5.74 Depending on the type of guarantee, under the local authority accounting regime the Authority would have to make an assessment of the fair value of the financial guarantee at its inception. This would be estimated by considering the probability of the guarantee being called and the likely amount payable under the guarantee. This should then be recognised as a liability on their balance sheet with a corresponding charge to the revenue account.

5.75 The size of the potential liability and the assessment of risk relating to the project will allow the Council to assess whether this is an attractive option. However, under this option the Council, in the medium term, may be able to minimise its exposure if it can be proven that the chances of the guarantee being called are minimal.

5.76 The Council should only use this method where there is very little development risk and little market exposure, such as the development of a school or public sector facility that will ultimately be owned or leased by the Council.

Central Government Guarantees

5.77 Central Government has recently announced two significant loan guarantee schemes aimed at bringing forward infrastructure and affordable housing development in England.

5.78 Firstly, Major infrastructure projects are to be backed by up to £40bn of funding guarantees to boost investment in transport, energy and communications developments.

5.79 The proposal to underwrite funding is aimed at helping to kick start schemes that may have stalled because of adverse credit conditions.

5.80 The projects will need to be able to demonstrate that the guarantees will enable them to secure finance within a reasonable timeframe. Eligible projects will be subject to charges and due diligence and must meet five criteria. These include the requirement that the project is nationally significant', ready to start construction within 12 months of a guarantee being given, and financially credible, with some equity finance already committed from other sources

5.81 Secondly, another £10 billion of government guarantees for housing will be used to back bonds issued by housing associations and private developers. £2.5 billion of the guarantees will be for affordable housing, with the remainder going into the private rented sector.

Other innovative funding sources

Distinct and Separate Service Organisations

5.82 New developments such as the NCNF are looking at new and innovative ways to involve the community in both the delivery of and decision making for the delivery services and energy.

5.83 There is a need to take responsibility for local land values to make sure that the future development needs of the town or city can be met and this is all linked to innovative forms of ownership of energy generation and supply to serve new communities.

5.84 In addition, organisations that provide a variety of utility services and can ensure strongly joined-up service infrastructure and a highly efficient customer interface.

5.85 ESCOs and MUSCOs are bodies that focus on the delivery of service or energy to communities.

5.86 No standard organisational structure for ESCOs and MUSCOS has been developed in the UK, but guidance produced by the London Energy Partnership provides information on successful schemes.

5.87 Organisations have been set up with a range of structures, with examples of public and private sector, community groups and a combination of these groups.

Cast Study - Woking Borough Council shows how local authorities can provide the leadership in community ownership - Woking Energy Station

Its wholly owned energy and environmental service company, Thamesway, developed its own public/private joint venture energy services company known as Thamesway Energy Ltd (TEL). TEL aims to build, finance and operate small-scale combined heat and power stations (energy stations), of up to five megawatts electricity output, to provide energy services to institutional, business and residential customers.

The council raised capital to fund the initial energy infrastructure development through energy efficiency savings. A fund mechanism was established in a benchmark year for energy expenditure, against which savings accruing from energy efficiency measures were recycled, year on year, into further energy-saving initiatives.

Through this set-up, Woking has pioneered the development of a network of over 60 local generators, including photovoltaic arrays and a hydrogen fuel cell station, to power, heat and cool municipal buildings and social housing. Decentralising energy production in this way has enabled the council to reduce its CO2 emissions by 77 per cent since 1990.

Shadow Toll

5.88 The Shadow Toll mechanism is one that has been used extensively across Europe and Canada. In essence Shadow tolls are payments made by central government to a private sector builder / operator of a road, based predominantly on the number of vehicles using the road.

5.89 Historically this has been delivered through a PFI type structure where the system of shadow tolling provides the revenue for privately-funded road schemes for a Design, Build, Finance and Operate (DBFO) contract. The mechanism allows central government to spread payments for infrastructure over a longer period, rather than up front for development, with much of the development risk being taken by a private sector partner

5.90 Advantages of this system include the elimination of the need for drivers to pay tolls directly, thus avoiding toll collection costs and the private sector take much of the risk for design build and operation from the public sector

Case Study – A1(M) Alconbury to Peterborough

The A1(M) widening between Alconbury and Peterborough was one of the first privately financed road contracts let by the Highways Agency.

The private company (RMS) were responsible for raising finance of £128m to construct, operate and maintain the motorway for a period of 30 years. In return they receive payments from the Highways Agency in the form of a "Shadow Toll" relative to road usage. There is no direct toll payment by the road user.

RMS is currently assisted in the day to day management of the maintenance operations by Mouchel Parkman with Ringway Infrastructure Services carrying out maintenance work under a term contract arrangement.

The Highways Agency retains ownership of the road and has appointed consultant Atkins to monitor RMS performance as Department's Representative.

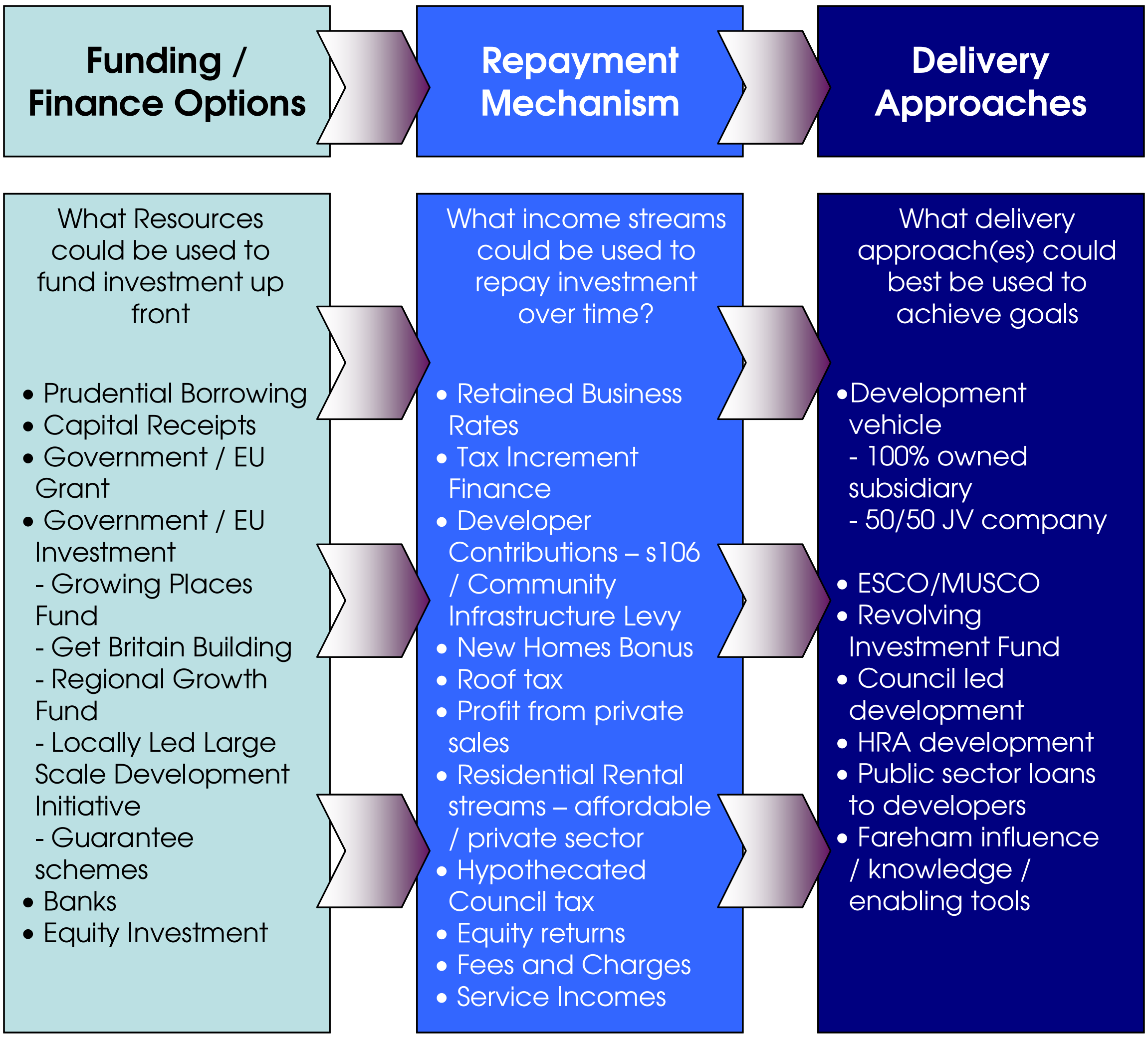
Overview

5.91 Figure 5.1 outlines are a number of finance and funding methods that could be considered in examining delivery approaches for the NCNF.

5.92 There are a number of significant innovative delivery solutions that have been developed in the current market that utilise a variety of funding and financing mechanisms. It is crucial to understand how these options operate and the risks and rewards of each. The diagram below summarises some of these key tools and demonstrates the interplay between each of the mechanisms.

5.93 Each of these funding approaches, repayment mechanisms and delivery options are explained in Appendix A.

Figure 5.1 – Overall Assessment of approaches



6. Affordable Housing – HRA Reform

6.1 On 1 April 2012, and as part of the Localism Bill, the Government abolished the Housing Revenue Account subsidy system and introduce a self-financing regime. This represented a radical reform of public housing policy, which for many years has been seen as inhibiting the delivery of a sufficient quantity of affordable housing in England. Despite initial uncertainty, the drive of the policy announcements is clear: local government will have to do more.

6.2 Under the new HRA Self Financing Regime, Councils which own housing stock gained full control of their housing income and expenditure and are able to make their own decisions on how and in what way they invest in tenants' homes. This reform will in effect create new 'housing businesses' in each local authority in England; with rental income; forecast to be in the order of £300bn over a statutory 30 year business plan period.

6.3 However, Central Government has imposed an element of control with the reform. Local authority borrowing counts as part of the Public Sector Borrowing Requirement (PSBR) and counts as part of the national debt, which the Government is keen to reduce. A debt cap has been applied to each Council, restricting the amount of money that it will be able to borrow.

6.4 It is the imposition of a debt cap that has caused a divergence from the rules around existing local authority prudential borrowing, which apply to non-HRA borrowing by councils.

6.5 The Local Authorities (Capital Finance and Accounting) Regulations 2003 contains the underpinning legislation for the current capital finance system (the "prudential system") for local authorities.

6.6 Through this, the introduction of the Prudential Capital Finance system on 1 April 2004 allowed local authorities to have relative freedom to make their own investment decisions, albeit governed by The Prudential Code for Capital Finance which aims to ensure that capital investment plans are affordable, prudent and sustainable.

6.7 In a reformed system that promotes freedom and local decision making but then constraints a major tool for creating new housing local authorities are looking at other ways to deliver this vital investment.

