

Report to: Cabinet



Date of Meeting 4 May 2022

Document classification: Part A Public Document

Exemption applied: None

Review date for release N/A

Cranbrook Local Infrastructure Fund

Report summary:

This report follows on from one on the same subject that was considered by Cabinet in July 2021. It puts forward proposals for how the Cranbrook Local Infrastructure Fund can be constituted and operationalised including associated decision making. Endorsement is sought for an eight stage process in this respect. The Fund will benefit residents and help to address ongoing viability challenges in relation to the expansion areas for Cranbrook.

Is the proposed decision in accordance with:

Budget Yes ☐ No ☒

Policy Framework Yes ☒ No ☐

Recommendation:

That Cabinet endorse the eight stage process for operationalising the Cranbrook Local Infrastructure Fund as set out in paragraph 2.5.

Reason for recommendation:

To enable the Cranbrook Local Infrastructure Fund to be established and for individual investments to come forward.

Officer: Thea Billeter, Cranbrook New Community Manager, tbilleter@eastdevon.gov.uk, tel 01395 571687, Andy Wood, Service Lead – Growth, Development & Prosperity, adwood@eastdevon.gov.uk, tel 01395 571743

Portfolio(s) (check which apply):

- ☒ Climate Action and Emergency Response
- ☒ Coast, Country and Environment
- ☐ Council and Corporate Co-ordination
- ☐ Democracy, Transparency and Communications
- ☒ Economy and Assets
- ☒ Finance
- ☒ Strategic Planning
- ☒ Sustainable Homes and Communities
- ☒ Tourism, Sports, Leisure and Culture

Equalities impact Low Impact

Climate change High Impact

Risk: High Risk; Historically the funding for revolving infrastructure fund investments has come from government agencies. This source is no longer available so local leadership is required to establish an equivalent mechanism. This will require the Council to borrow substantial funds with the associated risk around repayment. There are though established mechanisms for managing this risk including bespoke legal agreements and security arrangements such as bonds or a charge over land. The Council has used this approach recently, albeit on a smaller scale, in relation to the funding package for upgrading Long Lane through the Enterprise Zone programme.

Links to background information [Cranbrook Local Infrastructure Fund – Strategic Planning Committee July 2021](#) [Cranbrook Infrastructure Delivery Plan June 2021](#) [Viability Report for the Cranbrook Plan \(2021 addendum\)](#) [Development appraisal tool - modelling £30m fund for Cranbrook infrastructure \(test k\)](#) [Cranbrook Local Infrastructure Fund Agenda for Cabinet on Wednesday, 28th July, 2021, 6.00 pm - East Devon](#) item 9

Link to [Council Plan](#)

Priorities (check which apply)

- ☒ Better homes and communities for all
 - ☒ A greener East Devon
 - ☒ A resilient economy
-

1 Background and context

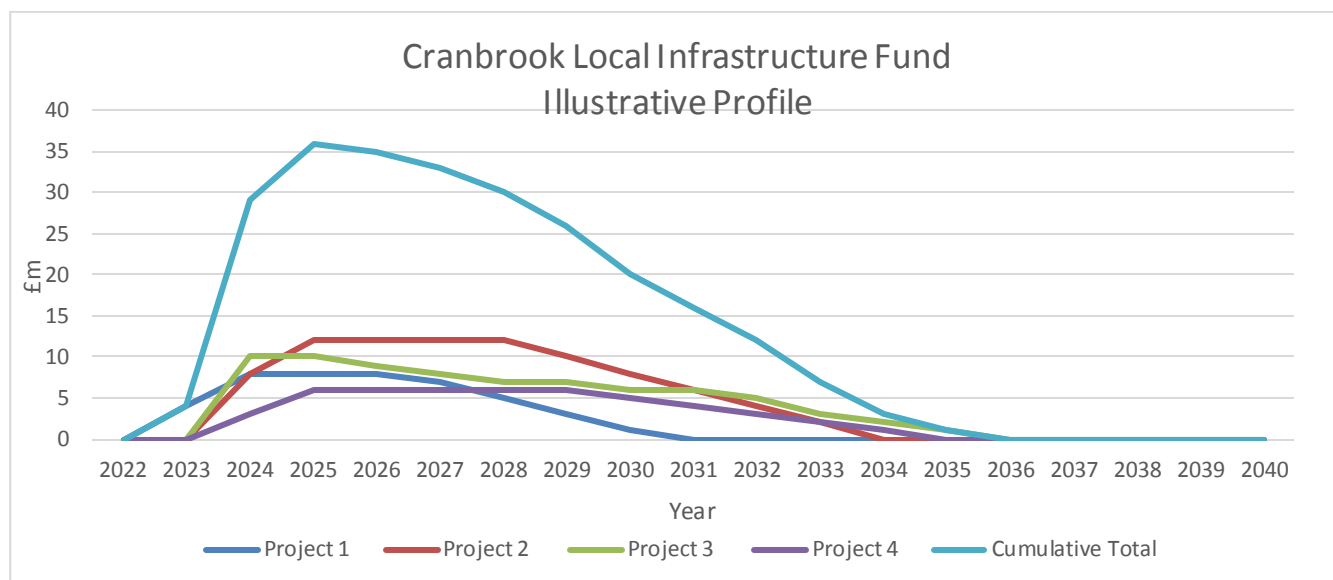
- 1.1 High up front infrastructure costs are a known barrier to the delivery of large scale developments. These can create cash flow challenges for developers and add significantly to the risk profile of a project. Where the benefit of the infrastructure improvement accrues across multiple developer parties (so called common infrastructure) it can be difficult to ensure that each developer contributes fairly and proportionately to the overall cost. In turn this can lead to delays or even stall development. But from a community development and place making perspective the same infrastructure is usually critical to meeting the needs of residents and underpinning the creation of sustainable communities.
- 1.2 Ensuring the timely and cost effective delivery of critical infrastructure is therefore a key challenge for Cranbrook. Cabinet considered a report on the potential establishment of a revolving infrastructure fund for Cranbrook in July 2021 as part of a meeting which focused solely on the town. This paper highlighted how revolving funds had been successfully utilised in Cranbrook over past decade to accelerate the delivery of critical infrastructure, notably the two new schools, and to achieve wider sustainability benefits. Cabinet resolved to recommend to Council that there is in principle agreement to borrow up £40m from the Public Works Loan Board to capitalise the Cranbrook Local Infrastructure Fund and that a further report setting out the detailed Terms of Reference for the Fund would be considered at a future meeting.
- 1.3 This report follows up on the latter resolution. It sets out an eight stage process as to how the Fund would operate. This includes detailing how projects would be selected and associated decision making.

