STEVENAGE BOROUGH INFRASTRUCTURE FUNDING STRATEGY

Final Report

September 2015

Prepared for:

STEVENAGE BOROUGH COUNCIL

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AECOM are not aware of any conflict in interest relating to the provision of this report.

CONTENTS

ABBREVIATIONS

CCG	Clinical Commissioning Group
CIL	Community Infrastructure Levy
HCC	Hertfordshire County Council
IDP	Infrastructure Delivery Plan
LEP	Local Enterprise Partnership
LTB	Local Transport Board
m	Million
NHB	New Homes Bonus
NPPF	National Planning Policy Framework
RIF	Revolving Infrastructure Fund
SBC	Stevenage Borough Council

1 INTRODUCTION

1.1 Context and Scope

1.1.1 AECOM Infrastructure and Environment UK Ltd and HDH Planning and Development Ltd were commissioned by Stevenage Borough Council (SBC) to test the viability of the emerging Local Plan and develop an infrastructure funding strategy. This infrastructure strategy considers how different forms of funding could help to deliver the infrastructure required to support new housing coming forward over the Local Plan period, which runs from 2011-2031.

1.1.2 SBC's Infrastructure Delivery Plan (IDP) Interim Update of 2015 is the most up to date IDP for the borough. The IDP interim update identifies and prioritises infrastructure needs arising as a consequence of growth across the Borough over the period up to 2031, in line with the emerging Local Plan. It identifies a capital cost for infrastructure delivery but does not say how it can be financially delivered.

1.1.3 One potential funding source is the Community Infrastructure Levy (CIL). CIL has yet to be introduced in the borough however. The Whole Plan Viability Study (the 'Viability Study') prepared by HDH Planning and Development Ltd tests the cumulative impacts of local standards and infrastructure requirements on development viability. The Viability Study also assesses the affect that CIL could have on development viability in the Borough against different levels of affordable housing provision.

1.1.4 This infrastructure funding strategy therefore aligns with Viability Study and draws upon its findings regarding CIL rates. In this report, CIL is one potential funding source considered which, in combination with other funding sources and mechanisms could support the delivery of new infrastructure.

1.2 Objectives

1.2.1 The objectives of this report are to:

- Review the IDP interim update and identify infrastructure required to support development over the Local Plan period. The review includes identification of the total capital costs of infrastructure items, their priority level and whether other organisations are involve in supporting delivery;
- Identify the extent to which funding is already committed to delivering infrastructure. This includes identification of Section 106 already signed in relation to planning applications granted;
- Identify developer contributions including CIL based on levels of affordable housing provision and charging rates, as set out in the Whole Plan Viability Study;
- Estimate the potential funding available for infrastructure via committed funding, forecasted funding and other potential funding streams under different scenarios, and compare this against the total infrastructure funding gap; and
- Consider the impact that different funding scenarios will have upon Plan delivery.

1.2.2 Our approach to developing an infrastructure funding strategy directly reflects the objectives set out above.

1.3 Report Structure

1.3.1 This report sets out funding strategy for infrastructure provision in Stevenage Borough Council. The report is structured as follows:

- **Section 2** provides a summary of the main findings of SBC's Infrastructure Delivery Plan, 2015.
- **Section 3** presents a review of various funding sources and an assessment of the level of funding available to deliver infrastructure to support the emerging Local Plan.
- **Section 4** provides an analysis of three funding scenarios and their ability to meet the total cost of infrastructure delivery.
- **Section 5** sets out our conclusions of the funding scenarios on infrastructure delivery over the Plan period and considerations of what the Council needs to act upon next.

2 INFRASTRUCTURE DELIVERY PLAN

2.1 Introduction

2.1.1 This section provides a summary of SBC's IDP interim update, 2015. The IDP interim update identifies infrastructure items required to support future levels of growth from 2011 to 2031, in line with the period proposed for emerging Local Plan, the estimated capital cost of each infrastructure item and a view on the prioritisation of infrastructure items.

2.2 Housing Growth

2.2.1 A first draft of the IDP was published in 2013 to support the first consultation on the new local plan[1]. Conducted at an early stage in plan preparation, the information presented was based around a number of different housing growth options or targets, which were loosely based around population projections. There were three housing growth options: 4,000 homes, contained within the urban area of the town; 5,500 homes or 7,000 homes, requiring the development of Greenfield or Green Belt land outside the edge of the existing urban area (using land to the north, west and south-east of Stevenage, in the form of urban extensions).

2.2.2 The Borough's housing growth options were further refined over time and an interim update IDP of early 2015 was based on a figure of approximately 7,600 new homes coming forward between 2011 and 2031. The draft figure of approximately 7,600 homes was determined from: consultation responses to the Local Plan; publication of Government population and household projections, which formed the starting point for consideration of development targets in the Local Plan; an iteration of the council Strategic Land Availability Assessment (SLAA), which identifies sites which may be used to meet development targets in the future; and on-going discussions with infrastructure providers and neighbouring authorities regarding their plans for the future.

2.2.3 The IDP interim update was clear that neither the figure of c.7,600 new homes nor the individual sites underpinning the provision of these homes had been approved by the Borough Council as draft planning policy. However, the figure was considered by SBC as an appropriate basis for assessing infrastructure needs.

2.2.4 In developing the IDP interim update, SBC consulted with relevant statutory bodies and service providers. Providers were asked to test the implications of c.7,600 new homes, amounting to approximately 14,500 additional residents.

2.2.5 A housing target of 7,600 homes was subsequently identified as the Council's preferred approach in June 2015.

2.3 Infrastructure Required and Capital Costs

2.3.1 Seven categories of infrastructure are covered in the IDP interim update: transport, education, healthcare, green infrastructure, emergency services, community and leisure facilities, and utilities. This is considered a suitable breadth of categories to assess.

2.3.2 Costs of each infrastructure item and the priority accorded by the Council are presented in the following table. The total outstanding infrastructure cost to SBC identified in the IDP interim update is £138.7m.

[1] Stevenage Infrastructure Delivery Plan (SBC, 2013)

Table 2-1 Total Infrastructure Costs by Category and Prioritisation

Infrastructure Category	Critical (m)	Essential (m)	Desirable (m)	Total (m)
Transport	£4.2	£19.1	£27.3	£50.6
*A1(M) **	*£3.2*	-	-	*£3.2*
Local roads	*£1.0*	*£9.3*	*£20.2*	*£30.5*
Rail	-	*£4.2*	-	*£4.2*
*Bus **	-	*£3.5*	*£4.6*	*£8.1*
Walking	-	*£0.8*	-	*£0.8*
Cycling	-	*£1.3*	*£2.5*	*£3.8*
Education	£18.0	£42.4	-	£60.4
Nursery / early years	*£0.0*	*£1.0*	-	*£1.0*
Primary schools	*£18.0*	*£24.0*	-	*£42.0*
Secondary schools	-	*£17.4*	-	*£17.4*
Healthcare	-	£3.3	-	£3.3
Doctor's surgeries	-	*£3.3*	-	*£3.3*
Secondary healthcare *Lister hospital / acute healthcare* *Adult social care*	*The prime responsibility of funding and delivering secondary healthcare services lies with Clinical Commissioning Groups (CCGs) and NHS England. Costs associated with secondary healthcare, including the Lister hospital, and adult social care total £23.8m and are assumed to be met through central Government / NHS funding.*			
Green Infrastructure	-	£1.6	-	£1.6
Emergency services	-	-	-	£0.0
Community and Leisure facilities	-	£6.9	£15.9	£22.8
Libraries	-	*£1.0*	-	*£1.0*
Sports and Leisure	-	*£5.9*	*£15.9*	*£21.9*
Utilities	-	-	-	-
Water supply *Waste water* *Waste disposal* *Gas and electricity*	*No costs identified in the IDP interim update. It is assumed that infrastructure required to meet growth arising will be delivered as part of service providers' strategic investment plans and costs met through customers' energy bills (not borough specific) or recharges to individual developers.*			
Total	**£22.2**	**£73.3**	**£43.2**	**£138.7**

Source: SBC Interim Update IDP interim update (2015).
Note:
Costs are gross, that is the total capital cost of provision not discounted by funding already committed.
* Figures represent costs of infrastructure schemes apportioned to SBC.

2.3.3 Education is the most expensive category of infrastructure provision accounting for a total of £60m or around 44% of all infrastructure capital costs. Approximately 70% of the £60m of capital costs to support education provision is for the delivery of primary schools. The other categories with significant total capital costs are transport, c.£51m; and Community and leisure facilities, c.£23m. Utilities companies did not identify a capital cost associated with growth. Typically, utility infrastructure is provided by service providers in line with / to meet demand arising from new growth and, being met by the provider, no capital cost to be borne by for SBC is identified in the IDP interim update.

2.3.4 In considering Table 2-1 it is worth noting that:

- For strategic infrastructure items which have a large catchment area benefitting residents located outside Stevenage, the cost of that item has been apportioned between SBC and other council areas as appropriate. For instance, strategic schemes such as the A1 (M) serve not only SBC but also the wider Hertfordshire region and are therefore likely to require additional investments from neighbouring councils. This apportionment of costs is captured within the figures presented in the table.