Impact of HRA Self Finance on Fareham Borough Council

6.8 The NCNF Development could deliver as many as 6,590 new houses, with up to 40% of these units being affordable.

6.9 The Council's (which has its own stock of approximately 2,500 homes) Housing Revenue Account (HRA) has very limited immediate borrowing headroom under the debt cap. The HRA is projected to generate revenue surpluses which it is intended to apply to support investment in the existing stock with additional capacity to fund 135 new homes over the next 5 years and further development subsequently.

6.10 The HRA resources available are insufficient to support a significant level of participation in the provision of new affordable housing in the new Community. Consideration has therefore been given to how the Council might generate additional financial capacity to invest in additional affordable housing.

6.11 The Council is currently investigating a number of housing delivery models which it can use to increase its ability to deliver new housing

New Housing Delivery Models

Self Development of Affordable Housing

6.12 A number of Councils are looking at taking on the role of master developer on sites, both in the public and private ownership.

6.13 Where Councils have land holdings, they are looking at opportunities to deliver the affordable element or a combination of the affordable and for sale units.

6.14 Where Council's do not have land ownerships, they are reviewing the benefits of taking land as an s106 contribution and delivering the affordable elements on this land.

6.15 The benefits of the Council doing this include:

- The delivery of more affordable housing units;
- The opportunity to increase the value of the remaining land holdings;
- The opportunity to secure an additional income stream (through housing rents); and
- The delivery of other social infrastructure.

Case Study: Camden Council – Self Development

The Community Investment Programme (CIP) is a 15 year plan to invest money in homes, schools and community facilities. The reduction in government funding, including the money no longer available for schools, means that we have to be more innovative in how we make the best use of our buildings and land to improve community facilities.

The Council are looking at opportunities both within the General Fund and under the new powers offered through HRA reform to sell or redevelop properties that are out of date, expensive to maintain, or underused and difficult to access. By undertaking the role of developer the Council aims to generate funds that are not otherwise available to reinvest into improving other services and facilities.

Progress so far

- The CIP has helped pay for internal works including kitchens and bathrooms, to almost 3,000 homes as part of the Better Homes programme. Around 1,650 homes have been refurbished in the last year.
- Building work for the first phase at Holly Lodge is now complete, with the work on the second phase scheduled to commence in May 2013.
- Building work at Chester Balmore is scheduled to complete this summer – with this scheme set to be the largest residential Passivhaus development in the UK
- 17 schools across Camden had improvements carried out on facilities, including heating systems, new windows and brickwork repairs. Work at a further 11 schools is planned for 2013.
- This financial year we'll be spending £10 million on improving the condition, energy efficiency and other facilities in schools in Camden.

Affordable Housing Delivery – Alternative Opportunities

Local Housing Company

6.16 Where Councils have identified that significant new provision of housing is required, but have recognised that there are insufficient resources within the HRA (be that headroom or overall capacity) other solutions outside of the HRA are being sought.

6.17 Fareham Borough Council is looking at one such opportunity to set up a Local Housing Company (LHC), potentially in partnership with local Register Providers and other Housing Authorities.

6.18 A local housing company could potentially act as the affordable housing partner to the development, taking ownership and management of the new-build housing. This would be supported by the rental income from the transferred units and either general fund borrowing or, if established as a partnership with a Registered Provider, utilising their borrowing capacity.

6.19 The LHC could act as a developer, and build the housing, transferring the completed units to a management organisation, or it could develop the stock and then hold these units, acting as a management organisation.

Local Authority Guarantee – Housing

6.20 The risk that surrounds sale of housing units in the current economic climate is recognised as a significant drag on delivery.

6.21 Councils are looking at the opportunities presented by both their housing waiting list, and their access to funding, through the HRA and General Fund to reduce this risk

6.22 Some housing is currently being delivered which carries a Local Authority Guarantee.

6.23 The Local Authority guarantee will be triggered should the developer be unable to sell or rent the housing. At this point the Council will rent or buy the unit for the provision of affordable supply.

6.24 This is done at a discount to the market value which acts to support the guarantee but also incentives the developer to market the units robustly.

Overage Agreements

6.25 Many developments, that are inherently viable, are currently stalled because of the affordable housing requirements necessary to be policy compliant.

6.26 Many Councils, in recognising the need to bring forward delivery in the current climate, are reviewing the levels of affordable housing at the inception of the development and suggesting an 'overage' provision or means of increasing the proportions of affordable housing that may come forward in later phases subject to viability testing of the increased value of the development in later years.

6.27 In this way Councils have accepted a below policy compliant allocation, with associated triggers should values increase in the future.

Third Party Funding of Affordable Units

6.28 To mitigate the constraints of the HRA debt cap, and to enable significant housing delivery, a number of new models are being used whereby funding is provided by the private sector to deliver affordable housing on public sector land.

6.29 The model is similar to Housing PFI deals, however, where they differ is that all of the housing management activities remain with the local authority.

6.30 The payments to the funder are supported through housing rents, which are guaranteed by local authorities. The schemes are delivered as a fully self-funded, however, the risks and rewards lie with the Council.

Self-Build or Custom Build – Netherlands Model

6.31 The Dutch Government is providing affordable housing provision through the delivery of self-build housing opportunities.

6.32 Publicly held land is being provided at rates that are attractive to individuals who wish to pursue this as a route to affordable housing.

6.33 Traditionally, a well-managed self-build can be delivered at a significant discount to market sales value, and this type of provision is supported through HCA grant.

6.34 In Laying the Foundations – a Housing Strategy for England[5], the Government announced that it would be making up to £30m of funding available to provide short-term project finance to help unlock group custom build – or self-build - schemes.

6.35 The fund can be used to cover eligible costs such as:

- Land acquisition costs;
- Site preparation costs;
- Construction of supporting infrastructure/utilities directly related to the construction of the homes;
- S106 planning obligations, Community Infrastructure Levy charges and S278 agreements;
- Construction costs for the homes; and
- Associated professional fees related to the project after planning permission has been granted.

6.36 There are a number of successful examples of this type of delivery currently within the UK.

[5]Laying the Foundations – a Housing Strategy for England - https://www.gov.uk/government/publications/laying-the-foundations-a-housing-strategy-for-england--2

7. Option Generation

7.1 This section looks at the opportunities available to the Public Sector, through their involvement in elements of the NCNF development, to improve the viability of the scheme.

7.2 Using the current assessment of infrastructure this section will assess relevant public sector involvement opportunities to enable and deliver infrastructure and the potential impact of each action by looking at the following:

- Grant Funding
- Access to Growth Funding
- The use of delivery related income
- Public sector infrastructure delivery
- Use of the Public Sector balance sheet to reduce costs
- Affordable Housing opportunities
- Joint Venture approaches

Overall Viability of the NCNF Development

Infrastructure requirements

7.3 The infrastructure requirements have been produced from the LDA masterplan, with costs calculated by Gardiner and Theobald cost consultants.

7.4 Currently the overall costs for infrastructure for the NCNF development are estimated to be over £300M, as detailed in NCNF – Infrastructure Delivery Plan Review 2013: Stage 1 Report.

7.5 The main items of infrastructure can be listed as:

- Utilities Distribution Network – £45.4M
- Secondary Roadworks – £36.0M
- 1 x 8FESecondary School – £21.3M
- M27 Junction 10 works – £40.0M

7.6 The cost review is an initial assessment of costs and is based on the current LDA masterplan design. As the scheme develops a number of value engineering opportunities will be assessed to reduce these costs.

Estimated Development Income

7.7 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.

7.8 There will be an ongoing process of considering infrastructure requirements, priorities for delivery, viability of the development and the availability of funding which will evolve with the concept masterplan for the new development. At this point, the infrastructure identified in the Infrastructure Delivery Plan is considerable, and the Council has to consider the options in this initial Funding Strategy work to determine what scope there is to improve the viability and deliverability of a successful new community and see where quality of outcomes can be improved.

7.9 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.

7.10 The aim is therefore for the ongoing infrastructure requirements and development viability work to be accompanied by this iterative examination of the funding opportunities to provide a long-term blueprint for delivery of the new community, which will assist all parties in coordinating their actions beyond the formal planning process.

7.11 This work is not yet complete and will be published alongside the Pre-Submission version of the NCNF Plan.

Grant Funding

7.12 Grant funding is a scarce resource with the EU, central government and the wider public sector focussing on recycling any contributions. We note that the Council and local landowners will align their objectives to attract and maximise any grant available.

7.13 Currently grants have been identified as being available for the provision of road and transport improvements.

7.14 The pinch-point grants and capacity improvement grants are available from the Department of Transport, however, these are scarce and NCNF development will have to compete with a number of other local and national priorities to secure this resource.

7.15 Additionally, there may be limited grant available from the EU focused on their policy objectives.

7.16 The Council and its partners must ensure that they track available grant and apply, where appropriate, to maximise this source of income.

Access to Growth Funding

7.17 The Government has recognised the need to encourage housing and jobs growth in the current economic climate. Current and future funding is likely to be focussed on the delivery of these priorities.

7.18 The NCNF development is well placed to access such funding. It is recommended that significant resources are spent in ensuring that the scheme, whilst meeting the objectives of the Landowners and the Council is flexible enough to maximise access to this growth funding.

Locally led large Scale Housing delivery funding

7.19 The Council has enquired as to the eligibility of the NCNF to access funding from this programme and more discretely the Local Infrastructure Fund.

7.20 Based on the current progress of the development the Council were advised that it was too early to be considered for this round of funding. However, this will continue to be monitored, as the eligibility requirements and priorities remain unclear.

7.21 Typically, allocations have been in the order of tens of millions, with flexible funding packages to meet the needs of the development.

7.22 The Government has indicated that any bid should be led by the landowners, as funding is provided on a loan or equity basis. However, it will need support from a partnership of local interested parties, including public and private partners and local enterprise partnerships. Although this partnership is not required to be formally constituted it is important that objectives are aligned.

7.23 The Council should seek a general consensus with land holders to provide a basis for any future bid.

Growing Places Fund

7.24 The Growing Places Fund is a fund administered by the Local Enterprise Partnership (Solent LEP). The aims of the GPF are to unblock infrastructure and delivery issues through investment into schemes that are viable and can start on site within an agreed timescale.

7.25 Investment can be by way of a loan, equity or in rare cases a grant, with repayment of any investment generally required over a short to medium period timeframe.

7.26 The Council, in partnership with the land owners/developers should look to any opportunity for the LEP to invest in the scheme through the GPF, potentially identifying specific items that could help unblock early delivery.

7.27 As part of the continuing funding appraisal, options to access Growing Places Fund should be investigated.

7.28 Typical size of investment from GPF in the UK has been between £0 – 10M, depending on the size of the LEP's allocation.

Other LEP Funding

7.29 The recent announcement by Central Government to accept the majority of the proposals put forward in Michael Heseltine's plan to stimulate the economy called "No Stone Unturned" are likely to see significant additional powers and funding devolved to English Regions, with the plan advocating the LEP as the accountable body.

