

**WELBORNE
INFRASTRUCTURE FUNDING STRATEGY**

**FAREHAM BOROUGH COUNCIL
POSITION STATEMENT UPDATE**

JUNE 2014

Summary

This statement sets out Fareham Borough Council's strategic position on options for funding infrastructure associated with the proposed Welborne development to the north of Fareham. It updates the Council's position from the statement made in April 2011 and previously updated in January 2014. It remains a statement of the Council's position at a point in time and is expected to continue to evolve.

The Council is clear that this large complex project, being developed in a volatile market and policy environment, requires a joint long term, innovative and more risk-tolerant approach to the delivery and funding of infrastructure, involving a range of partners including the Solent Local Enterprise Partnership (LEP) whose Solent Strategic Economic Plan places a high priority on the implementation of Welborne, the Homes and Communities Agency and the County Council. Initial modelling work undertaken in development of the Council's Infrastructure Funding Strategy for Welborne confirms that such an approach could make a significant beneficial impact on the viability of the Welborne development and hence its ultimate quality. The Council recognises, however, that a significant proportion of the required funding will be provided by developers. Continued effective community engagement will be essential throughout the project.

The expectation is that the site promoters will be focusing on the delivery of direct enabling infrastructure to unlock the development, such as access points and internal road networks, ensuring sufficient energy, water and waste capacity exists to serve the site, putting in place robust on-site drainage systems, and the delivery of the residential, commercial and retail development which will form the bulk of the new community and provide private funds for infrastructure outlined.

Evidence produced by the Council's consultants has indicated that financial viability is a key challenge for the Welborne project. This has highlighted some key areas where the Borough Council may go beyond its planning role and take the opportunity to lead on shaping the development of Welborne. In addition to its statutory role as Housing Authority and provider of public services, the Council has a wider remit in place making and providing community leadership. These areas include affordable housing, securing delivery and on-going maintenance of open space, and community infrastructure as they are directly related to the Council's interests.

The Council is working with partners (including the landowners) to explore further, innovative mechanisms for managing resources and financing investment in infrastructure including Funding and support mechanisms such as re-investment of New Homes Bonus, public sector grants and loans (including loans secured through charges over land), loan guarantees, overage arrangements or buy back arrangements (e.g. in conjunction with the Council's new Housing Joint Venture company). If appropriate the Council will also consider developing a flexible approach to investment and funding through the creation of a revolving "Infrastructure Fund".

The Council is working with its partners to ensure that a range of infrastructure projects are developed to enable a rapid response to funding opportunities as they arise. The Council expects the developers to make a substantial contribution to the costs of such preparatory work.

Introduction

1. The Core Strategy includes proposals for a new settlement to the north of Fareham (now named Welborne). Detailed plans for the development have been published and include approximately 6,000 new homes, supporting businesses, open space, public transport and highways, schools, shops, health and community facilities.

2. Welborne will require substantial infrastructure investment including:

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| • Affordable housing | • Energy supply infrastructure including potential renewable energy (and heat) generation |
| • Transport infrastructure (highways and public transport) | • Water supply and waste water infrastructure |
| • Education & pre-school facilities | • Waste management infrastructure |
| • Health and Care facilities | • Telecoms infrastructure |
| • Green and environmental infrastructure | • Workspace and business support facilities |
| • Sports and leisure facilities | |
| • Community facilities | |
| • Public realm investment | |

3. Recognising the scale of the Welborne proposals, complexity of market conditions and the Council's high aspirations for sustainability and quality, an innovative, long term, joint approach to infrastructure funding is required, led by the Council. This is likely to require a more risk-tolerant approach by the Council and its partners (including developers) to secure the necessary scale of investment. A range of financing mechanisms will be required to support the principal funding source (developer funding), many of which are either new or in development. The Council's key objectives in adopting a more proactive approach to infrastructure provision for Welborne are to:

- support the viability of the scheme overall to ensure that maximum public benefit is derived from it;
- help smooth or bridge cash-flow requirements for the development to support its timely delivery;
- ensure that key infrastructure requirements are met in a timely fashion; and
- add value by bringing forward infrastructure delivery and/or by enhancing the quality of the development.