- Though central government and / or other agencies are the primary funding sources for certain infrastructure items they pass on the funds to the local authority to deliver. Local authorities function as a conduit for central Government education grants, such as the Basic Needs Grant, provided for school expansions and other capital projects. For the purposes of this exercise, the costs of infrastructure schemes funded by such means are included in the overall outstanding costs to the Council. In the case of healthcare, the prime responsibility for infrastructure provision and funding lies with the Clinical Commissioning Groups (CCGs) and NHS England. Local authorities only commission certain healthcare facilities and therefore a majority of costs of healthcare projects are not attributed to the Council.

- The infrastructure required, as set out in the IDP interim update, is defined by new housing arising over the emerging Local Plan period. The IDP does not therefore take account of existing capacity deficiencies or surpluses in infrastructure.

- The IDP interim update assesses the infrastructure requirement over the total Local Plan period and not by phase. There is no analysis therefore on what infrastructure is required by when and the capital cost associated with provision at points within the Local Plan period. This is not of concern as a key objective of this work report is to consider how all growth over the Local Plan period can be supported.

- The IDP is a live document which needs to be kept up-to-date as the infrastructure requirements of SBC change over time. The IDP therefore represents a snapshot of SBC's infrastructure needs based on the emerging Local Plan at the current time.

2.4 Prioritisation

2.4.1 Infrastructure items have been categorised by SBC according to its degree of importance or prioritisation. Priority levels definitions and their associated total capital costs are:

- Critical: these are infrastructure schemes without which the relevant parts of the emerging Local Plan could not proceed. The capital cost of all critical infrastructure projects is £22.2m.

- Essential: these schemes are required to support the levels of growth in the emerging Plan but without which the Plan could still proceed without absolute certainty of their delivery. The capital cost of all essential schemes is £73.3m.

- Desirable: these schemes support general aspirations in the emerging Plan but are not directly linked to the growth levels being considered. It is considered unlikely that new development would be required to bear the total costs of such schemes. The capital cost all desirable schemes is £43.2m.

2.4.2 Transport and education infrastructure are the only categories which contain critical infrastructure items. Education infrastructure makes up 80% of all critical infrastructure items and this exclusively consists of the delivery of primary school places.

2.4.3 Amongst essential infrastructure schemes, education is again the largest capital cost, making up about 58% of the category. Transport schemes and community and leisure facilities also make up a significant proportion.

2.4.4 Details of capital cost by infrastructure category and priority level are set out in Table 2-1.

2.5 Delivery Responsibility

2.5.1 The responsibility for securing funding and the delivery of the infrastructure schemes rests with multiple authorities including, national bodies such as Highways England, the County Council and the Borough Council. Agencies can be either solely or jointly responsible for delivery of certain infrastructure items and/ or improvements to them.

2.5.2 As a two-tier authority, SBC's infrastructure will be jointly delivered by the Hertfordshire County Council (HCC) and SBC, with the County taking a leading role. This is the case with education and a number of local transport schemes. However, the funding and delivery process is further complicated by the existence of the Hertfordshire Local Economic Partnership (LEP) which provides funding for local transport schemes through the Local Transport Board (LTB).

2.5.3 The table below sets out the delivery responsibility for each the seven infrastructure categories considered by the IDP interim update.

Table 2-2 Infrastructure Delivery Responsibility

Infrastructure Category	Lead Delivery Authorities	Other Delivery Authorities
Transport	Hertfordshire CC, Stevenage BC, Network Rail	Highways England
Education	Hertfordshire CC	-
Healthcare	East and North Hertfordshire Clinical Commissioning Group	-
Green Infrastructure	Stevenage BC	-
Community and Leisure	Hertfordshire CC	SBC, North Hertfordshire DC, East Hertfordshire DC
Emergency Services	Various service providers	-
Utilities	Various service providers	-

Source: Stevenage Borough Council, 2015

2.5.4 For local transport and education infrastructure, while HCC is the lead agent, much of the funding will come from developer contributions from applications determined by SBC but which will be managed by HCC. With regard to motorway improvements, Highway England will contribute towards most of the capital cost. However SBC (and neighbouring authorities) are likely to contribute a proportion for sliproads associated with the works. The lead agent responsible for the delivery of healthcare infrastructure is the East and North Hertfordshire Clinical Commissioning Group.

2.5.5 For infrastructure categories such as open space, outdoor sports and children's play space, the responsibility for securing the funding and the delivery of infrastructure schemes rests with SBC as the lead body. In these instances it is incumbent upon SBC to secure funding through developer contributions, grant funding or other means.

2.5.6 Given the joint responsibility for the delivery of a number of infrastructure items, and the funding details held in the IDP interim update, it is not been possible to ascertain the amount of funding which various bodies will contribute to infrastructure delivery.

2.6 Summary

2.6.1 The IDP interim update presents the infrastructure required to support delivery of approximately 7,600 new homes in the borough. It estimates that the capital cost of this infrastructure, to be met by SBC, to be in the region of £139m. Approximately £22m (16%) will be required to fund schemes deemed as critical to development. SBC as a two-tier authority operates which means that while the Council takes lead responsibility of securing funding and delivery of open space, outdoor sports and children's play space, it acts as a contributing authority for education and local transport related schemes. The main responsibility of delivering education, transport, and healthcare infrastructure rests with HCC, Highways England and the CCGs, respectively. Delivery responsibility notwithstanding, this report considers the extent to which different funding scenarios have the capacity to meet the three infrastructure prioritisation categories.

3 FUNDING SOURCES

3.1 Introduction

3.1.1 This section describes the various funding sources, identifying the authorities responsible for the management and administration of the funds. It assesses the amount of funding that can be generated by the different sources and presents the assumptions underlying the estimated funding capacity for each.

3.1.2 For the purposes of this study, funding sources have been categorised into three broad categories based on the level of certainty associated with securing the funds: funding which is committed, including grant funding; funding generated from development including the potential to access surplus funding; and other relevant funding sources associated with development and infrastructure delivery, which are applicable and accessible to the Council..

Committed Funding

3.1.3 Committed funds refer to those which have a relatively high certainty of being secured. These funds include existing s106 agreements (S106) that have been committed in principle and have a high likelihood of being secured once development commences. This category of funding also includes grant funding that has been awarded to contribute towards the delivery of certain infrastructure, mainly education and local transport. In addition to the already committed grant funding, this study assumes a certain level of grants to become available to the Council over the course of the plan period.

Forecasted Funding

3.1.4 This category refers to the funding generated from developments based on the assumptions and recommendations from the Viability Study. The assumptions and recommendations relate to future Section 106 and CIL income generated by new housing in line with the emerging Local Plan growth levels. The Viability Study assumed that each new housing unit would have to make an infrastructure contribution for site-specific infrastructure through Section 106. It also proposed a CIL charging schedule.

3.1.5 The Viability Study included recommendations for appropriate affordable housing targets that would allow development in Stevenage to have the financial capacity for a CIL. The Viability Study proposed affordable housing rates which are lower than the 40% policy target that SBC currently uses. These affordable housing recommendations have direct implications for the amount of CIL that can be generated.

3.1.6 Forecasted funding also includes surplus value, or 'Additional Profit' as described in the Whole Plan Viability Study. Surplus value is the financial capacity of development schemes after S106 and the recommended CIL rates have been incorporated into the viability appraisals. Surplus value could potentially be tapped into by the Council when negotiating developer contributions during the planning application process.

Other Funding Sources

3.1.7 In addition to the funding sources identified above, there are other sources that could be accessed to fund infrastructure. However, other funding sources only include the potential for New Homes Bonus to contribute to the delivery of infrastructure schemes. With regards to most other sources in this category, this report does not recommend a particular fiscal path but instead identifies sources that could enhance its financial capacity. These sources have been included in the review of funding sources that is in the appendix.

3.1.8 The table below summarises the funding sources identified under each of the three broad categories described above.

Table 3-1 Infrastructure Funding Sources

Category	Sources
Committed Funding	• Grant Funding • S106 Agreements
Forecasted Funding	• S106 Agreements • CIL Income • Surplus Value
Other Funding Sources *	• New Homes Bonus • Non-National Domestic Rates • Hertfordshire Growth Deal • Growing Places Fund • Evergreen Infrastructure Fund • Local Infrastructure Fund • European Structural Investment Funds • JESSICA: Joint European Support for Sustainable Investment in City Areas • Prudential Borrowing

Source: AECOM.
* These sources are detailed in the appendix.

3.1.9 The funding potential for these three funding categories is assessed below.

3.2 Committed Grant Funding

3.2.1 The IDP interim update identifies about £36.8m in committed grant funding although the different funding streams have varying degrees of certainty. The majority of the funding (£32.8m) is for strategic and local transport infrastructure, with approximately an equal amount received from Central Government and the LEP / LTB. The remaining grant funding is for primary schools received through the Basic Needs Grant.