7.30 Paragraph 5.17 details a number of the recommendations from the report, a significant number of which apply directly to the objectives of the NCNF development.

7.31 In addition, the March 2013 Budget announced it will allocate an extra £3bn a year to infrastructure projects in the hope of boosting economic growth; with the increase effective from 2015.

7.32 The additional £15bn of spending over the next decade will be focused on roads, railways, power stations and other economic growth projects, items that feature prominently in the delivery of a vibrant new community such as the one proposed.

7.33 With the significant flow of funds through the LEP at a local level the landowners and the Council should ensure that it has a communication plan in place that ensure the NCNF remains a high local priority. This plan should help the development identify and access any relevant funding streams administered through the LEP.

EU Funding Streams

7.34 There are a number of EU funding streams available to support infrastructure, including schools and social housing, however the lot size of funding is generally not below £50M and requires match funding through an accountable body.

7.35 There is significant scope to access a source of finance through the EIB, with rates currently being offered at 20 bps above EU Gilts, significantly cheaper than those that can be accessed by Local Government through PWLB.

7.36 An opportunity could exist to look across the Hampshire area to include all current development and create a vehicle with which to access this funding. For example, all new schools could be funded through this vehicle.

Summary

7.37 Table 7.1, estimates the level of funding that could be available from these options, based on similar schemes that have been delivered in the UK. This table is a guide and further work will need to be undertaken to assess figures that could apply.

Table 7.1 – Estimated financial resource for Growth Funding

Opportunity	Estimate of Financial Resource £M
Locally led large Scale Housing delivery funding	10 – 30
Growing Places Fund	0 – 10
Other LEP Funding	0 – 10
EU Funding	50 – 150
Total	**0 – 190**

The use of delivery related income

7.38 Income streams have been identified that increase as development is enabled. There are a number of considerations that the Council must assess to ensure these amounts are maximised and used to add value to the NCNF development.

7.39 The Council must also consider the impact on other services of ring-fencing any income for sole use of this development.

New Homes Bonus

7.40 The Department for Communities and Local Government has set aside almost £1 billion over the Comprehensive Spending Review period (2011 to 2015) for the New Homes Bonus.

7.41 Local councils can decide how to spend the New Homes Bonus. However, local councils are expected to consult communities about how they will spend the money, especially communities where housing stock has increased.

7.42 The LDA masterplan of the NCNF development is estimated to deliver 6,590 new units with 40% affordable units.

7.43 Using these unit numbers, the assumptions that the Council allocates 100% of the NHB receipts, that NHB funding will be available to local authorities past the current Comprehensive Spending Assessment and for the life of this development, the Council could expect to receive approximately £60M.

7.44 As a two tier authority, discussion with the Council has indicated that the County Council is mindful to allocate its element of the NHB to support the development. This could produce additional income of c.£15M, creating a pot ofc.£75M.

7.45 This amount could be used to support the delivery of relevant elements of infrastructure at no additional cost to the Council Tax payers of the borough.

CIL

7.46 The Fareham Community Infrastructure Levy is due to be adopted in April 2013. Having been approved by the inspectorate, it is due to be charged at a rate of £105/m^2 subject to adoption of the Schedule.

7.47 Provision has been made for the plan to be updated as the impact of the NCNF development and its infrastructure need is established.

7.48 The current assumption of what could be raised under CIL should the £105/m^2 rate be applied across the NCNF is £47M

7.49 The Council CIL income could be used for the direct provision of infrastructure on a pay as you earn basis, or it could be used to support borrowing to provide a specific element of infrastructure.

7.50 The main benefit of this approach is to remove the liability of provision on the development and potentially forward fund infrastructure at a rate below that which could be obtained in the market.

7.51 The Council should assess which assets are strategic in nature and include these assets on the CIL Charging Schedule at the earliest opportunity.

Section 106

7.52 Traditionally contributions to infrastructure requirements to mitigate the impact of a development have been sought through the S106 agreement; this includes the delivery of affordable housing units.

7.53 Significant resources will be realised through this route for the project. However, it is difficult to assess the level of this contribution until a detailed masterplan has been agreed.

7.54 The Council will continue to negotiate the level of s106 with the developer in the normal fashion, but as the detailed funding strategy is developed the Council must ensure any negotiations are made in light of the outcome of the Stage 2 Funding Strategy. This will ensure that the scheme benefits are maximised.

Business Rate Retention – Employment Land

7.55 The NCNF development is set to generate c.23.7 hectares of Employment Land that will be liable for business rates. Under the new flexibilities put forward in the Finance Bill, the Council can chose to reduce this liability to encourage business development in the area (subject to EU State Aid Regulations), use the additional resources to support Council services or ring fence any additional amounts to the NCNF Development.

7.56 This ring fencing of resources could be used to support borrowing to address specific infrastructure requirements within the development, that address Council priorities e.g. Green Infrastructure.

7.57 Initial modelling suggests that the Council will be a 'Top Up' authority. This would indicate that they have a smaller business rate take than their current needs.

7.58 This is likely to be the case until at least the reset of 2020, and as such, any contribution from business rates should be assessed in line with this reset if additional resources become available.

Business Rate – Renewable Energy

7.59 The Government has set out its intention to provide a strong incentive for new renewable energy projects, and the expansion of existing renewable energy power stations that result in increases in rateable value, by enabling the communities which host such projects to benefit from full local retention of the business rates collected from them.

7.60 The construction cost of the renewable energy plant and building are estimated to be approximately £9.6M. The Council may wish to review the possibilities of using any retained business rates to part fund this development. Alternatively, the Council could look at the ESCO model, using the retained business rates to support this organisation.

Fees and Charges

7.61 Fees and charges levied for services provided by the Council may be available to support infrastructure delivery, either through an ESCO/MUSCO type structure, or through direct provision. These are considered later in this section and considered under Third Party Delivery of Infrastructure; with fees and charges relating to specific assets.

Summary

7.62 Table 7.2 details the potential income that could be generated from income streams that are currently available and directly related to delivery.

7.63 The income is related solely to the delivery of the NCNF development and does not include development elsewhere in the borough.

7.64 Currently, income streams identified here are revenue resources and have not been risk adjusted. If the Council was to use these amounts to support borrowing we would recommend a suitable risk adjustment to ensure that decisions are made in a prudent manner.

Table 7.2 – Estimate Financial Resource that may be generated

Opportunity	Estimate of Financial Resource Revenue - £M
NHB	75
CIL	47
Section 106 negotiations	See 7.48
Business Rate Retention – Economic	0
Business Rate Retention – Renewable Energy	Unknown
Total	**122**

7.65 No income has been attached to business rates. However, as the development develops opportunities may arise that could deliver funding streams that could support infrastructure.

Public sector and third party infrastructure delivery

7.66 A number of opportunities for third-party delivery of infrastructure have been identified that could improve the overall viability of the development.

Utilities Re-enforcements and off-site provision

7.67 Significant costs are included within the infrastructure plan for off-site utilities re-enforcement. However, there is no legal requirement for the landowners to provide for off-site provision of these services, despite in practice the cost falling to each development.

7.68 Relevant public law dictates that utility providers must align their 5 year investment strategy to mirror growth.

7.69 Where growth is identified in a timely manner there is a duty for this to be included on the investment plans.

7.70 The liability of the utility provider to deliver this upgrade and re-enforcement work recognises that they control the income stream that will be attached to the provision of this infrastructure.

7.71 It will be important for the Council and landowners to work with utility providers to plan ahead for water and energy infrastructure to support growth and meet local aspirations to ensure that associated infrastructure requirements are appropriately represented on the providers 5 year investment plan.

7.72 The total cost of utility infrastructure has been estimated to be £15.7M.

School provision

7.73 As the Education Authority, Hampshire County Council has a statutory duty to plan the provision of school places and to secure an appropriate balance locally between supply and demand. It is the role of the County Council to plan, organise and commission places for all maintained schools in Hampshire.

7.74 The need for school places changes in response to population movements and birth rate variations and the development of new housing; such as that proposed in NCNF. Increases in demand can lead to the creation of a new school or the expansion of existing schools by adding permanent or temporary accommodation.

7.75 Traditionally, education provision is provided through a S106 agreement. However, in reviewing new schools requirements the County Council could reduce the impact through a commuted provision, or reduce the on-site provision should school requirements in the future change.

7.76 Currently, there is a requirement within the LDA cost plan for provision of a number of primary schools and a single secondary school to deal with the impact of the NCNF.

7.77 Other similar developments, in line with the Governments guidance on renegotiating s106 agreements, have sought to deliver all or part of the education provision in partnership with the LEA.

7.78 The Council and landowners should continue to consult the LEA on school provision and the different opportunities available to ensure the needs of the NCNF are met.

7.79 In addition, there are opportunities to deliver school funding on a regional level, by utilising EU match funding approaches, these have been considered through an EU funding mechanism in Para. 7.30.

7.80 The funding strategy has discounted the future role of free schools as a method of funding the delivery of school assets because, generally, provision is from existing assets. However, as this stream of funding and provision develops the Council should assess any opportunity in this area.

Residential Care Home/Supported Accommodation

7.81 A number of Councils in the UK are currently looking at self financing models for the delivery of high specification residential care homes or care communities.

7.82 The increased demand caused by an ageing population and the lack of affordable residential care places in general has resulted in a need for Councils to look at in-house provision rather than through private sector routes.

7.83 Income streams associated with the delivery of this service could be used to support the provision of care homes. The Council and landowners, in consultation with the County Council should consider a feasibility study to assess whether this is a viable proposition.

7.84 The current costs within the LDA masterplan are £12.3M. Based on current PWLB costs and the impact of the Minimum Revenue Provision an income stream of approximately £860,000p.a. would be required to support this investment.

Upgrade to the M27 Junction

7.85 The M27 J3 – J12 forms part of the Trans-European Network (Transport). Funding can be assigned by the European Union to ensure that this network operates in a manner that supports economic stimulus across the "national boundaries".

7.86 There may be scope to generate a receipt from this funding pot to ensure that the development does not impact negatively on the T-ENT route.

7.87 The current capital costs of delivering the upgrade work is estimated at £40M. As part of phase 2 of the funding strategy further work will be done to review this as a possible income source.

Summary

7.88 Table 7.3 identifies the total cost of infrastructure that could be delivered by third party organisations including the Council. The overall funding strategy should look at all opportunities to deliver these items to support the NCNF development.

Table 7.3 – Estimated Financial Impact of third party delivery

Opportunity	Estimate of Financial Impact Capital - £M
Utilities	15.7
Secondary School*	21.3
Residential Care Home	12.3
M27 Junction (10% of costs)	4.0
Total	**53.3**

** Potential for a Regional Approach to delivery through EU matched funding*

Use of the public sector balance sheet to reduce costs/improve access to finance

Council Investment

7.89 There are a number of cashflow requirements for the development that are decreasing the overall viability of the project. Any cashflow deficits (i.e. where the expenditure is in excess of any income received) are currently the burden of the developer.