4. **This statement sets out the Council's position on key aspects of such a joint approach, as at June 2014.** The Council expects its position to evolve in the light of: developing Government policy, further research (including specialist and technical advice) and through ongoing work with landowners, developers and other key partners.

Critical relationships

5. The Council is committed to maintaining proactive and positive engagement with the existing communities in and around the Borough of Fareham, and over time the emerging new community in Welborne, as detailed plans and associated infrastructure requirements are developed and implemented.

6. Furthermore, the Council recognises the critical importance of its relationships with public sector partners, the Solent LEP and the developers in ensuring effective, timely and coordinated delivery of the infrastructure necessary for Welborne. Of particular importance are Hampshire County Council (HCC), the Highways Agency, central Government and the Homes and Communities Agency. Relationships with neighbouring local authorities, PUSH and a wide range of other Government agencies are also very important.

A Flexible Approach

7. The Council recognises that the development itself will provide the most significant source of funding for infrastructure. However, the scale is such that innovation and flexibility through a multi-channel approach to funding infrastructure is required if Welborne is to be delivered to the required timescales, quality requirements and remain viable.

8. With a construction period of over 20 years, infrastructure requirements have been prioritised and phased through an Infrastructure Delivery Plan (IDP) and flexibility is required in the way that funding is applied over the course of the development. The Council is keen to make the most of the opportunities arising from the full range of funding channels and to develop innovative joint approaches with developers, without undermining more traditional funding sources. Future planning and development arrangements must, therefore, recognise the need for flexibility in how funds are applied, so these opportunities are not unduly constrained. If appropriate, therefore, the Council will explore how the use of a revolving Infrastructure Fund could be applied to the development.

9. While funding will be attributed to individual infrastructure needs (and some funding sources will be ring-fenced to specific projects and/or will have specified timescales), the application of funds will need to be flexible to have the maximum impact in supporting delivery. It is envisaged that such an approach would enable funding to be accumulated and applied to priority infrastructure needs, while at the same time being available to leverage additional funding streams as they arise. Strong governance arrangements will be required to ensure that sufficient funding is accumulated to meet long term demands and compliance with the requirements of specific funding sources. Our expectation is that the site promoters will (where public sector support cannot be secured) be focusing on the delivery of direct enabling infrastructure to unlock the development, such as access points and internal road networks, ensuring sufficient energy, water and waste capacity exists to serve the site, putting in place robust on-site drainage systems, and the delivery of the residential, commercial and retail development which will form the bulk of the new community and provide private funds for infrastructure outlined.

10. The Borough Council may go beyond its planning role and take the opportunity to lead on shaping the development of Welborne. In addition to its statutory role as Housing Authority and provider of public services, the Council has a wider remit in place making and providing community leadership. These areas include affordable housing, securing delivery and on-going maintenance of open space, and community infrastructure as they are directly related to the Council's interests.

Developer funding

11. The Council is clear that the developer must pay its fair share of infrastructure costs, either through direct provision or through planning obligations. The Council expects that together this will form the largest single contribution to infrastructure investment over the lifetime of the development. The Council has, through the IDP, defined and prioritised the infrastructure requirements based on its concept masterplan for the development. The prioritisation of the infrastructure requirements provides a guide to considering the infrastructure requirements of each phase of development and of the development as a whole.