Table 3-2 Committed Grant Funding

Infrastructure Category/Scheme	Responsible Authority	Fund Committed (£m)
Transport	*HCC*	
A1(M)	Highways England	£16.0
Local Roads	HCC	£13.0
Passenger Transport	HCC	£2.0
Cycling/Walking	HCC	£1.8
Education	*HCC*	
Primary Schools	HCC	£4.0
Total		**£36.8**

Source: SBC, HCC, 2015

3.2.2 With identified infrastructure schemes expected to be delivered within the emerging Local Plan period (i.e. by 2031), committed grant funding is likely to be available in the short term and additional grants are anticipated to come on stream over the longer term. This report assumes that the committed grant funding will be secured and spent between 2015 and 2021. This is the equivalent of about £5.2m in grant funding per annum.

3.2.3 Future grant funding is yet to be identified, but for the purposes of this exercise it is reasonable to assume that lower levels will be secured in the future, post 2021. Based on the level of grant funding secured historically and taking a cautious approach, we assume £3.0m per annum of grant funding available post 2021. The appendix provides more details on existing grant programmes which are relevant to the delivery of infrastructure.

3.3 Committed Section 106 Agreements

3.3.1 The infrastructure funding associated with existing S106 have a high likelihood of being secured because they are legally binding contracts which are typically agreed between a developer and the local authority and negotiated through the development management process. The funding only comes forward if the permitted development commences.

3.3.2 As a two-tiered authority, S106 payments are collected by both SBC and HCC. This report uses information provided by the two administrative levels on existing S106 agreements. The total amount of existing S106 is approximately £2.0m.

3.3.3 The table below shows the breakdown by administrative level and infrastructure category:

Table 3-3 Committed S106 Funds by Administrative Level and Infrastructure Category

Infrastructure Category	Funding (£)
SBC	
Children's Play Areas	£60,000
Outdoor Sports	£16,875
Open Space	£58,438
HCC	
Primary Education	£866,802
Secondary Education	£1,034,533
Total	**£2,036,648**

Source: SBC, HCC, 2015

3.3.4 The funds identified above are secured from permitted development schemes which are part of SBC's emerging Local Plan housing target.

3.4 Forecasted Section 106 Agreements

3.4.1 The Viability Study assumes that all new housing contributes £2,000 per unit towards infrastructure through a S106 agreement. This contribution is for either site-specific or more general infrastructure. Contributions for site-specific infrastructure are non-strategic and do not generally appear in the IDP interim update. However it is assumed that in some cases the S106 allowance will contribute towards infrastructure projects that could appear in the IDP interim update. We assume therefore that 50% of the £2,000 per unit allowance (£1,000) would be available for supporting infrastructure delivery in the IDP.

3.4.2 In addition to the £1,000 per unit generated via S106 and available to support infrastructure delivery, it is also anticipated that S106 income will be raised from the development of strategic greenfield sites. The Council has conducted analysis of the infrastructure required for the delivery of these sites. While it may not be possible to secure the entire cost of infrastructure required to deliver housing on the strategic sites via Section 106 agreements (given the pooling restriction in the CIL regulations), the Council has estimated that approximately £28.1m will be secured through this mechanism. This report takes into account all of the estimated S106 agreements for the strategic greenfield sites. It is anticipated that the rest of the infrastructure required for the delivery of these sites will be delivered through CIL or other funding mechanisms.

3.5 Forecasted CIL Income

3.5.1 In addition to the assumptions associated with projected S106 agreements, we have applied the recommended residential CIL rates (and the associated recommended affordable housing levels) from the Viability Study to the housing targets from the emerging Local Plan. The Viability Study also recommends a CIL rate for retail developments, which has been applied to the net additional retail floorspace which the Council expect to be delivered in the Borough over the plan period.

3.5.2 The Stevenage Central Framework[2] document suggests a potential requirement over the plan period of 12,650m^2 comparison goods floorspace (gross). In addition there is a requirement for an additional (approximately) 8,000m^2 convenience floorspace (gross) over the plan period as identified in a recent retail study[3]. This implies a gross retail floorspace development requirement of approximately 20,650m^2. The actual provision and take up of retail space will be determined by market conditions and the growth in expenditure. Based on recent and existing market conditions, the ability to attract retailers to the town centre and outstanding permissions yet to be implemented, discounted figures have been agreed with the Council. For the purposes of this analysis it is assumed that 8,325m^2 of retail floorspace are delivered over the emerging Local Plan period (50% of comparison retail floorspace capacity and 25% of convenience retail floorspace need).

3.5.3 The table below contains the recommended differential CIL rates from the Viability Study:

Table 3-4 Recommended CIL Charges from Viability Study

CIL Zone / Development Type	CIL Charge
Stevenage Urban Area	£0/m^2
All other areas including Northern and South-western and Western Urban Extensions	£40/m^2
Retail Development	£60/m^2
All Other Development	£0/m^2

Source: HDH Planning and Development, Whole Plan Viability Study, 2015

3.5.4 The table below contains the recommended affordable housing levels:

[2] Stevenage Central Framework (Stevenage Borough Council, June 2015)
[3] Stevenage Retail Study (Stevenage Borough Council, April 2013)

Table 3-5 Recommended Affordable Housing Levels from Viability Study

Site Typology	Recommended Affordable Housing Rate
Brownfield sites (including Town Centre Regeneration area)	25%
Remaining areas (including strategic sites)	30%

Source: HDH Planning and Development, Whole Plan Viability Study, 2015

3.5.5 The recommended affordable housing levels do not reflect current SBC policy but are the levels that the Viability Study concludes are required to generate a reasonable level of CIL income. The estimated CIL income based on the recommended CIL charges is £7.6m (including income generated from anticipated retail development).

3.6 Forecasted Surplus Value

3.6.1 The context for surplus value is that the CIL guidance says CIL charges should not be set at a level which threatens the viability of development. In other words, charging authorities should not set the charge at the point of viability. Therefore the CIL rates which are recommended in the Viability Study do not capture all available development value. This additional development value is the surplus value and our assessment of the surplus value below provides a high level indication of the additional revenue that could be secured.

3.6.2 The Viability Study modelled sixteen development typologies to ascertain a per unit surplus value. This is set out in the next table:

Table 3-6 Surplus Value by Site Typology

Site Typologies (see Viability Study)	Surplus Value (£/unit)
Northern Extension	£3,416
Western Extension	£427
Southwest Extension	£6,969
Greenfield 1	£6,561
Greenfield 2	£2,783
Greenfield 3	£8,927
Greenfield 4	£3,475
High Town Centre Flats	£0
Town Centre Flats	£0
PDL 1	£0
PDL 2	£0
PDL 3	£159
PDL 4 - Flats	£0
Small A	£21,915
Small B	£103,261
Small C	£18,795

Source: HDH Planning and Development, Whole Plan Viability Study, 2015; AECOM calculations

3.6.3 Applied to the emerging Local Plan housing trajectory, total surplus value is estimated at £8.8m. This figure is a maximum which could be secured from development. It is assumed that some of this surplus value could be secured via an increase in CIL rates: as a consequence of regeneration and development, viability improves and CIL rates are revised upwards to tap into the surplus value. There is however likely to be a lag in adopting subsequent revisions to CIL rates. On this basis it is assumed that surplus value is only secured post 2018 (assuming 2-3 years for viability to improve and revised CIL rates to be adopted). Furthermore only a proportion of all the maximum surplus value estimated is likely to be accessed as that figure is calculated via 16 sites typologies, each with their own viability level, whereas the recommended CIL rates are differentiated by only two categories (brownfield sites, including Town Centre Regeneration area; and remaining areas, including strategic sites).

3.7 New Homes Bonus

3.7.1 Of the funding sources identified under the 'other funding sources' category New Homes Bonus (NHB) is the only source that is explicitly modelled. (This is because most of the other potential sources are subsumed under the broad category of grant funding).

3.7.2 If the NHB programme is maintained in its current form by Central Government then the Council could expect to receive about £54.2m in income between 2015 and 2031. However it is unclear how long the programme will endure. Prior to this year's general election the Coalition Government had said that it intended to review the programme but no decisions were made. There is a reasonable likelihood that the programme could be discontinued.

3.7.3 Nonetheless, it is appropriate to assume that Central Government will make available funds to incentivise local authorities to build more new homes and address the supply gap. In recent years the SBC has used NHB for the funding of some infrastructure projects. For example, the Council received over £3.7m in NHB between 2011/12 to 2015/16 and used £1.1m (~30%) of its 2013/14 NHB allocation for several schemes.

3.7.4 Following the above, this report assumes that 30% of the maximum NHB that the Council can expect to receive is available for infrastructure funding over the emerging Local Plan period i.e. approximately £16m in total. This figure, amounting to an average of £0.95m per annum, both recognises the Council's willingness to use at least part of its NHB income for infrastructure delivery.