7.90 The cost of this burden will depend upon the financial strength of the developer and may require bank lending or gap funding to ensure continued delivery.

7.91 The NCNF Development has a currently forecast year one infrastructure cost prediction of £33m, well in advance of any land receipts. This clearly has a significant effect on the cashflow.

7.92 A number of local authorities are looking at ways that, using powers under the Prudential Code, they can take a debt or equity stake in schemes to ease some of the cashflow issues. This recognises the EU State Aid regulations and the constraints and flexibilities therein. However, there is significant scope for the Council to use its own covenant and borrowing powers to invest into the scheme.

7.93 The Council could look to assist developers in the delivery of the NCNF development through cashflow funding, which will reduce the finance risk and overall costs of the development.

Council – Government Guarantees

7.94 There are a significant number of guarantee schemes currently being used by central government to bring forward infrastructure development and housing delivery.

7.95 The Government has set aside £40BN in guarantees for Infrastructure and £10BN in guarantees for housing for schemes that will unlock significant value.

7.96 The impact of these and similar local authority guarantee schemes are to allow funding to be attained at a lower rate, or to allow non-traditional funding e.g. pension funds to invest in a secure long-term income stream.

Charge over land mechanism

7.97 The Council sets up a JV with the landowners/developers on the site. A legal charge is taken by the Council on a basis to be determined and at a level that promotes development. The Council then loans into the vehicle the cash to pay for any enabling infrastructure. As this cash is loaned so the JV vehicle begins to accrue interest due to the Council.

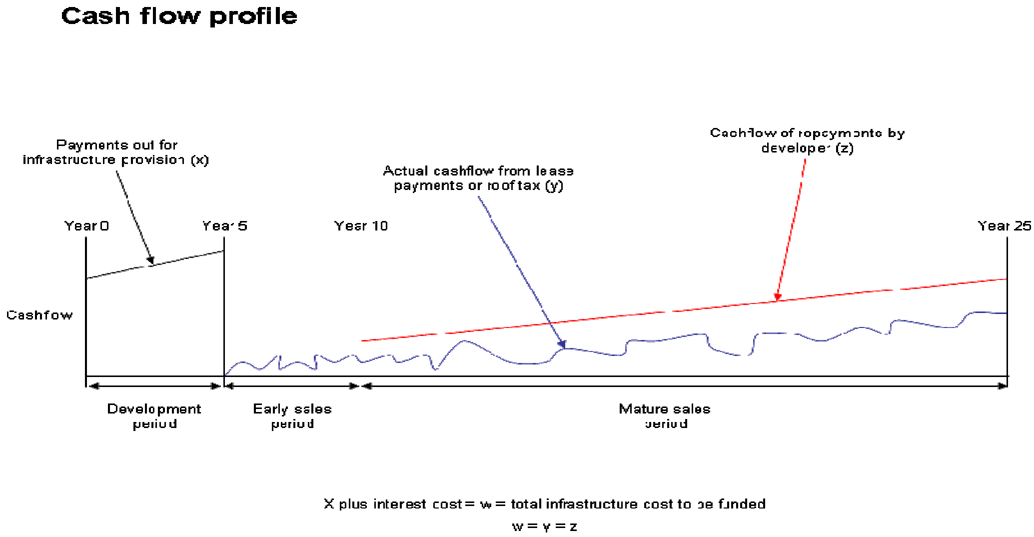
7.98 The enabling of the infrastructure increases the value of the land and encourages development. As development is delivered and land is sold receipts are used by the JV to repay the loan creditor to the Council. The Council then releases its charge over the land.

7.99 The charge is set in a way that rewards the Council for any risk in enabling the infrastructure. It encourages the development of the land as the charge will be linked to inflation and will increase over time.

7.100 A payment break can be agreed from development sales in early years. This will ensure that payments back to the Council can be smoothed.

7.101 The Graph below gives an indicative payment profile of this scheme.

Figure 7.2 – Charge of Land Model



LEP Funding

LEP Business Rate Retention

7.102 One of the benefits associated with the 2010 announcement relating the formation of Enterprise Zones was the allowance that the uplift in business rates within the zone would be passported to the LEP to encourage development.

7.103 Many EZs used this flexibility to invest in significant infrastructure, through a TIF type mechanism. However, the LEP is free to use the uplift of rates to support any economic priority that meets its stated objectives, within its area.

7.104 The Council, in partnership with the land owners/developers should enquire as to whether any future funding would be available through this route.

Locally led large Scale Housing delivery funding

7.105 Para. 4.52 details the desire of the Government, through the Locally Led Large Scale Housing Delivery fund to invest c£474M in local infrastructure to unblock housing development like the NCNF Development.

7.106 The HCA will be responsible for administering the fund and through the Local Infrastructure Fund prospectus sets out the criteria for bidding but includes support for sites that:

- Each individual site must be at least 1,500 units in size.

- Have support from the relevant local authority (the Homes and Communities Agency will test this with the local authority).
- Demonstrate how the infrastructure investment will lead to housing starts.
- Sites put forward must have local support, demonstrated through having outline planning consent, or the site being designated for development in a Local Plan or via a Local Development Order.

7.107 Investment will be made through a loan or equity and will require that adequate security is provided for each investment made.

7.108 It is our understanding that the Council is exploring the opportunities of this fund and that this will form a part of this wider funding strategy for the site.

Affordable housing opportunities

7.109 The Council, being the responsible body for housing within the Borough, is currently looking at ways to increase the overall levels of affordable housing.

7.110 A number of models being pursued by the Council and in the wider UK could be used to help deliver a policy compliant level of affordable housing on the NCNF site, but in a manner that makes the provision more viable and deliverable.

7.111 Many of the affordable housing models require that the Council has control or ownership of the land in order to provide the necessary security should it wish to obtain third party funding. This has been given to Councils in the form of their S106 contribution.

7.112 The Council must consider whether the provision of land as a developers S106 contribution meets their statutory requirements, including valuation.

Third Party Development of Affordable Housing

7.113 There are significant opportunities coming forward in the market for the Council to look at pension funds and third party funders should it be able to secure a land holding within the NCNF.

7.114 A number of Councils, in setting up these models, and through the smart management of the stock, (management and maintenance) are assessing the potential for significant profit rents to be delivered.

7.115 The profit rents are being ear-marked for additional affordable provision, higher standard of housing, through Code Level 5 or 6 provision or better public realm.

7.116 Subject to rental values in the borough the Council may wish to assess the opportunity to create a profit rent to support affordable housing priorities.

Local Housing Company

7.117 The Council is in the initial stages of reviewing the options and opportunities for setting up or joining a Joint Venture - Local Housing Company.

7.118 Eastleigh Borough Council are currently looking at suitable structures to form a 50:50 joint venture with local Registered Providers to bring forward a mix of affordable and private tenure units within the locality.

7.119 Fareham Borough Council will be a partner within this joint venture, which could be used to develop out elements of the NCNF.

7.120 It is unclear in what capacity the Local Housing Company will operate, but the reduced costs of borrowing could make the provision of housing cheaper for NCNF. This will facilitate uplift in the level of affordable provision or improve the financial viability of the scheme.

Local Authority Guaranteed Take up

7.121 The Council could look to reduce the sale risk for units delivered on the NCNF by providing a guarantee to buy any unsold units.

7.122 This purchase could be made to provide additional affordable housing, for private rented units or for inclusion in any local housing company to be used at the company's discretion.

7.123 The guarantee is being used by other local authorities and can deliver significant savings in financing costs, because of the use of the Council's covenant.

7.124 An example of the type of savings that could be expected at in the region of 20 – 100 bps, or £2,000 - £10,000p.a. for £1M of debt.

Overage Payments

7.125 Current land values may not support all the Council's policies and aspirations in terms of affordable housing and green infrastructure.

7.126 However, as the development continues and NCNF becomes a success, land values will rise.

7.127 The Council may wish to forgo elements of its infrastructure requirements in the early years on the premise that they are delivered in full should land values rise above certain hurdle rates.

7.128 A number of Councils have agreed lower than policy levels of affordable units, with an overage payment to provide affordable housing in future years, subject to land values being met.

7.129 This option could have significant benefit in the earlier, less viable years of the development, with land values increasing by approximately £70,000 per acre with every 10% decrease in affordable housing levels.

Commuted Sum – Off Site Provision

7.130 The Council could investigate the possibility of taking a commuted sum in lieu of on-site affordable housing provision.

7.131 By reducing the amount of affordable housing on the site the landowner would be able to increase the residual value of the land, thereby making the development more viable.

Summary

7.132 The Council has a desire to see affordable housing delivered on the NCFC development and throughout the borough.

7.133 The need for affordable housing and the significant income stream that can be attached to affordable rental models would allow the Council to invest in this area in a prudent manner, using this income stream to support any borrowing.

7.134 A number of models and solutions have been put forward in this section, however, it is likely that a combination of approaches may suit a development of this size.

Joint Venture Approaches

7.135 Many of the opportunities already examined could be delivered as a stand alone solution by the Council or through a Joint Venture opportunity with a partner, be that the land-owner, a house-builder or other public sector body.

7.136 Key to the success of the JV is ensuring that objectives are aligned and resources are available from the partners to make it a success.

7.137 Early meetings between the Council and the Landowners has suggested that a development Joint Venture may not satisfy both parties interests, with little or no desire to take this route expressed by at least one landowner. Further work may be needed for parties to understand the concept and risks should this become a productive option.

7.138 However, there may be the opportunity to look at a partnership approach to the delivery of Energy or Service provision in the new community.

7.139 Section 5 looked at the opportunity to set up an ESCO or MUSCO and there is an opportunity for one or more of these organisations' functions to be incorporated into a wider model to include the delivery and/or management of the affordable housing at NCNF.

7.140 The Council should investigate with the land owners the appetite to deliver this type of organisation, with an assessment of the benefits that it could bring.

8. Option Appraisal

8.1 A number of opportunities have been identified in Section 7 that could be used to support the NCFC development through investment, support or the involvement by the Public Sector.

8.2 This section reviews the applicability of each opportunity for the continued development of the NCFC Development. It suggests high level next steps that the Council and landowners may wish to take in the next phase of work.