12. The Council indicated in its Local Development Scheme and the Publication Draft Welborne Plan that the current CIL charge will be reviewed to reflect the viability evidence for Welborne. It has, therefore, recently prepared a draft Welborne Planning Obligations and Affordable Housing SPD. This states that:

“The Council intends to implement the advice received from GVA and maximise the use of s106/278 which provide greater flexibility than CIL in terms of setting trigger points for key infrastructure delivery required at Welborne and allow for the use of a deferral of contributions policy which is a key part of the approach to ensuring that the Welborne Plan can operate in a flexible way. Indications are that once the necessary s106/278 costs have been met, there will be insufficient headroom to support any CIL contribution on the Welborne site as well. This has resulted in a proposed ‘zero’ differential rate for Welborne which will be tested at the forthcoming CIL examination.”

13. Over the period of the whole development a flexible approach will be adopted to the application of developer funding to take account of changes in market conditions, any further changes in governing legislation, and funding secured from other sources (recognising that some third party funding sources will only be available for particular types of infrastructure).

14. The Council's position on funding arrangements for key types of infrastructure is set out below.

Public sector support

15. Central Government support for large scale developments continues to be available, often channelled through Local Enterprise Partnerships. This includes funding such as the Local Infrastructure Fund and Local Growth Fund and LEPs' Local Growth Deal proposals. In general the support available is in the form of loans or loan guarantees to reduce the costs of financing, although grant funding is sometimes available. The Council, the developers and other partners are actively exploring these options for larger scale infrastructure requirements such as transport infrastructure, with a view to incorporating such support into the overall package of funding for Welborne infrastructure.

16. The County Council has submitted a proposal to the Solent LEP for £41.2m of grant funding for critical access improvements associated with Welborne, namely improvements to junction 10 of the M27 and various other improvements to the local road network. The

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developers have submitted a proposal to the Solent LEP for £24m of support associated with utilities and site access infrastructure for Welborne. In addition, the developer has submitted an application to the Homes and Communities Agency's Local Infrastructure Fund for £45m of support for infrastructure associated with Welborne.

17. It is further expected that proposals will be submitted in due course to other Government funding programmes for infrastructure associated with large scale developments such as the Large Sites Infrastructure and the Garden Cities Programmes.

18. Other options for public sector support for infrastructure funding include:

- direct investment by public sector actors through direct loans or equity stakes (e.g. through joint ventures);
- local housing companies or joint ventures with registered Providers including self-development options for affordable housing (see below);
- public sector guarantees, either for loans or through guaranteed housing but back schemes; and
- charge over land secured lending by local authorities or other public sector actors.

19. The Council is committed, subject to continuation of the policy at a national level, to ensure that New Homes Bonus receipts arising from dwellings completed in the new community at Welborne will be spent within the new community. The Council's intention is that this funding will be used to further the priority objectives of the Council and support delivery of a new community at Welborne in accordance with the framework set out in the Welborne Plan. This might include third party land acquisition, open space adoption, non-essential infrastructure or on-going maintenance of infrastructure adopted by the Council, such as open space or leisure facilities.

20. The scope for use of locally retained business rates to fund infrastructure projects or to support borrowing is limited due to the limited funding the Council expects to receive through this mechanism.

Affordable housing

21. Government policy and the scale of the Welborne development make it unlikely that significant Government funding will be available for affordable housing. The Council also expects that affordable housing in Welborne will be provided by a mix of Registered Providers and directly by the Council.

22. Therefore, beyond developer contributions, funding will mostly only be available from borrowing/capital investment by Registered Providers and/or local authorities. This is why the Council considers affordable housing to be a high priority for use of developer funding.

23. With limited borrowing headroom in the Council's Housing Revenue Account, the Council is exploring and developing innovative approaches to funding affordable housing, such as overage arrangements or commuted sums for off-site provision. The Council has already set up a Joint Venture with Eastleigh Borough Council and two Registered Providers

to enable direct investment in affordable housing as part of this approach. In addition, the Council will encourage private sector/third party investment in the delivery of affordable housing, and will therefore is exploring private sector landlord models emerging elsewhere in the UK. Other options, such as Community Land Trusts, self- or custom-build will also be explored for small scale, specialist projects.