3.8 Summary

3.8.1 The table over the page summaries the level of funding estimated for each of the different sources.

Table 3-7 Estimated Funding by Source

Category	Sources	Estimated Level of Funding over the Local Plan period (£m)
Committed Funding	• Grant Funding	£36.8
	• S106 Agreements	£2.0
Forecasted Funding	• S106 Agreements	£34.6
	• CIL Income	£7.6
	• Surplus Value	£8.8
Other Funding Sources	• New Homes Bonus	£16.1
Total Funding		**£107.9**

Source: AECOM

4 ANALYSIS OF FUNDING SCENARIOS

4.1 Introduction

4.1.1 This section presents three scenarios with different levels of funding available to the Council to fund its infrastructure over the emerging Local Plan period. The analysis identifies the resultant funding gap and considers the impact on the Council's ability to fund its infrastructure requirements.

4.1.2 The scenarios have been generated with the aim of illustrating the range of funding that can potentially be raised under varying policy arrangements and assumptions on levels of funding that can be secured. These three scenarios and their main drivers are:

- Scenario 1: Maintaining the Council's affordable housing policy at 40% and using the CIL rates recommended in the Viability Study
- Scenario 2: Employing the recommended mix of affordable housing (25% brownfield sites including town centre and 30% remaining areas including strategic sites) and CIL rates; and
- Scenario 3: Employing the recommended mix of affordable housing (25% brownfield sites including town centre and 30% remaining areas including strategic sites) and CIL rates and an enhanced amount of additional funding available for infrastructure funding.

4.2 Scenario Assumptions

4.2.1 This section explains the basis for the assumptions underpinning the three scenarios and for each of the different sources of funding.

Housing Growth

4.2.2 Funds generated through S106, CIL, surplus value and New Homes Bonus are directly linked to the number of new homes arising over the emerging Local Plan period. Though the IDP interim update consulted service providers on the potential for c.7,600 new homes, information on the potential capacity of housing sites as presented in the iteration of the council's Strategic Land Availability Assessment: Housing (SLAA, 2013), including residential development of several strategic greenfield sites, and planning permissions granted within the Local Plan period (both implemented and unimplemented) indicate that 7,817 new homes could come forward between 2011 and 2031. In absence of an SBC agreed housing 'target' the figure of 7,817 has therefore been used in calculations for funding via S106, CIL, surplus value and New Homes Bonus. Some developments have been built since 2011 and S106 negotiated. Between 2011 and 2014, 447 homes were built. In addition 897 homes have received planning permission and S106 funding has been negotiated. For the forecasted funding calculations, such as S106 and CIL, a figure 6,473 homes has therefore been used.

4.2.3 The Borough has the potential for 7,817 homes to come forward over the plan period. This figure is marginally higher (by around 3%) than the housing figure of 7600 tested in the IDP interim update. It would be prudent to assume that the total capital cost of infrastructure required to support 7,817 homes could be higher than that set out in Table 2-1 (based on 7,600 homes). However, for the purposes of this research it is anticipated that service providers would have built into their assessment of infrastructure required some degree of flexibility.

Committed Funding Sources

4.2.4 Grant funding is assumed to be consistent across all three scenarios because the ability of the Council to secure grant funding is not related to its affordable housing and CIL policies. With regard to Committed S106 funds, each scenario uses the same £2m sum since these agreements have been agreed between developers and the Council.

Forecasted S106 from Housing Trajectory

4.2.5 The Viability Study, from which the recommended CIL rates are drawn shows that at the 40% affordable housing policy target eight of the 16 development typologies are unviable. For Scenario 1 (40% affordable housing policy) we assume that the effect of delivering a relatively high proportion of affordable housing means that development viability will be affected, which will reduce S016 contributions. We therefore make an assumption that only a proportion of the anticipated S106 income is secured. A figure of 75% is used for illustrative purposes.

4.2.6 For Scenarios 2 and 3, which assumes that the recommended level of affordable housing provision is delivered, as per the Viability Study, we assume there are fewer development viability issues and the full housing trajectory is achieved.

Forecasted S106 from Strategic Sites

4.2.7 S106 income from strategic sites is in addition to the S106 allowance on all units. For forecasted S106 from strategic greenfield sites, Scenario 1 assumes that the impact of 40% affordable housing is that only 75% of the anticipated S106 income is secured (as explained in paragraph 4.2.5). This is because the affordable housing policy reduces the viability of some schemes in the housing trajectory. For Scenarios 2 and 3 the full amount of anticipated S106 income is secured.

Forecasted CIL Income

4.2.8 For CIL income, Scenario 1 assumes that the impact of the 40% affordable housing is that only 75% of the anticipated CIL income (based on the recommended rates in the Viability Study) is secured (for the same reasons for discounting S106 income as explained in paragraph 4.2.5). This is because the affordable housing policy reduces the viability of some schemes in the housing trajectory. For Scenarios 2 and 3 the full amount of anticipated CIL income is secured.

New Homes Bonus

4.2.9 With regard to the NHB, the level of funding available is assumed to be across the three scenarios. This assumption is based on the Council's historic record of using some NHB income for infrastructure projects. The same proportion of NHB used previously by the Council is applied to the maximum amount of NHB that could be potentially be generated. The theoretical maximum is calculated on the basis that the programme endures over the plan period and continues to offer the existing level of payments for market and affordable units.

Surplus Value

4.2.10 For surplus value, Scenario 1 reflects the direct impact that the Council's 40% affordable housing policy has on development viability. The Viability Study shows how the policy causes several development typologies to become unviable. For those typologies that are still viable, the surplus value is significantly diminished. The result is that the maximum amount of surplus value that could be secured from development is about 6% of what could be secured as a result of the recommended affordable housing rates from 2018 to 2031. It is also assumed that

50% of the total amount of surplus value generated can be secured by the Council through subsequent revisions to the recommended CIL rates.

4.2.11 Surplus value for Scenario 2 assumes that the Council revisits its CIL charging schedule and raises its rates to capture available surplus value based on the recommended affordable housing and CIL rates from 2021 to 2031. The time period assumes a lag that represents a realistic timeframe for the Council to adopt revisions to the recommended CIL charges. In addition, as with Scenario 1, it is considered realistic to assume that the Council is able to secure 50% of the maximum surplus value that could be generated, Scenario 3 shows the maximum amount of surplus value that the Council could secure from 2018 to 2031 based on the recommended affordable housing and CIL rates.

A summary of the assumptions for each of the three scenarios is set out in the following table.

Table 4-1 Funding Assumptions by Scenario

		Scenario 1: 40% Affordable Housing	Scenario 2: Recommended Affordable Housing	Scenario 3: Recommended Affordable Housing and Enhanced Funding
Affordable Housing		40%	Affordable housing rates of: 25% in the town centre and on brownfield sites 30% in other areas including strategic sites	
Committed Funding	S106 Agreements	£2.0 m	£2.0 m	£2.0 m
	Grant Funding	Based on committed and forecasted grant funding to 2031	Based on committed and forecasted grant funding to 2031	Based on committed and forecasted grant funding to 2031
Forecasted Funding	S106 (based on £1,000 per new housing unit)	Based on 75% of housing trajectory	Based on 100% of housing trajectory	Based on 100% of housing trajectory
	S106 (strategic sites)	Based on 75% of income generated from housing trajectory	Based on 100% of income generated from housing trajectory	Based on 100% of income generated from housing trajectory
	CIL Income	Based on 75% of income from recommended residential CIL rates and 100% of income from recommended non-residential CIL rates	Based on 100% of income from recommended residential CIL rates and 100% of income from recommended non-residential CIL rates	Based on 100% of income from recommended residential CIL rates and 100% of income from recommended non-residential CIL rates
	Surplus Value (maximum)	50% of surplus value based on 40% affordable housing and recommended CIL rates (2018-31)	50% of surplus value based on recommended affordable housing and CIL rates (2021-31)	Maximum surplus value based on recommended affordable housing and CIL rates (2018-31)
Other Sources	New Homes Bonus	£0.95m of NHB secured each year to 2031	£0.95 m of NHB secured each year to 2031	£0.95 m of NHB secured each year to 2031

Source: AECOM

4.2.12 All of the revenue estimates are broad-brush assessments, and should not be relied upon on without being verified by more detailed analysis in subsequent work. It should also be noted that these figures do not include the costs of any debt financing.

4.2.13 The results for each of the scenarios are presented in the following sections.

4.3 Scenario 1: 40% Affordable Housing

The next table shows the funding available under Scenario 1. Total infrastructure funding is the lowest of the three scenarios as a result of the impact of the 40% affordable housing policy on development viability and the housing trajectory. The funding deficit is £22.2m.