8.3 In broad terms the direct involvement of the Council is guided by its desire to:

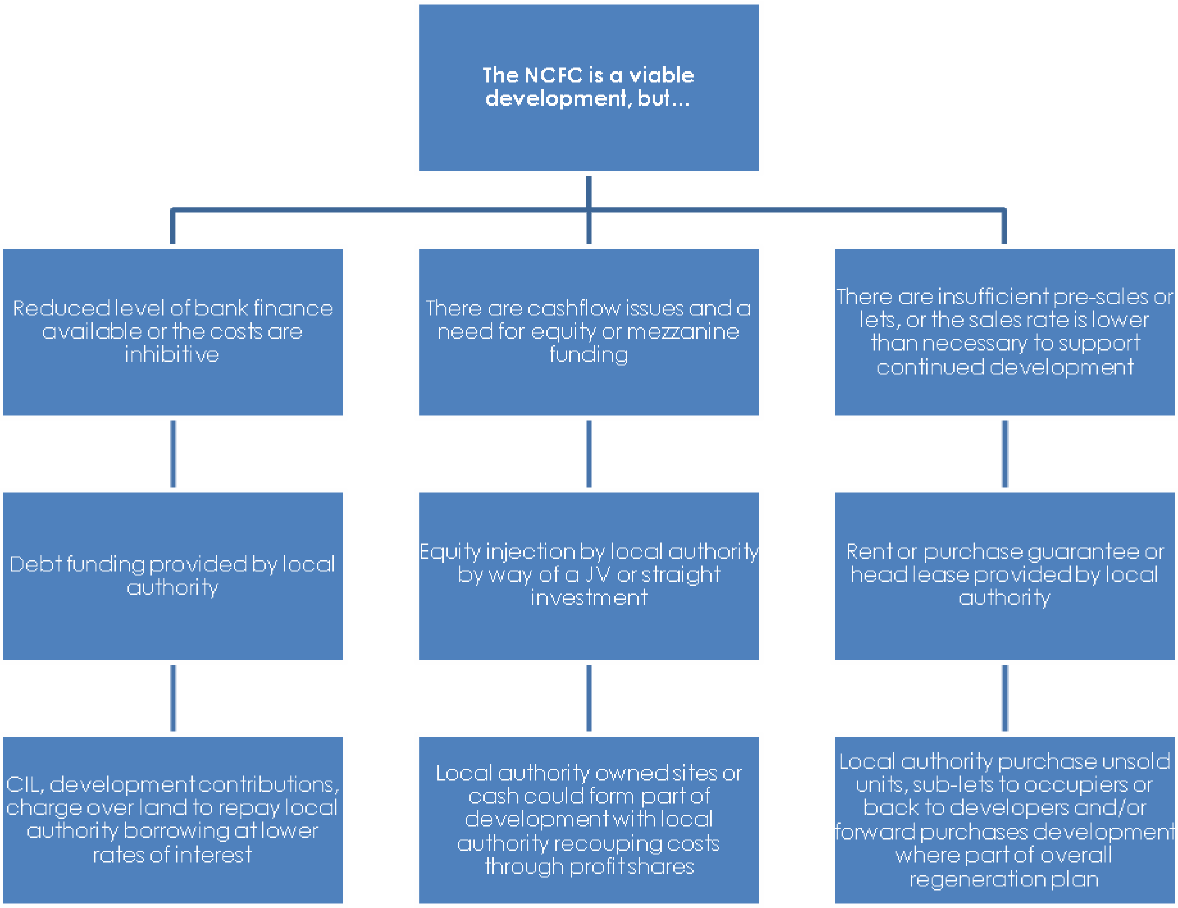
- Reduce the costs of the site though financial support e.g. NHB, Council debt etc.
- Take a direct stake in the sites e.g. Local Housing Company
- Provide a guarantee to the development, Guarantee buy out.

8.4 Assessing the most appropriate method of involvement will involve discussions with the landowners and consideration of the risk appetite of the Council.

8.5 Figure 8.1 details a broad overview of the decision pathways that Council may follow. Each decision will lead to a slightly different approach and involvement and each decision may still lead to a combination of approaches being delivered.

8.6 Once a masterplan has been agreed the Council should approach landowners to assess what the most appropriate method of support would deliver the scheme.

Figure 8.1 – Financial Assistance of the Council



Funding Streams

8.7 Table 8.1 sets out each of the funding streams identified in this report and looks at the advantages and disadvantages of each approach. It also recommends next steps to those funding streams that may be applicable to the project.

8.8 To aid the reader a red/amber/green colour code has been used to identify applicable funding streams as per Figure 8.2 below.

Figure 8.2 – Traffic light assessment of opportunities

The Council and its partners should actively pursue this as funding route that will help to enable the development.

The Council and its partners should consider this as an opportunity that may be used to access public sector support.
The Council and its partners should consider this opportunity however; timescales or likelihood of success may limit its application at this time.

Table 8.1 – Assessment of opportunities for public support on the NCFC development

	Advantages	Disadvantages	Next Steps
Grant Funding	• If any grant is available for the Development, the Council and its partners should ensure that the priorities of the scheme are flexible enough to meet its objectives. • There are currently grant allocations available for transport delivery. The Council and its partners should attempt to access this for development of the M27 Junction and delivery of any off-site road improvements. • EU funding can be in the form a grant where delivery of key pan-Europe objectives is achieved; however, this is less common. Previously, these have included job creation, renewable energy and areas affected by blight.	• Grants are often prescriptive inflexible and often require significant alignment to the grant giving body. • Grants can be quite small and are usually given to enable development work rather than delivery, the exception being transport.	The Council and its partners should: • Work with the Department for Transport and the Highways Agency to assess the availability of grant for transport infrastructure; • Assess EU Objectives where grant may be available e.g. Renewal and Green infrastructure; • Ensure that the funding strategy is continually updated to ensure that any grant available is accessed.
Locally led large scale housing delivery funding	• NCNF meets the criteria of 1500+ and large scale commercial sites be outside of Enterprise Zone areas • NCNF promotes economic activity; investing in large scale land and property projects, which have local support, to deliver the infrastructure required to unlock housing and	• Advice from Homes and Communities Agency has been unclear as to whether The NCNF Development was sufficiently progressed to access funding in the first round • Any bid to be submitted is expected to be led by the	The Council and its partners should: • Investigate if it is eligible to proceed with an expression of interest at this time. If so, the landowners will need to consider whether a

	Advantages	Disadvantages	Next Steps
	commercial development • Any finance will be flexible in how it invests, enabling bespoke packages of support to be developed where needed • Finance can be used to fund land acquisitions from third parties where there is a need that relates to infrastructure delivery. • There is no upper limit to finance subject to it meeting the value for money criteria	organisation with majority control of the land • This is not grant funding, funding will be provided on a recoverable basis (with funds returned to the Homes and Communities Agency), with an appropriate rate of return applied • Appropriate security is required to access the investment.	loan or equity investment is sought; • Work with the HCA to assess the likelihood of bidding for Round 2 of this fund and ensure that it is positioned to bid; • Work with landowners, where appropriate to support any private sector bid.
Other LEP Funding including GPF	• Growth funds are aimed at unblocking stalled or difficult to deliver developments that will increase the economic activity within an area. NCNF should be seen as a key project in enabling these objectives; • Funding may be secured in the form of grant subject to the aims and objectives; • The GPF and GBB have aims and objectives that are directly met by this development; • In the future JESSICA or JERIMIE funding may be available as they are specifically aimed at development. • Elements of the Development may align with funding sources currently	• Schemes currently being funded in this manner are in a shovel ready state. If Government priorities change over the coming years then the Development may not meet the criteria. • Funding is focused on unblocking and creating an environment for growth. As such other sources of finance are expected to be investigated first. • Funding is channelled through partnership agreements between the public and private sector; a suitable agreement would need to be in place.	The Council and its partners should: • Assess the current funding streams and align, where applicable, its aims to meet their objectives. • Work closely with the LEP to ensure that the scheme is a high priority and considered for all funding that flows through the LEP • Where possible lobby Government to support the project. • Be flexible enough to

	Advantages	Disadvantages	Next Steps
	being offered by the EU, e.g. employment or green infrastructure funding.		access any future funding streams that may be pushed through the LEP
New Homes Bonus	• Approximately 6,590 of homes will be created as a result of the NCNF development realising a significant income stream. • It is estimated that income will be approximately £60M for Fareham Council and a further £15M for Hampshire County Council will be delivered from this scheme. • The Council has ring-fenced any NHB received from the NCNF Development to support the scheme. • Under current guidelines NHB would be given to the Council in line with development. This could be accessed to support the development through borrowing or through a pay as you earn mechanism.	• NHB is not ring-fenced to housing and the development would have to compete for funding with other services and priorities; • The Council may not be willing to take any funding risk on housing that has yet to be delivered, i.e. funding would only be received on the completion of houses • NHB is supplied in it current form as part of the latest CSR. This is due to run until 2015. There is no guarantee that NHB will be available for new units past this date.	The Council should: • Engage with the County Council to assess the likelihood of this funding stream being ring-fenced and made available to support NCFC Development. • Support this conversation by formulating a detailed financial benefits plan of the housing delivery, ensuring that this links to the wider aims of the Council's; • Work with land owners to produce a detailed delivery plan to assess the quantum and timing of NHB that may be available to support

	Advantages	Disadvantages	Next Steps
			infrastructure delivery; • Assess the opportunity to bring forward the delivery of affordable housing using this income stream to support delivery.
Community Infrastructure Levy (CIL)	• Specifically, for the delivery of key strategic infrastructure within the authority. • Strategic infrastructure is generally considered as items that benefit more than a single development e.g. transport, utilities etc. which matches some of the key NCNF requirements. • CIL can be used to support borrowing. Prudential borrowing can be sourced from PWLB at significantly lower rates than private finance. • Based on the Draft Charging Schedule the Council could expect to receive approximately £47M of CIL income as a result of the NCNF Development. This can be used to support key strategic infrastructure.	• No NCNF infrastructure is currently included in the 25 year plan required for the CIL charging schedule; • Not all infrastructure will form part of the strategic needs of the authority. • The development will incur a CIL charge and as such any benefit would be offset by this payment. • Generally, capital expenditure incurred by a local authority must create a tangible asset for the authority, i.e. this approach can generally only be used for infrastructure to be adopted by the Council.	The Council and its partners should: • Assess whether elements of this project should be included on their strategic CIL infrastructure plan. • Subject to being included on the CIL Infrastructure Plan, assess the quantum and timing of income and the impact this could have on supporting the development.
Utilities Re-enforcement	• Utility firms operate a 5 year investment strategy that allows the NCNF to fit in with this timeframe. • There is legal precedence for the	• There is a risk that this approach will be resisted by the utility companies which could delay delivery.	• The Council and its partners should meet and lobby with utility providers to ensure that