Transport Infrastructure

24. Government grant funding for major transport infrastructure remains limited, although this may change over the development and construction period and, as outlined above, it is possible to secure funding for transport infrastructure associated with major development such as Welborne. The County Council and the developers have, as stated above, applied for such funding recently. In addition, there are other potential sources of funding for transport infrastructure but these too are limited in scale and therefore, the Council continues to place a high priority on transport infrastructure for use of developer funding.

25. Recognising the scale of investment required in transport infrastructure associated with Welborne, the Council, in partnership with Hampshire County Council, the Highways Agency and the developer, is proactively exploring the potential for securing funding through:

- Grant funding: including the applications for funding already made and describe above. In addition, the Council will seek grant funding (where available) to improve the quality of transport infrastructure over and above what may be necessary to facilitate the development and where that improvement has wider benefits. The Council expects that it will also be efficient to prioritise seeking funding for off-site infrastructure and specialist provision such as walking, cycling and public transport facilities. It will therefore seek to work with developers and other partners to ensure that as many schemes as possible are sufficiently developed to enable a rapid response to funding opportunities as they arise. The Council expects the developer to make a substantial contribution to the costs of such development work. In addition, EU funding on a wider scale (sub-regional) may be a possibility.
- Innovative funding mechanisms: e.g. loan guarantees or support (within State Aid rules), charge over land financing or other forms of borrowing to be financed or secured through new income streams arising from the construction of Welborne and associated infrastructure.

Education and pre-school facilities

26. A further high priority will be education and pre-school facilities. The Council will, nonetheless, explore proactively with its partners, including the developer and the County Council, options for combining school provision with other community facilities to maximise economies of scale. It will also explore the potential for realising investment capital from the rationalisation of other assets in Hampshire and/or other forms of public sector financing support.

Renewable energy and low carbon infrastructure

27. There are a number of mechanisms available to support investment in renewable energy and low carbon infrastructure in new and existing developments. These include

mechanisms for income generation and structural approaches such as Energy Service Companies (ESCOs) and Multi-Utility Service Companies (MUSCOs). The Council has an open mind at this stage on the merits of such investments given its duty to safeguard public funds and the potential to generate additional income. In addition, it may be possible to use locally retained of business rates to support borrowing for renewable energy provision.

Other infrastructure requirements

28. For other types of infrastructure there is likely to be more potential for securing funding from other sources to supplement developer funding. However, at this stage it is difficult to be specific about which sources have the greatest potential (or will even exist) beyond those currently available (such as those described above). The Council, therefore, favours an approach that includes:

- working with utilities companies to ensure only an appropriate proportion of the costs of off-site reinforcement of infrastructure fall to the Welborne development;
- ensuring that a range of projects across all types of infrastructure are developed in sufficient detail to enable a rapid response to opportunities for funding as they become available. The Council expects the developer to make a substantial contribution to such preparatory work;
- exploring the potential for community-based ownership and operation of community assets to open up new funding opportunities, reduce ongoing public sector liabilities for maintenance and operation and, importantly, to provide a potentially powerful mechanism for community engagement in the development of Welborne;
- working with the County Council to secure land within the development for provision of care home and similar provision, the construction and operation of which is expected to be financed from sources other than developer contributions; and
- investigating the potential for a more entrepreneurial, investment oriented approach to funding, e.g. where developer or council borrowing can be supported by new income streams generated from Welborne.

Key next steps

29. The Council considers that the key next steps in developing a detailed approach to funding infrastructure associated with Welborne are to:

- Pursue funding opportunities as and when they arise in the short term;
- Develop further the infrastructure funding work with key partners, in particular (but not limited to) Hampshire County Council, Solent LEP, the Homes and Communities Agency and the developers.
- Undertake initial soft-market testing of investment and support options with potential financiers.
- Keep the Infrastructure Funding work under review.