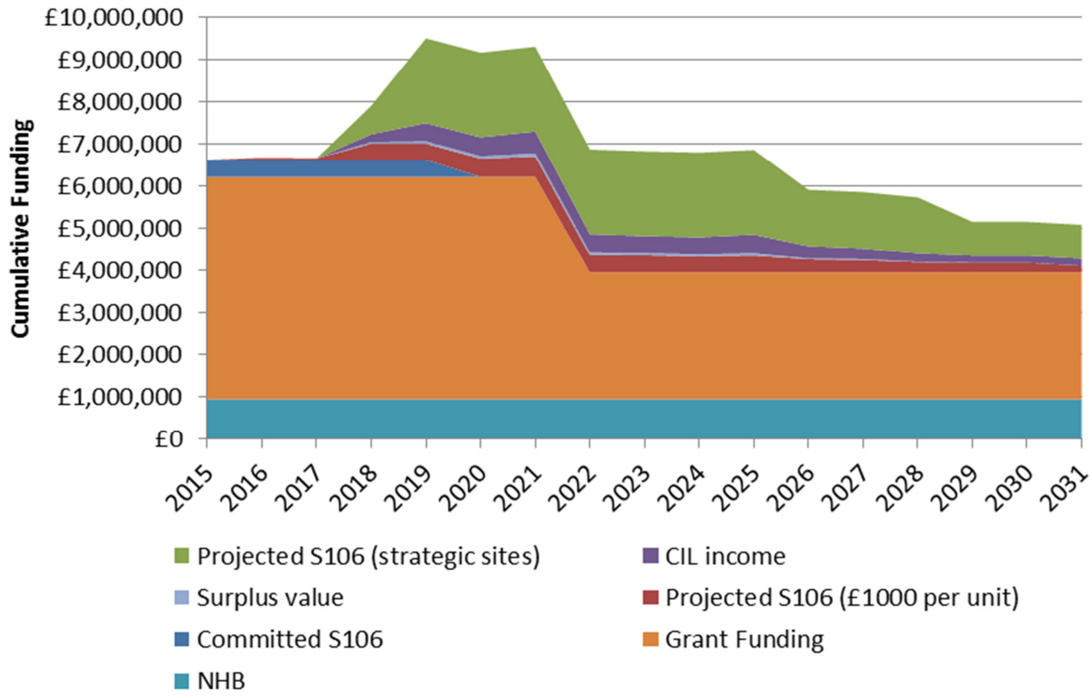
Table 4-2 Scenario 1: Funding Available for Infrastructure

	Infrastructure Funding Source	**£ millions**
Committed Funding	Grant Funding	£66.8
	S106 Agreements	£2.0
Forecasted Funding	S106 (based on £1,000 per new housing unit)	£4.9
	S106 (strategic sites)	£21.1
	CIL Income	£5.0
	Surplus Value (50% of maximum available from 2018 to 2031)	£0.5
Other Sources	New Homes Bonus	£16.1
	Total Infrastructure Funding	£116.5
	Total Infrastructure Costs	*(£138.7)*
	Funding Position	**- 22.2**

Source: AECOM calculations

4.3.1 The graph over the page illustrates the annual flow of income from all funding sources over the plan period. The total amount of income peaks in 2019 at £9.5m. Grant funding is the most significant contributor to infrastructure funding. The remaining funding sources are linked to the housing trajectory and are therefore more variable.

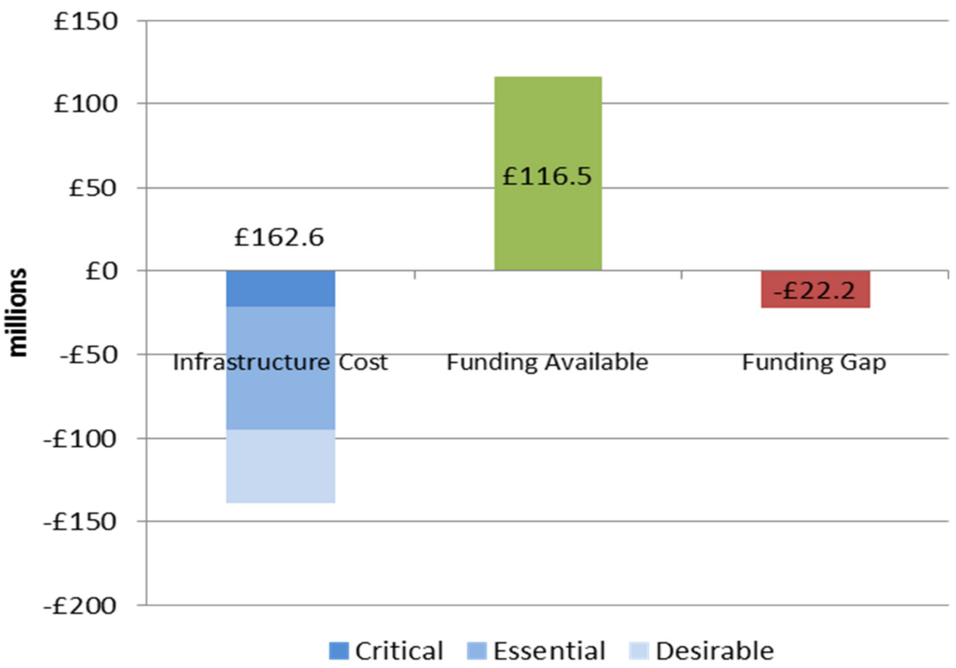
Figure 4-1 Scenario 1: Annual Flow of Income from all Funding Sources



Source: AECOM

4.3.2 The graph below shows the implications for infrastructure funding from the assumptions used in Scenario 1. The Council is able to fund all critical and essential infrastructure schemes. However, is likely to be able to fund only 49% of desirable infrastructure. The Council will be left with a funding gap of £22.2m over the plan period.

Figure 4-2 Scenario 1: Comparison of Infrastructure Cost and Funding Available



Source: AECOM

4.4 Scenario 2: Recommended Affordable Housing Rates

4.4.1 The next table shows the funding available under Scenario 2. Under this scenario the total funding gap is £8.3m.

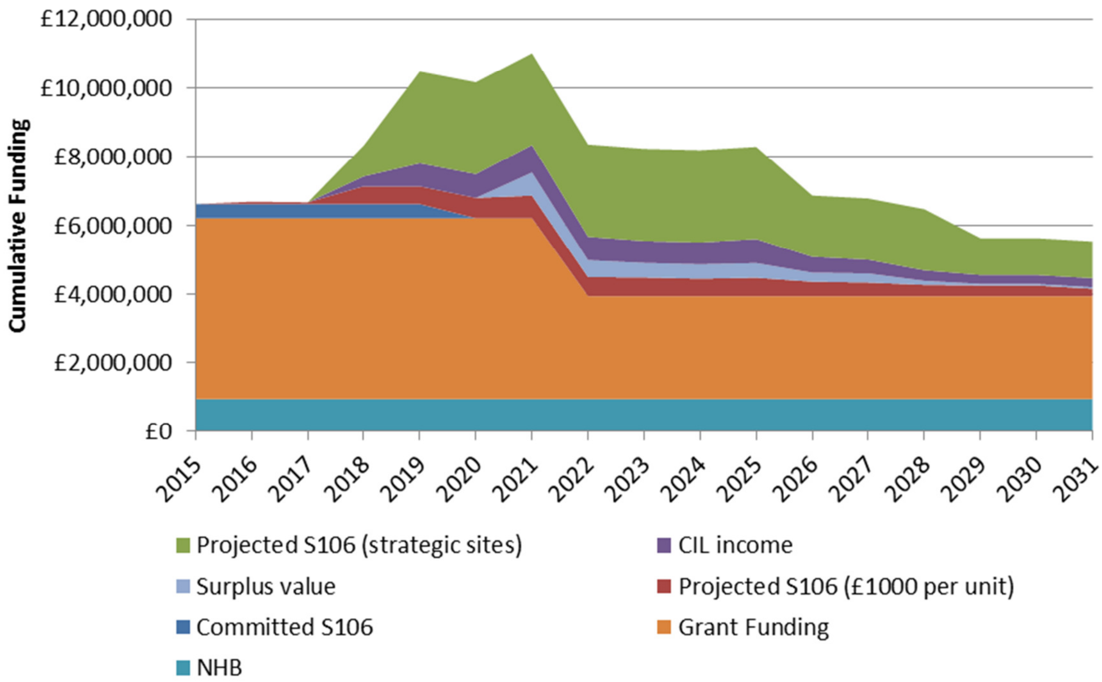
Table 4-2 Scenario 2: Funding Available for Infrastructure

	Infrastructure Funding Source	£ m
Committed Funding	Grant Funding	£66.8
	S106 Agreements	£2.0
Forecasted Funding	S106 (based on £1,000 per new housing unit)	£6.5
	S106 (strategic sites)	£28.1
	CIL Income	£7.6
	Surplus Value (50% of maximum available from 2021 to 2031)	£3.2
Other Sources	New Homes Bonus	£16.1
	Total Infrastructure Funding	£130.4
	Total Infrastructure Costs	*(£138.7)*
	Funding Position	**- £8.3**

Source: AECOM calculations

4.4.2 The graph below illustrates the annual flow of income from all funding sources over the plan period. The total amount of income peaks in 2021 at £11.0m. Grant funding is the most significant contributor to infrastructure funding.