	Advantages	Disadvantages	Next Steps
	delivery of this infrastructure by utility companies		the key infrastructure requirements are included in their 5 year investment strategies.
School Provision	• The County Council is better positioned to meet the needs of the community if the provision is in their control. • The County Council is able to better manage the on-going costs of the school provision if it is in their control • There may be opportunities to access EU Funding to deliver schools.	• By looking for external support the delivery of the development could be delayed. • Any application for funding will have to be of sufficient size to attract EU funding. This is generally over £50M, which must be matched funded. • EU Funding could take additional time to secure.	• The Council should work with local public sector partners including the County Council and LEP to assess the appetite of a joined up approach to the delivery of educational assets. • The Council should review current EU funding, including discussion with the EIB, to assess the criteria to access EU Funding for the delivery of educational assets.
Residential Care Homes	• The delivery of the residential care homes could produce an income stream to support capital costs or other infrastructure priorities. • An ageing population means that the need for residential care will increase. Public ownership of these units could reduce the costs to the public sector.	• By looking for external support the delivery of the development could be delayed. • If the Public Sector took ownership of these assets any risks associated with occupation, income and M&M could impact on affordability.	• The Council, County Council and landowners should assess the opportunity for third party delivery of these assets. • If considered an appropriate opportunity, the

	Advantages	Disadvantages	Next Steps
	• The delivery of residential care could form part of a wider housing company structure, providing income into the structure.		Council and its partners should undertake a high level feasibility study to assess the affordability of this opportunity.
Upgrade to the M27	• There is the opportunity to secure grant funding for the upgrade of transport works, this could be through the pinch-point funding programme or the wider devolved major projects programme. • Early delivery of this item of infrastructure could attract current LEP and HCA funding e.g. LIF. • Cost associated with design and studies relating to impact assessment on the T-ENT network may be able to be picked up through EU grant funding.	• By looking for external support the delivery of the development could be delayed.	The Council and its partners should: • Assess the opportunity for early funding bids to bring forward this item of infrastructure at the start of the development; • Work with the Highways Agency to look at the opportunity for grant funding to support delivery. • Consider the benefit of early delivery through the public sector and its statement of intent to the land owners
Council Investment	• The Council can access debt at a cheaper rate than the private sector. In providing investment in to the scheme the Council could reduce the overall cost of funding.	• The Council is exposing itself to additional risk of the development not proceeding. • The Council will need to ensure that it is acting prudently in its	The Council and County Council should: • Work with the landowners to assess the opportunities that

	Advantages	Disadvantages	Next Steps
	• The Council could provide a State Aid compliant loan to landowners. This would enable the Council to make a financing gain, which could be reinvested into the scheme. • The Council can secure any investment through a charge over the land model, which will protect the revenue account and provide suitable security for any investment; • The investment can be tailored and flexible to meet the needs of the developer.	assessment of any investment and supporting cashflows. • Any investment will need to be State Aid complaint, including the inclusion of charges and fees to mirror terms offered by a commercial organisation.	the provision of cheaper finance may give. • Assess whether there are any assets with an associated income that it could delivery and adopt. • Work with the landowners to assess the possible impact of any Council investment on the overall viability of the scheme.
Local Authority Guarantee Take Up	• The Council can increase its affordable housing supply by purchasing housing that is unsold. • The developer is exposed to a reduced sales risk and therefore can attract better rates of finance. • The Council can take the stock at a cost plus price, generally lower that the market value of the unit.	• The Council will have to manage an uncertain expenditure profile should the guarantee be called. • The Council is exposing itself to the risk that significant stock may revert to public ownership.	• The Council should investigate this as a potential opportunity with the landowners and assess whether this would bring forward development in a more timely manner.
Local Housing Company	• A LHC could command additional financial capacity to fund affordable units. • The Council can use supported borrowing to lower costs. • Ability of the LHC to address other	• Council would lose an element of control by entering a multi-party JV • LHC rely on the cross subsidy of affordable and private sales. By taking on additional sales risks the LHC's return and ability to deliver	The Council and its partners should: • Assess the benefits and risks of using an external company to delivery its affordable housing

	Advantages	Disadvantages	Next Steps
	opportunities e.g. ESCO • The LHC can be wider than the NCNF development, thereby mitigating risk • The LHC can take a longer term view based on rental incomes. • The use of an LHC would allow the Council to deliver affordable housing outside the current constraints of the HRA debt cap.	housing may be inhibited. • The objectives of a wide public sector LHC may not be aligned with the specific needs of the NCNF development, thereby inhibiting its ability to deliver affordable housing in a timely manner.	needs. • Ensure the objectives of any LHC are drawn wide enough to meet its needs and requirements in relation to the NCNF development. • Working with the landowners, assess the impact a vehicle could have on improving viability or timing. • Assess the opportunities of a wider more diverse company and the impact on the NCNF development.
MUSCO & ESCO	• The organisations have the potential to generate significant income streams that can be used to support Council priorities • They can be set up to more directly meet the needs of the local community • They can be flexible and more responsive to local conditions including being able to access grant funding.	• They are a relatively new and untested model • There is a risk that the income stream may not be sufficient to meet the organisations requirements. • Depending on the agreement, this could erode the authority's Council Tax base.	The Council and its partners should: • Investigate the merits of such a ESCO/MUSCO vehicle and assess possible funding routes (including soft market testing); • Assess the appetite of the landowners to participate in a Joint Venture approach

	Advantages	Disadvantages	Next Steps
			utilising this structure; • Look at whether the ESCO/MUSCO structure could form part of a wider vehicle delivering a range of services e.g. Local Housing Company.
Self Development of affordable housing	• Can create a profit rent for the Council which can be used to support other priorities. • The Council can increase rents at RPI +0.5 (subject to the constraints of the Local Housing Allowance) whereas the repayment increases at RPI. • The Council is in control of all management aspects of the units.	• Models require land in public ownership. • The local authority provide a rent guarantee that increases the risk to the Council	The Council and its partners should: • Model the impact of the self-delivery model using the expected rental values available; • Investigate the feasibility of a S106 receipt in the form of a land transfer; • Assess the appetite of funders to deliver schemes such as this in the NCNF Development; Discuss with landowners the benefits of this type of deliver on enabling the Development as a whole.
Local Authority Revolving	• The revolving fund allows the Council and its partners to spread risk around	• A significant amount of work may be required in order to set this up;	The Council should: • Engage with its partners

	Advantages	Disadvantages	Next Steps
Infrastructure Funds	a number of developments therefore making investment more attractive through this route; • Any profit made from the investment will generally flow back to the Council (as part of the agreement). This can be used to support other Council priorities; • Funding can be flexibly structured to best meet the needs of the project. • Infrastructure funds can be expanded to include multiple partners, with a range of interests and income streams. In doing this the risk can be further defrayed from a single body.	• The Revolve fund will require a pay back at a State Aid compliant rate and therefore may not be as favourable as other routes; • The size of the Revolving Fund will be dependent on the size of the Authority and its appetite for risk. • By involving a number of partners the flexibility of the vehicle can be reduced.	to determine the appetite for a similar development fund, as a single entity, in partnership or on a County/LEP wide basis
EU Funding	• Significant funding can be secured through this route. • Funding is cheaper than can be obtained through PWLB, with rates typically 20 bps above EU Gilts. • Funding is focussed on key priorities that are included in the NCFC development. • Elements may be secured to deliver SMART Transport solutions. • Funding could be used to support County or sub-regional priorities as part of a wider funding strategy e.g. schools delivery.	• A significant amount of EU funding is required to be repaid; there is limited scope for straight grant. • Match funding from the public/private sector is generally required under the majority of EU funding models. • Bids must be made and passed through an accountable body, which are generally required to produce regular returns. • Bids are likely to be in excess of that required for the NCFC site and may require a regional approach.	The Council and its partners should: • Investigate the opportunity for a regional fund that could deliver infrastructure across Hampshire; • Ensure that the priorities of the development are flexible enough to be adapted to attract any EU Funding; • Discuss with the LEP

	Advantages	Disadvantages	Next Steps
			how EU funding could benefit the region as a whole, whilst supporting the NCNF Development.
Local Government Resource Review (LGRR) – Renewable Energy	• 100% of the business rates from renewable energy are kept locally • The emerging NCNF infrastructure requirements include a £12.7M renewable energy plant that will attract business rates for the Council • Business rates will not be ring-fenced and can be used for any Council priority.	• There is the potential for the rates retention to be spilt across tiers meaning the total take is reduced.	The Council and its partners should assess: • The significant scope for the Council on its own, or through an ESCO JV to provide support through LGRR. This support could be used to support the capital costs of the energy units or as working capital for the on-going maintenance. • Retained Rates, which will not be ring-fenced and should be used to support any infrastructure provision on the NCNF Development
Overage Agreements	• The Council can maintain a more policy compliant development. • The viability of the scheme is improved in the early years by helping to	• There is a risk that upon completion the level of affordable housing will be below a policy compliant level. • The open book policy can be	The Council and its partners should: • Assess the impact of such an agreement on

	Advantages	Disadvantages	Next Steps
	developer a faster delivery programme. • As land values increase, housing can be delivered through direct provision or a commuted sum. • Agreements can be written to secure above policy outcomes, subject to developer super profits	difficult manage and may require additional monitoring.	the overall viability of the scheme; • Work with the landowners to assess how in practice this could be delivered; • Assess the minimum level of affordable provision that could be delivered on the site, using this as a base for negotiation.
Local Government Resource Review (LGRR) – Business Rates Retention	• Rates increase will be largely "additional" due to the unique nature of the Development and the suggested employment space. • The inclusion of Public Sector money and the covenant that money brings will often encourage private sector lenders to invest in schemes that they previously would have avoided. • The new powers will give the Council the ability to attract business by giving a reduced NNDR charge, thereby encouraging business growth and pre-sales. • Under LGRR the local authority has the ability to set up a TIF type structure, ring-fencing all business rates to	• The Council is likely to find itself as a Top Up authority at least until the first rates reset. • There may be elements of displacement that could impact on the overall business rate take by the Council. • Generally, capital expenditure incurred by a local authority must create a tangible asset for the authority, i.e. this approach can generally only be used for infrastructure to be adopted by the Council. • The Council must balance its borrowing requirement against other Council priorities in order to demonstrate value for money of	The Council and its partners should: • Assess the ability of the LGRR to support the development post the first rates reset in 2020. • Assess the flexibilities available to encourage business growth by providing rates relief.

	Advantages	Disadvantages	Next Steps
	support the Development.	any investment. • Based on the current rules regarding Business Rate Retention it is unlikely that a TIF would be advantageous for this development.	
Joint Ventures Development	• The Council could take an equity stake in a JV development vehicle thereby sharing the risk on those elements it is most able to add value to; • The PPP spreads the risk away from one party making it more attractive to both; • The deal would offer a potential upside for the Council in exchange for the additional risk.	• The Council will be mindful of the risks associated with the project and may require security over and above that which is normal in such a transaction; • The Council would have to look at which vehicle best allows them to invest in the project, this may differ from the most commercial advantageous. • The success of this vehicle will be dependent on the value of the assets placed in the vehicle as the public sector equity stake. If the vehicle is not large enough the set up fees become prohibitive; • Development partnerships can be costly to set up	• Discussion should be used to inform the likelihood of this approach succeeding, however, initial discussions suggest that the landowners do not look favourable on this approach.