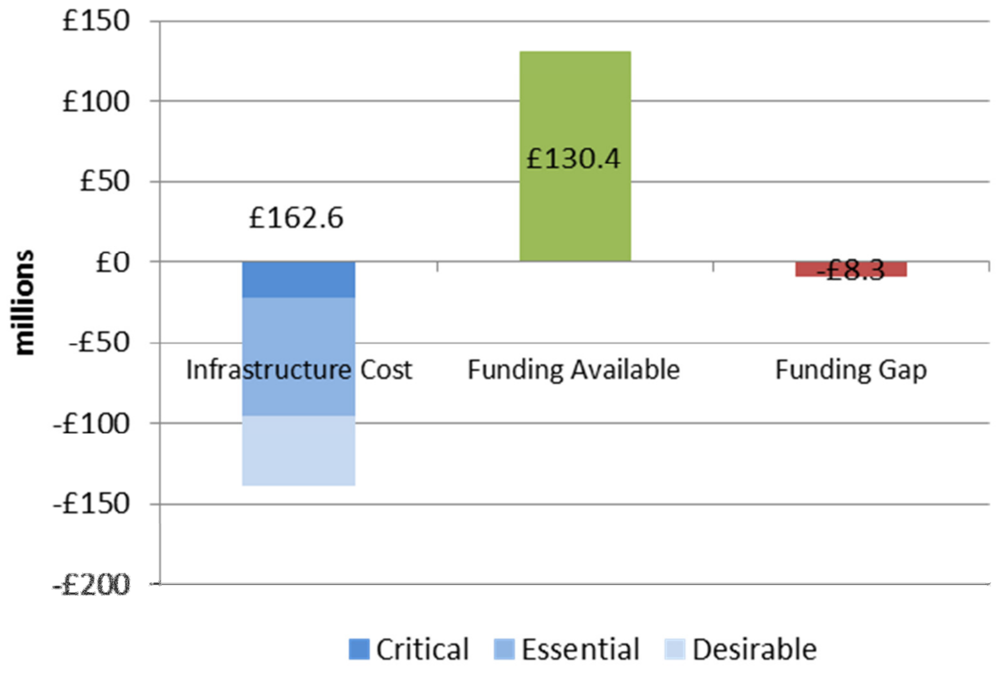
Figure 4-3 Scenario 2: Annual Flow of Income from all Funding Sources



Source: AECOM

4.4.3 The graph below shows the implications for infrastructure funding from the assumptions used in Scenario 2. The Council is able to fund all critical infrastructure items and it can fund its essential infrastructure. The funding raised will also cover a majority (81%)of the desirable infrastructure, leaving a deficit of £8.3m.

Figure 4-4 Scenario 2: Comparison of Infrastructure Cost and Funding Available



Source: AECOM

4.5 Scenario 3: Recommended Affordable Housing Rates and Enhanced Funding Available

4.5.1 The next table shows the funding available under Scenario 2. The funding gap is £2.7m.

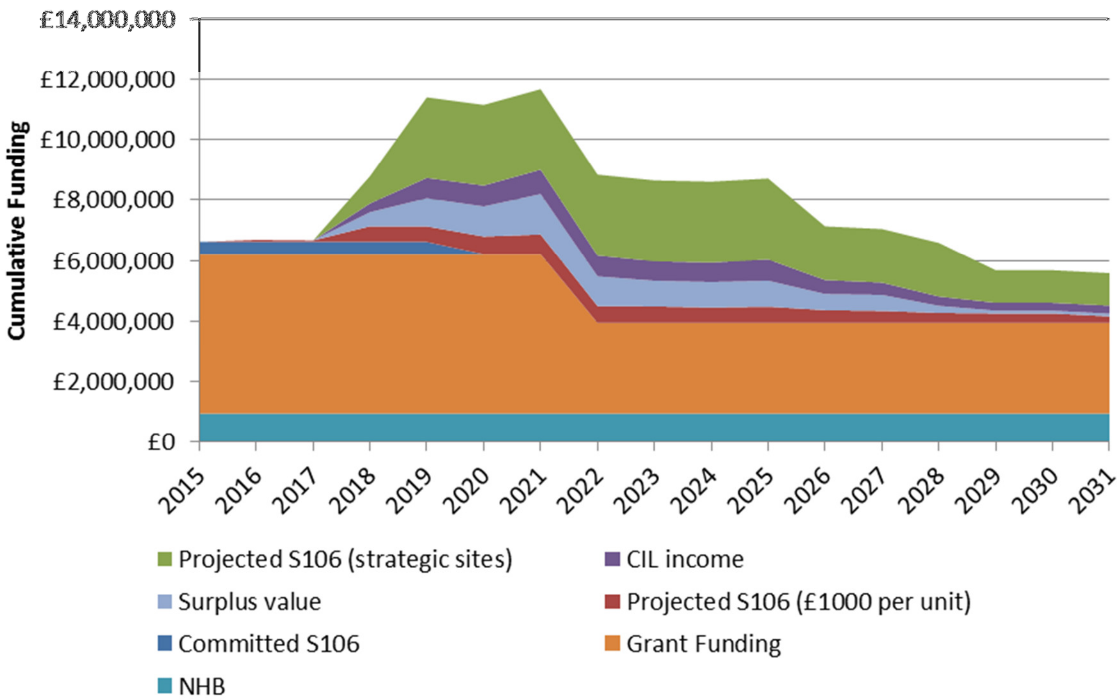
Table 4-3 Scenario 3: Funding Available for Infrastructure

	Infrastructure Funding Source	**£m**
Committed Funding	Grant Funding	£66.8
	S106 Agreements	£2.0
Forecasted Funding	S106 (based on £1,250 per new housing unit)	£6.5
	S106 (strategic sites)	£28.1
	CIL Income	£7.6
	Surplus Value (maximum)	£8.8
Other Sources	New Homes Bonus	£16.1
	Total Infrastructure Funding	£136.0
	Total Infrastructure Costs	*(£138.7)*
	Funding Position	**-£2.7**

Source: AECOM calculations

4.5.2 The graph below illustrates the annual flow of income from all funding sources over the plan period. The total amount of income peaks in 2021 at £11.7m. Grant funding is the most significant contributor to infrastructure funding. The remaining funding sources are linked to the housing trajectory and are therefore more variable.

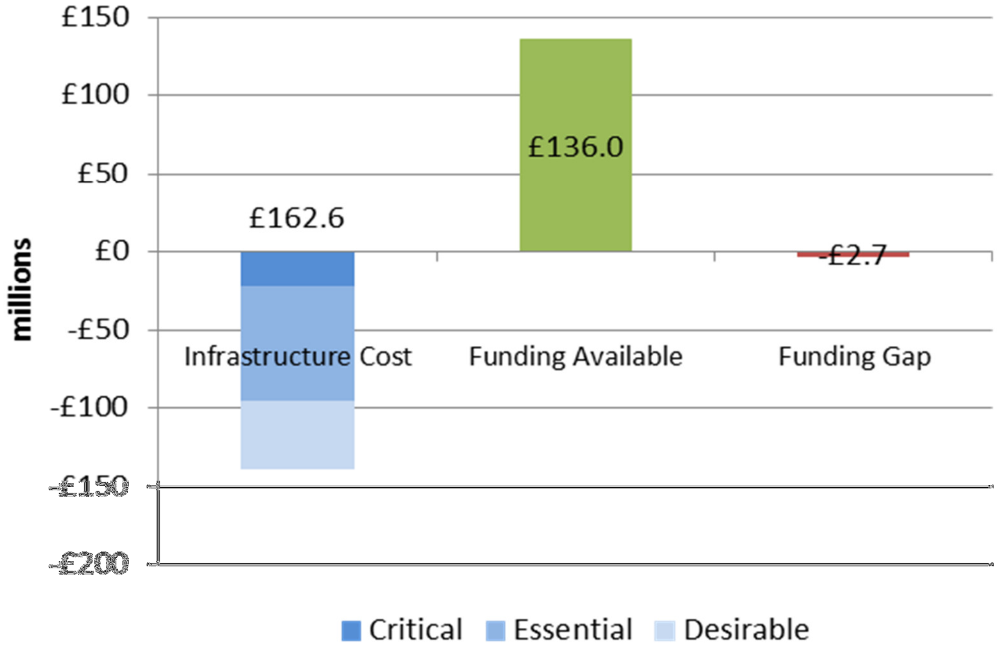
Figure 4-5 Scenario 3: Annual flow of income from all funding sources



Source: AECOM

4.5.3 The next graph shows the implications for infrastructure funding from the assumptions used in Scenario 3. As with the above scenarios, the Council is able to fund all critical and essential infrastructure schemes, and approximately 94% of the desirable infrastructure items, leaving the Council with a funding gap of £2.7m.

Figure 4-5 Scenario 3: Comparison of Infrastructure Cost and Funding Available



Source: AECOM

4.6 Summary

4.6.1 All scenarios suggest a deficit in funding over the emerging Local Plan period meaning that the total funding available is lower than the total costs of infrastructure. However, funding available for all scenarios is sufficient to cover the cost of delivering critical and essential infrastructure items. For scenarios 2 and 3 a large proportion of desirable infrastructure items can be delivered. Analysis suggests that additional funds, over and above those identified, would be required to support the delivery of all infrastructure items required in line with housing growth.

4.6.2 This analysis has been broad-brush and has applied some cautious assumptions. It also does not include how conditions could change over time. For example the calculation of surplus value has been appraised using current values and current costs which provides an indication of their likely viability if they were brought forward today. Predicting the future trajectory of value growth and build cost inflation with any degree of accuracy is difficult given the uncertainty of key macro-economic factors impacting on the commercial and residential markets. It could be expected however that viability rises over time as development and associated regeneration helps create a new and improved sense of place, and demand for living in Stevenage increases. An improving viability position would therefore help generate more CIL and surplus value which could narrow the funding gap.

4.6.3 The use of some funds has not been maximised, such as New Homes Bonus. NHB could generate up to £54m, based on the current NHB calculator[4], which is significantly higher than the £16m assumed in our modelling. The reason for a more cautionary approach is because of the uncertainty of its continuation and proportion used to support infrastructure delivery.

4.6.4 The scenarios presented in this section have been designed to be illustrative and to inform the Council's decision-making process. It is important to note that the assessed funding positions

[4] www.gov.uk

are based on infrastructure needs that are likely to change as projects are delivered over the emerging Local Plan period. Any additional analysis should also take into account how infrastructure costs arise over time in line with development, and how funding coming forward matches against those costs. The comparison of cost and funding over time will be important in informing a view on how delivery costs could be smoothed over time by, for example, delivering large sites and their infrastructure at different times over the plan period.

Table 4-4 Summary of Funding Position by Scenario

	Scenario 1: 40% Affordable Housing (£m)	**Scenario 2: Recommended Affordable Housing (£m)**	**Scenario 3: Maximum Funding (£m)**
Grant Funding	£66.8	£66.8	£66.8
Committed S106	£2.0	£2.0	£2.0
Forecasted S106 (based on £1,000 per new housing unit)	£4.9	£6.5	£6.5
Forecasted S106 (strategic sites)	£21.1	£28.1	£28.1
Forecasted CIL Income	£5.0	£7.6	£7.6
Forecasted Surplus Value	£0.5	£3.2	£8.8
New Homes Bonus	£16.1	£16.1	£16.1
Total Infrastructure Funding	**£116.5**	**£130.4**	**£136.0**
Infrastructure Costs	*(£138.7)*	*(£138.7)*	*(£138.7)*
Funding Position	**- £22.2**	**- £8.3**	**- £2.7**

Source: AECOM

5 CONCLUSIONS

5.1 Summary

5.1.1 The funding requirement to deliver infrastructure needed to support growth of 7,600 homes in SBC over the emerging Local Plan period is £138.7m, in current prices. The largest components of the estimated capital cost of infrastructure provision are education and transport schemes, which together account for approximately 80% of the overall funding requirement. Infrastructure schemes deemed as critical by the Council contribute to around 16% of the total funding requirement, while essential infrastructure items require majority (£73m) of the funding.

5.1.2 Our analysis of the various funding sources available to the Council suggests that between £117m and £136m can be raised to fund SBC's infrastructure needs arising as a consequence of growth over the period 2015 to 2031. This range of funding available to the Council is made up of a combination of funding sources and determined on the basis of a number of different assumptions on the Council's policy choices and level of funding received previously from other sources.

5.1.3 The proportion of affordable housing delivered is a key factor that influences the amount of funding that can be generated. Under the Viability Study's recommended rates of affordable housing, the Council can expect to generate approximately £7m in CIL from housing development plus an addition £0.5m from retail developments. If Council opts for more affordable housing, in line with policy standards, the amount of CIL generated is reduced by over a third. The level of additional revenue that could be generated through CIL, as indicated by the estimated surplus values, will be similarly impacted by the Council's policy on affordable housing.

5.1.4 Grant funding and New Homes Bonus are other sources that could potentially offer SBC significant funds for infrastructure provision. However the level of funding likely to be made available to local authorities and the continuation of funding regimes is dependent on central Government decisions. The uncertainties associated with these funding sources are reflected in the conservative estimates factored into each of the scenarios. It is assumed that the extent to which the Council relies on these sources will change with greater clarity on schemes and funds available over time.

5.1.5 The scenarios assessed in this report indicate that SBC will need to raise additional funds to meet the total capital costs of infrastructure required to support growth arising over the emerging Local Plan period. The estimated remaining funding gap for the 40% affordable housing provision (Scenario 1) is minus £22.2m; at the recommended affordable housing rate (Scenario 2) it is minus £8.3m; and for the maximum funding scenario with a lower level of affordable housing (25% brownfield sites including in the town centre and 30% remaining areas including strategic sites) (Scenario 3), the funding gap is minus £2.7m.

5.1.6 It is possible that more than 7,600 homes are delivered in the Borough over the plan period. The Borough has capacity for 7,817 homes to come forward – 217 homes (or approximately 3%) more homes than the figure of 7600 tested in the IDP interim update. As a consequence the capital cost of infrastructure required to support growth could be higher and the funding gap across all scenarios larger than that presented in the paragraph directly above.

5.2 Further Considerations

5.2.1 For the Council to be able to meet the infrastructure requirements over the emerging Local Plan period, it will need to:

- Reflect on how best to achieve a balance between the delivery of new housing, including affordable, and the delivery of infrastructure to support new residents living in the Borough.

- Focus and commit funds to infrastructure delivery and work closely with delivery partners to determine which items to deliver to support new (and existing) communities and when.

- Evaluate the trade-off between the relative importance of infrastructure items. It is likely that some essential and desirable infrastructure schemes are delivered alongside critical items, to ensure a balance in infrastructure and support place making.

- Take account of the need to deliver infrastructure ahead or in line with demand. By the nature of infrastructure provision, and in particular for some large items which benefit multiple sites, it is likely that infrastructure will need to be in place ahead of development (or provided alongside) so that new residents' needs will be met in a timely manner. This indicates the need to forward fund provision before receipts from s106 or CIL can be collected.

5.2.2 In addition, to gain a better understanding of the assessed funding positions and be able to evaluate the best available mechanisms to address the funding gap, the Council should seek to:

- Undertake further analysis of the phasing and prioritisation of infrastructure schemes in relation in to the potential funding available over the plan period

- Monitor and update CIL and S106 policy as circumstance evolve. As viability of developments improves with provision of infrastructure and the enhancement of places, there is potential to negotiate S106 agreements or revise CIL rates.

- Explore the option of bridge financing (loan) and the prospects for setting up a Revolving Infrastructure Fund (RIF). Bridge financing will allow the Council to forward fund infrastructure items where necessary, which would enable large sites to be unlocked or brought forward earlier and benefits to materialise sooner. The size of the bridge finance is influenced by the distribution of the infrastructure gap over time. Initially this loan could be underpinned by prudential borrowing. S106, CIL and other forms of developer contributions and grant funding would be used to repay the loan. Additional details on ta RIF are provided in the appendix.

APPENDIX – OTHER SOURCES OF FUNDING

Introduction

This section considers the degree to which funding from development and other funding sources / finance mechanisms could help SBC meet the infrastructure costs of its emerging Local Plan.

Funding from Development

New Homes Bonus (NHB)

The New Homes Bonus (NHB), a programme which began in 2011, creates an incentive for local authorities to deliver new housing. It is based on the Government match-funding council tax raised from new homes for the six years which follow delivery. The DCLG has set aside a grant of over £1 billion over the Spending Review period (2011 to 2015) to fund the scheme.

Local councils can decide how to spend the NHB. There is an expectation that local councils will consult their communities about how they spend the money, especially in places where housing stock has increased. Councils have tended to incorporate NHB into their general capital plans rather than setting it aside for infrastructure spending. However there is a good case for investing NHB in infrastructure which supports housing delivery so as to create a virtuous cycle of future growth and NHB receipts.

For the five years from 2011/12 to 2015/16, SBC received over £3.7m in New Homes Bonus. This was the result of delivering 1,056 housing units that were either newly developed or brought into use. The average amount of revenue secured per housing unit (including the top up for affordable housing) was about £3,551. (In two-tier authorities such as SBC, the split of NHB is 80/20 between the Borough and County Council, respectively.

SBC uses a proportion of its NHB income to fund infrastructure projects. Infrastructure that has recently benefitted from NHB income includes the Town Centre Walkway Improvements Project, a new skate park, and a World War I Memorial.

Prior to the general elections, the central government indicated that it would revisit the programme. Given that the Government has returned to power, it is assumed that the future of the programme will be considered.

National Non-Domestic Rates retention

In 2013 the Government introduced a new system of business rates retention. The programme gives local authorities the power to retain up to half of business rate income instead of transferring all of it to the central government. The half kept by local authorities can be used on a discretionary basis by the local authority.

Public Sector Grants / Funding Programmes

This section covers the potential sources of funding and grants which could be used to pay for infrastructure. It also outlines other potential sources of public sector finance which could be used to meet upfront infrastructure costs.

There are a number of funding sources which the Council and other public sector stakeholders could directly tap into to deliver infrastructure. These could be used to directly fund infrastructure (subject to rules on eligibility, State Aid and match-funding), or alternatively as a revenue stream to service debt. The potential funding and financing sources available are briefly described below.