Summary

8.9 The funding strategy needs to be a dynamic assessment of opportunities and as other opportunities develop then the development needs to be flexible enough to access these as then are identified.

8.10 Once a preferred solution or a suite of preferred solutions are identified the Council and other public sector bodies will be required to internally assess each opportunity against a number of criteria.

8.11 Appendix B details a number of considerations that the Council should to consider when assessing each opportunity. Stage 2 of this work will develop each of the preferred options against these suggested criteria to support the future approach of Fareham Council to the NCNF Development.

8.12 In considering a suite of funding solutions the Council may wish to combine a number of the opportunities identified into a single source or fund. A number of Council and Public Sector Bodies are looking at the concept of a Revolving Fund to address their needs and reduce the risk of a single approach.

9. Recommendations and Action Plan

9.1 This report has assessed a number of opportunities and structures that could be used to delivery significant investment in to the NCNF 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.

9.2 The report notes that a number of the finance sources and repayment are uncertain and that where funding is linked to delivery there is a higher risk to these income streams.

9.3 In order for the Council to maximise the impact of any intervention, whilst reducing the risk to an acceptable or manageable level the Council should look to use a wide range of finance and funding tools to deliver elements of the scheme.

9.4 One way to draw all finance and funding sources together could be through the use of a revolving fund mechanism.

9.5 This section looks at the applicability of a revolving infrastructure fund to the development of an integrated funding strategy.

Revolving Fund Approach

9.6 The Council should look to establish a form of revolving fund approach, possibly in partnership with other bodies, whereby the Council utilises its borrowing powers, income base, assets and the strength of the local authority's covenant, to help provide the necessary financing for investment in to the development, either alone or through a fund, in return for contributions over time.

9.7 As this Revolving Investment Fund is established, investments are then made to finance infrastructure interventions which currently cannot be funded upfront by direct contributions form developers and the private sector. The interventions are repaid from either future developer contributions unlocked or from loan repayments from developers.

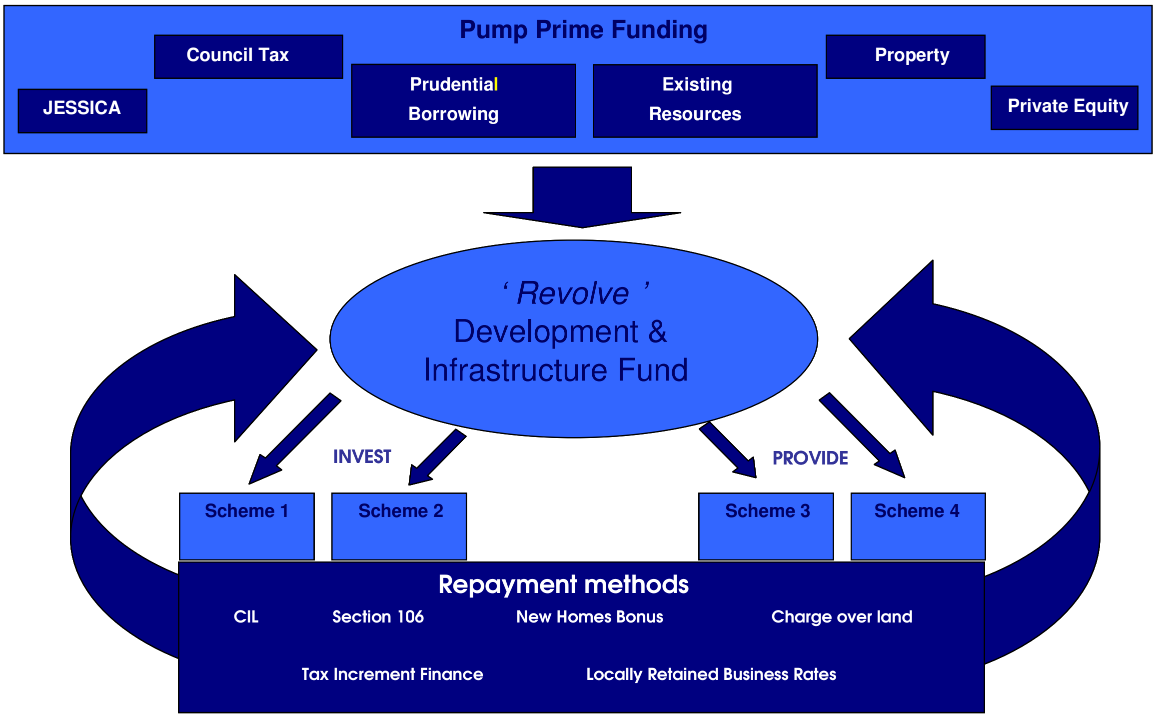
9.8 This fund could be financed from a combination of the approaches appraised above including available finance routes, capital receipts, use of reserves, direct revenue contribution, unlocking the value in its assets, prudential borrowing, utilising future developer contributions, hypothecating council tax and business rates.

9.9 The fund would make strategic interventions where strategic infrastructure cannot be funded by direct contributions form developers and the private sector. However, this intervention will be based on criteria set out by the Council and it is anticipated that only a relatively limited amount of the total infrastructure will be provided in this way.

9.10 A number of criteria will be developed with the Council to define this preferred solution, but is likely to include the elements summarised below:

- Ability to generate revolving returns that fund multiple schemes over time;
- Maximise 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;
- Maximise the potential investment of other public sector bodies, such as the local LEP, the County Council, European Investment Bank (EIB), and other grant investment approaches from the UK Government; and
- Fast implementation of the chosen solution to ensure the funding mechanism can be put in place in the short term.

Figure 9.1 – Revolving Fund Approach



9.11 The application of such a fund will be considered in Phase 2 of this Funding Strategy and assessed in terms of the funding streams identified in Table 8.1, the needs of the development and new sources of finance and funding that are identified.

Appendix A – Public Sector Sources of Finance

Local Authority Finance

1.1 A local authority can utilises powers under the Prudential Code to borrow to finance the infrastructure or development needs of a particular site.

1.2 The Local Authorities (Capital Finance and Accounting) Regulations 2003 contains the primary legislation for the current capital finance system (the "prudential system") for local authorities.

1.3 The introduction of the Prudential Capital Finance system on 1 April 2004 allowed local authorities to have relative freedom to make their own investment decisions, albeit governed by The Prudential Code for Capital Finance which aims to ensure that capital investment plans are affordable, prudent and sustainable.

1.4 Section 12 of the Local Government Act 2003 grants local authorities the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs".

1.5 Sources of finance are wide and varied, with local authorities permitted to secure debt from a wide range of sources, albeit in a prudent manner with risk and liquidity an underlying consideration. However, when assessing this as an option most local authorities will first look to the Public Works Loans Board (PWLB) to secure finance.

1.6 PWLB loans are essentially loans from Central Government. Rates are set twice during the day at a rate approximately 80 basis points above the prevailing UK Gilt rate.

1.7 In accessing finance in this manner a local authority must demonstrate, in acting prudently, that a secure income stream is available to support the costs associated with the debt.

1.8 When calculating the levels of income needed to repay the expenditure the authority will have to account for the finance cost of any borrowing used to fund the infrastructure or development up front, as payments with PWLB will commence as the borrowing is drawn.

1.9 In terms of the revenue cost to the Council of taking out loans in this manner, there are a number of considerations:

- Interest cost of borrowing –dependant on rate and loan duration;
- Statutory revenue charge i.e. transfer to the revenue account; and
- Arrangement and set up costs (depending on the source of finance)

1.10 The interest costs of prudential borrowing, currently in the region of 4.21%[6].

1.11 An additional revenue charge will also be required to repay the advance of cash from the PWLB, known as the Minimum Revenue Provision this is generally based on the asset life of the related asset.

1.12 When considering the full cost of borrowing to finance gaps in the capital programme the Council must ensure that a prudent provision, to cover all those charges detailed above, is made. Where borrowing is taken out to cover an asset that non-operational, the Council has the option to defer the MRP payments until this asset is bought into use.

1.13 Major infrastructure assets may have an asset life in excess of 30 years, with scope for providing up to 60 years for works done under the Housing Powers. A local authority must therefore be able to demonstrate that it is providing for repayment of debt over a defined period to satisfy this requirement.

1.14 The use of Prudential Borrowing for economic development and regeneration purposes has significant potential. There may be potential for local authorities to use Prudential Borrowing to fund infrastructure projects and development projects including site assembly and transportation projects subject to meeting the relevant financial regulations and criteria.

1.15 There are specific regulations relating to the use of Prudential Borrowing and, in particular, one of the key criteria is that it must be used in respect of investment in respect of an asset owned by the local authority. This constraint may therefore limit its application to some larger aspects of infrastructure projects which require to be provided on third party land.

Central Government Funding

Locally led large-scale housing sites

1.16 The government is determined to do all it can to ensure more new homes are delivered quickly. It is committed to working in partnership with local authorities and other partners to accelerate the delivery of large housing schemes where there is:

- local support for growth;
- strong demand for new homes; and

[6] Based on PWLB borrowing taken on a 25 year maturity profile (Interest Rate Notice Number 090/13 - 5 March 2013)

- good prospects for early delivery.

1.17 On 22 November 2012, the Deputy Prime Minister announced a programme of £474M in local infrastructure government support to help progress development on large-scale sites that support both housing and commercial development including:

- supporting local capacity;
- working across government to resolve barriers to delivery; and
- providing access to capital funding where appropriate.

1.18 On 25 February 2013, the government published the Local Infrastructure Fund prospectus, which details the criteria against which interested parties can apply.

Case Study – New Cranbrook Community

The new Cranbrook community in East Devon, has the capacity to deliver some 6,000 new homes over the period 2012 to 2026. Almost a third of all housing required in the wider Exeter area is directly dependent on the successful delivery of the site.

Phase 1 of the development is already underway, funded by a £12 million repayable grant from a revolving infrastructure fund managed by the Homes and Communities Agency and being repaid on a roof tax basis. Using this funding the developer (the Cranbrook New Community Consortium) can build 1,120 homes by 2015, along with building the main access route into Cranbrook, the Clyst Honiton Bypass and a primary school.

Investment

Government investment of £20 million will provide:

- £10 million for a new secondary school
- £4 million for a second primary school
- £6 million for infrastructure and services to create a new high street for the town centre and commercial areas

This investment will ensure continuity of the scheme, securing the delivery of phase 2, while putting in place the capacity for up to 6,000 homes on this site.

Impact

Government's investment, subject to due diligence, will directly unlock phase 2 and provide the infrastructure and school facilities that will give local partners the confidence to build an additional 2,380 homes by 2019. It will also enable the developer to put in place enough infrastructure to support 6,000 homes.

In addition to the housing, government investment will help create the confidence to bring forward the new town centre and support the realization of the full ambition for the scheme. It will also provide employment (1,500 jobs) and

Growing Places Fund (GPF)

1.19 The Growing Places Fund was announced by Government in October 2011 as an essential measure to realise the nation's ambition for continued housing and economic growth.

1.20 In the current economic climate, many otherwise viable schemes are unable to proceed because capital constraints have reduced the flow of investment into physical infrastructure to unlock development (e.g. transport, utilities, flood defence), stymieing the creation of much-needed homes and jobs.

1.21 The aspiration of the GPF is to focus on unlocking deliverable projects through investment in infrastructure which can start or re-start very soon whilst achieving good value for money.

1.22 The Government has suggested that GPF should operate on a "Revolving" model, whereby resources spent are replenished though income received from the successful development.

1.23 Many GPFs are looking at a number of options for doing this with a preference for funding support through:

- Loans at commercial rates
- Equity investments on equal basis
- Equity investments with recovery in part as above and in part at pre-agreed thresholds.

Get Britain Building

1.24 Announced through Government and under the remit of the HCA for bids in March 2012, the £560M investment programme aims to unlock stalled sites with planning permission to support construction activity and restart work on sites.

1.25 It is intended to address difficulties in accessing development finance faced by some housebuilders and to help bring forward marginal sites by sharing risk.

1.26 The HCA will not fund schemes which would be funded in the absence of Get Britain Building. Homes and Communities Agency investment will not substitute for existing development finance.

1.27 On all sites the HCA will look at providing the minimum funding required to allow the scheme to progress, that the developer is making an equity contribution and that the Homes and Communities Agency funding is below a maximum of 50% of project costs.

1.28 Each project will require a full property due diligence to assess the viability of each bid. Based on this the most appropriate minimum funding structure, be it debt or equity, required to deliver the project is formulated.

1.29 This analysis includes a fully risk, including State Aid, assessment and looks at how best the HCA can protect and recover its investment.

Regional Growth Fund

1.30 On 29 June 2010, the Deputy Prime Minister launched a £1 billion Regional Growth Fund to provide support for projects that offer significant potential for sustainable economic growth and can create new private sector employment. The fund will particularly help areas and communities currently dependent on the public sector make the transition to private sector led growth and prosperity.

1.31 The Regional Growth Fund (RGF) is now a £2.4bn fund operating across England from 2011 to 2015. It supports projects and programmes that lever private sector investment to create economic growth and sustainable employment. It aims particularly to help those areas and communities which were dependent on the public sector to make the transition to sustainable private sector-led growth and prosperity.

1.32 The first two rounds have had a strong take-up with conditional allocations made to 176 bidders which will help to leverage over £7.5bn of private sector leverage and deliver around 330,000 jobs if successful.

1.33 Key points of the Government's RGF programme are:

- The RGF will be flexible, with bidders able to submit bids either as a project; or a package of projects; or a programme.
- The RGF will not duplicate existing funds, and where appropriate it will align with other funds.
- The RGF will have a minimum bid threshold of £1 million.
- £1.4 billion will be made available through the RGF, over a three year period.
- Guidance will be published that will set the RGF's criteria and details around Green Book and EU State Aid compliance. The application form will be designed to capture information that satisfies the criteria and requirements.

Green Investment Bank

1.34 The Government announced plans to provide funding of up to £1 billion for a Green Investment Bank (GIB) in the Comprehensive Spending Review. The intention of the fund is to provide organisations with the financing they need for technology and projects which will help the UK make the transition to a low-carbon economy.

1.35 Initially £1 billion of funding will be allotted, and this will be supported by "additional significant proceeds from the sale of Government-owned assets, to catalyse additional investment in green infrastructure". The fund is expected to begin lending in September 2012.

1.36 This could be a source of funds from Central Government for economic growth schemes which support the transition to a low-carbon economy.

Infrastructure Bank

1.37 Significant and ongoing discussion is currently underway to set up a UK National Infrastructure Bank. A recently released report's principal recommendation is for the Government to create and help capitalise a new £30 billion National Infrastructure Bank (NIB).

1.38 The aims of the new NIB would to drive growth in the economy by allowing infrastructure delivery through:

- Spread risk for investors by investing in a wide range of projects
- Lend to private and public organisations to fund the construction of new infrastructure (e.g. bridges, roads, broadband, and local power stations)
- Invest directly in infrastructure projects; and
- Guarantee other banks' loans to fund infrastructure

Public Sector Pension Funds

1.39 The Local Government Pension Scheme (LGPS) is one the UK's largest public sector pension scheme with over 4.6 million members. The scheme is administered locally for participating employers through 99 regional pension funds.

1.40 With assets of over £143BN[7] there is significant potential for the scheme to invest in suitable high quality assets.

1.41 As the Government looks at options to fund the estimated £250BN of infrastructure required in the UK, it has suggested that the LGPS should be investing in infrastructure programmes across the country.

1.42 There are signs that the LGPS is becoming increasingly interested in infrastructure investment – Berkshire, Essex and Tyne and Wear are but three local government

[7] Independent Pension Consultant - John Ralfe

funds to have recently raised their investments in this area in addition, Manchester City Council looking at strategic local property acquisitions to boost the local economy.

1.43 Indeed one other way of the LGPS and other pension funds, with access to approximately £2TR of assets could be encouraged to invest in the National Infrastructure Bank already mentioned.

Local Authority (Revolving) Infrastructure Funds

1.44 The establishment of such a funding mechanism would involve significant risk management to protect a Council's financial and legal interests. Any such funding mechanism would be regarded as a measure of last resort rather than the local authority acting in competition to normal commercial lending institutions.

1.45 The fund would only be used as an alternative funding resource where a developer was unable to secure funding on normal commercial terms through traditional bank borrowing. It may, however, be used if a developer was unable to secure sufficient funding for any particular development and additional funding was required to bridge any shortfall to permit the development to proceed.

1.46 In any event a Council would be required to ensure that it did not breach any State Aid subsidy rules where it may be argued that the local authority was acting uncompetitively by providing funding at below normal commercial rates.

1.47 An infrastructure fund may potentially be a key mechanism to unlock the delivery of new infrastructure and development by acting as a direct funding mechanism for the private sector in the absence of which development sites may remain undeveloped.

Joint Venture Development Vehicles

Local Asset Backed Vehicles

1.48 One option for local authorities to raise substantial funding for infrastructure projects would be establish a Local Asset Backed Vehicle (LABV).

1.49 This would involve the Council transferring a proportion of its property assets into a development company and at the same time securing the investment of a joint venture partner who would invest cash or a similar value of resource as its share in the joint venture company. The vehicle would then, in theory, be able to raise funding through normal commercial routes.

1.50 The authority could secure a significant source of capital funding for investment in new infrastructure within its area. The vehicle would then work towards securing an uplift in the values of the assets under its control through effective management and development.

1.51 The vehicle would through the capital receipts and rental income repay any finance debt and the re-distribute profit between the local authority and private sector partner.

Case Study – Croydon Council Urban Regeneration Vehicle (CCURV)

CCURV was developed in order to deliver a major new public service delivery hub, and develop initial development schemes and subsequent future projects within Croydon in a way which allowed more strategic development, ensuring the sustainable regeneration of key strategic sites and allowed greater flexibility in the use of any funds generated from the portfolio.

The Council wished to procure a strategic development partner to form a joint venture property partnership to take forward and develop out a mixed use development portfolio with a potential gross development value in excess of £450 million and to address the accommodation requirements of the Council over the short, medium and long term. They therefore signed a partnership with John Laing to deliver development through a joint venture company over a 25 year period.

This partnerships allows them to utilise the value of the sites they own to incentivise an injection of private sector equity and funding to develop infrastructure and development sites throughout the Borough in an integrated strategic way thus addressing infrastructure requirements, regeneration objectives and providing financial return to the Council

Local Incentive Backed Vehicles (LIBV)

1.52 As a response to the recession, a further variation of a Local Asset Backed Vehicles is emerging, namely, Local Incentive Backed Vehicles.

1.53 The use of LABV was attractive to local authorities and other public sector agencies at a time when the property market was buoyant and the public sector organisation could be confident that it was achieving the best price for its assets.

1.54 During the current economic recession this is not the case and market values have in most cases declined significantly. A Local Incentive Backed Vehicle differs from a LABV in that the authority's assets would not be transferred into the vehicles at day one but the private sector partner would only secure assets through property options and the sites only transferred to the vehicle as and when the market improves and the desired objectives for both parties can be delivered.

1.55 In such a scenario, the authority can still secure a long term partnership with a private sector partner to use that partner's development skills an expertise in creating long-term growth in asset value and investment in regeneration and infrastructure projects.

1.56 The vehicle should also be able to lever additional third party debt. In addition to private sector investment and/or debt such a vehicle could also be used to lever public sector funding through the JESSICA (Joint European Support for Sustainable

Investment in City Areas) programme being developed by the European Commission and the European Investment Bank.

1.57 It is understood that such funding would be available through long term loan agreements, guarantees or equity investment and that funds can be recycled for future projects. JESSICA funding would require match funding using other public assets i.e. cash and property. It can therefore be seen that a LIBV would potentially provide a suitable vehicle in order to lever both additional private and public sector funding.

Local Authority Development Company

1.58 In this scenario the authority would create a subsidiary property development company into which the authority's non-operational assets, either in whole or in part, would be transferred.

1.59 In this scenario the company would manage the assets and any capital receipts, development profit and rental income would be re-invested through further development projects either directly or through joint ventures with private sector development partners. The aim would be to invest in projects which met the regeneration and economic development objectives of the authority.

1.60 Such a proposal would be that the development company would be able to recycle any revenue in property related development projects for the long term economic and regeneration of the local authority area.

1.61 It may be that the development company could also raise additional funding through long term borrowing based on the company's rental income and asset value of its property portfolio.

Appendix B – Criteria for assessing opportunities

Reference	Criteria	Explanation
A	Implementation costs	What are the implementation costs of this solution, and are these prohibitive to its implementation?
B	Complexity	Does the solution require complex structures to be set up, complex financial and legal agreements or will be hard to understand for members, officers and developers?
C	Economic Benefits	What are the economic benefits of each approach? Do they provide value for money, economic benefit to the area / industry and how do these relate to alternative solutions?
D	Infrastructure Benefits	Does this deliver the infrastructure benefits required and if so how effectively?
E	Resource Implications	What are the ongoing resource implications of the solution, what is the effect on the Council's budgets and accounts?
F	Risk	What are the risks inherent in this approach and is this matched by the rewards?
G	Relevance	Does the approach meet the requirements of delivering large scale strategic infrastructure that will unlock the development?
H	Governance Issues	What is the governance approach for the solution? Is it complex and does it require significant time or resources to set up and run?
I	Timescale for Implementation	How long does the solution take to implement>? Is this prohibitive to its usage?
J	Added Value	Does the solution offer added value over and above the direct goals of providing large scale strategic infrastructure?
K	Market Appetite	What is the market appetite to support the solution in question?
L	Political Acceptability	Is the solution politically acceptable to the Authority and other stakeholders?