Hertfordshire Growth Deal/Local Growth Fund

The Hertfordshire Growth Deal is agreed between the Government and the LEP as a means to devolving fiscal power away from Westminster and serving as a catalyst for economic growth. In Hertfordshire it is focused on three Growth Areas which are defined around key road and rail corridors including the A1(M) corridor which has a direct impact on Stevenage.

This funding is channelled through the Local Growth Fund. To date, the region has secured £199.2m in funding through this mechanism. £50.2m has already been committed, with an additional £20.9m for this fiscal year (2015/16) and a further £126.1 through to 2021.It is anticipated that this investment will bring in an additional £180m in funding from other partners and the private sector.

Much of the funding is targeted towards the delivery of transport infrastructure and has been secured with input and guidance from the Hertfordshire Local Transport Body which submits project bids. Of direct benefit to Stevenage is the targeting of the A1(M) corridor. The Government has committed to £16m including £2m during the current fiscal year (2015/16) to bring forward ‘flagship’ sites in the corridor for housing and employment. It has committed an additional £3.8m (including £1.3m this fiscal year) to enhance transport connectivity.

Another scheme which will benefit Stevenage includes a £3m commitment this fiscal year towards Phase 2 of the Bioscience Catalyst.

Growing Places Fund

In 2011 the central government announced the £500m Growing Places Fund (GPF) aimed at kick-starting development to generate jobs and homes. GPF is a fund managed by DCLG and DfT and is used to invest in key items of infrastructure which enable development. It is a revolving pot in which the invested funds are returned to the fund administrator which, for Stevenage, is the Hertfordshire LEP. The total allocation of the GPF to the Hertfordshire LEP is £16.2m.

The LEP initially received 15 submissions for projects and has allocated funding to the first round of projects across three projects totalling about £14m. SBC had submitted two schemes for the funding programme but was unsuccessful.

Evergreen Infrastructure Fund

As part of the Hertfordshire LEP’s Growth Deal (discussed below), the £12.5m Evergreen Infrastructure Fund (IEF) was set up. The fund will be used to support a number of regeneration schemes. The first project funded by IEF was in Bishop’s Stortford and South Oxhey to support the delivery of 2,910 homes.

Local Infrastructure Fund

The Local Infrastructure Fund (LIF) supports investment in projects that support the delivery of large housing sites and bring surplus public land back into use. It is also used to support a select number of Enterprise Zones which are being used to support the business sector. Both public and private sector entities may submit bids. LEPs are expected to play a key role in submitting or coordinating bids.

European Structural and Investment Funds

The 'European Structural and Investment Funds Growth Programme for England' is a combination of the European Regional Development Fund (ERDF), the European Social Fund (ESF) and part of the European Agricultural Fund for Rural Development (EAFRD). The LEPs were informed in June 2012 of their provisional allocations of the European Regional Development Fund and the European Social Fund for 2014-2020, which total to over £5 billion for England as a whole.

The Department for Communities and Local Government (DCLG) recently opened the first round of calls. The ERDF programme is managed by DCLG, the ESF programme by DWP, and the EAFRD programme by DEFRA. These calls/specifications are broken down by EU thematic priority and LEP area priorities. As this is the initial launch of the programme, not all priorities are covered in this first call. The following is the status of the three funds in this category:

- ERDF – A call for projects under priority theme (1) Research, Technological development and Innovation and priority theme (3) Enhancing the competitiveness of SMEs has been called. The closing date for applications is June 2015. There is an expectation that a further call will be made for more projects under themes 1 and 3 as well as theme 4 which is about supporting the shift towards a low carbon economy in the period June to September 2015.
- ESF – Although the programme launch has taken place the first tranche of calls/specifications will be released by our chosen Opt-in organisations i.e. SFA, DWP and Big lottery Fund and this will hopefully happen in late May or early June 2015
- EAFRD – Although the programme launch has taken place we are not expecting to release our first call until this summer. As with ERDF the first call for projects will be published on the Gov.UK website.

JESSICA (Joint European Support for Sustainable Investment in City Areas)

JESSICA funds are a special support instrument within the ERDF. It was developed in partnership with the European Investment Bank (EIB) and 'supports sustainable urban development and regeneration through financial engineering mechanisms.' JESSICA promotes sustainable urban development by supporting projects in the following areas:

- Urban infrastructure – including transport, water and energy
- Heritage or cultural sites – for tourism or other sustainable uses
- Redevelopment of brownfield sites – including site clearance and decontamination
- Creation of new commercial floor space for SMEs, IT and/or R&D sectors
- University buildings – medical, biotech and other specialised facilities
- Energy efficiency improvements

Public Sector Sources of Finance for Infrastructure

Whilst the preceding section outlined the potential additional sources of public sector funding and grants available to pay for infrastructure, it could be the case that infrastructure costs will need to be met upfront and therefore require some form of bridge finance. The key source of public sector finance available is prudential borrowing.

Prudential Borrowing

The public sector can borrow from the Public Works Loan Board (PWLB) at a low cost to fund its spending and represents a key source of finance which could be used to fund infrastructure. At present nearly all borrowers are local authorities requiring loans for capital purposes. The Commissioners are legally required, before making a loan, to ensure that there is sufficient security for its repayment. Moneys are drawn from the National Loans Fund and rates of interest are determined by the Treasury.

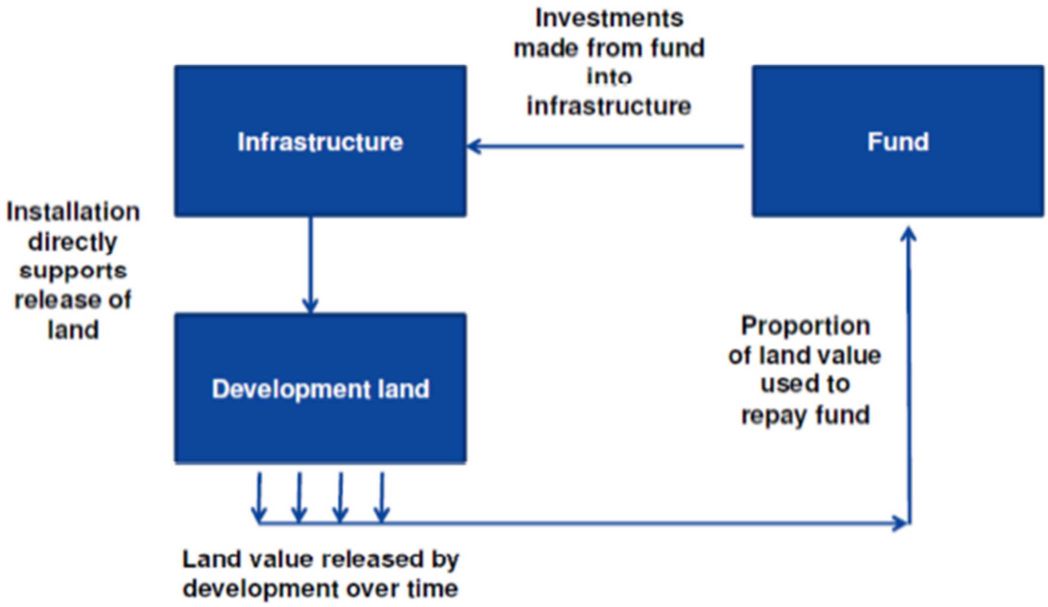
Local authorities use prudential borrowing for a wide range of purposes including efficiency savings; more efficient procurement; economic development and regeneration; partnership working; central government targets; better market operation; better capital programming; cheaper funding options; better asset management; and innovation.

The Local Government Act 2003 introduced new freedoms and flexibilities for local authorities allowing them to increase their prudential borrowing. Borrowing is regulated by the prudential regime and must be in accordance with the Prudential Borrowing Code. Local authorities can borrow to invest in capital works and assets so long as the cost of borrowing is affordable and in line with the principles set out in a professional Prudential Code. Local authorities must use various prudential indicators to judge whether their capital investment plans are affordable, prudent and sustainable. The main limiting factor on the council's ability to undertake capital expenditure is whether the revenue resource is available to support in full the implications of capital expenditure.

In summary prudential borrowing represents a key source of affordable finance which could be used to meet the upfront costs of key infrastructure. The proceeds from development and alternative sources of funding and grants could then be used to repay this capital loan. However, whilst this could help meet the upfront costs of infrastructure, it will increase the overall costs due to the need to service debt on the loan. This interest rate could change over time leading to the need for lower or higher payments to finance debt.

Revolving Infrastructure Fund

The figure over the page illustrates the concept of RIF, which involves raising cash upfront to fund (in whole or in part) physical infrastructure, which in turn unlocks development potential. Following the successful achievement of development value the RIF finance can be repaid and recycled into new schemes.



Source: Guidance note on Revolving Infrastructure Funds, HCA, 2012

Using prudential borrowing to raise the initial finance required, a RIF pot could be set up to help forward fund infrastructure funding requirements. Investment would be recovered via incomes including business rate revenues with any surplus generated from business rates would be used to reduce the RIF loan.