2 How would a revolving fund operate?

- 2.1 Revolving infrastructure funds are in essence a cash flow tool. They help to accelerate the delivery of expensive, big ticket items of infrastructure by forward funding them and then recouping the costs from benefiting developers on a roof tax basis as new homes are developed and sold. As detailed in the July 2021 Cabinet paper, work undertaken in relation

to the viability assessment for the Cranbrook Plan helped to demonstrate that such a fund would have a significant beneficial impact in terms improving overall viability. This is essentially driven by the difference between the rate at which the Council can borrow funds through the Public Works Loan Board (at around 2%) and the current commercial borrowing rates (6%+). There are additional benefits associated with this approach in terms of helping to manage down overall risk and also securing wider sustainability and place making benefits.

2.2 In order to help to demonstrate how a fund would operate an illustrative spend/recovery profile is set out below;



2.3 The key features of this illustration are as follows;

- Four infrastructure projects ranging in value from £6m to £12m
- All projects start on site in 2023 or 2024
- Peak borrowing of £36m in 2025
- Quickest payback period is 5 years, longest 10 years
- Full repayment by 2036
- Opportunity for reinvestment in further projects opens up over time with £20m being available from 2030

It can be seen that for each project there are three phases – a steep rise in expenditure as the infrastructure is constructed, a plateau as the associated housing comes forward and then a downward slope as repayment triggers are reached and the funds are recouped.

2.4 In order to help to frame how the Fund would operate three guiding principles are proposed as follows;

- 1) Community benefit – the specific infrastructure projects that the Fund will invest in must have a benefit/role that accrues beyond an individual development site and be drawn from the Infrastructure Delivery Plan for Cranbrook.
- 2) Cost neutral – the operation of the Fund must be cost neutral to the Council which will principally be achieved through placing an additional margin on the cost of borrowing
- 3) Security of repayment – Developers will need to offer security (either in the form of a bond, a parent company guarantee or a charge over land) to underwrite the repayment of the funds in addition to agreeing a long stop date by which time all funds will need to have been repaid.

- 2.5 Taking account of the guiding principles, an eight stage process is proposed in terms of how the Fund will operate. The Cranbrook Strategic Delivery Board will provide oversight of the Fund. Decision making in relation to individual projects will continue to rest with Cabinet with the advice of the Board being captured in associated reports. The proposed process is set out below;

<p>Stage 1: Project identification and definition</p> <p>Project is identified by officers in line with the policies and proposals of the Cranbrook Plan and the associated Infrastructure Delivery Plan</p> <p>Project is scoped including the following;</p> <ul style="list-style-type: none">• Strategic fit• Expected cost• Lead partner• Delivery timeline• Key risks and mitigation thereof• Benefiting number of homes• Qualifying developer/landowner parties• Proposed repayment mechanism including security provisions, payment triggers, long stop dates and associated interest rates
<p>Stage 2: Cranbrook Strategic Delivery Board</p> <ul style="list-style-type: none">• Investment proposal is submitted to Cranbrook Strategic Delivery Board• Advice is captured including input from Town and County Councillors
<p>Stage 3: Cabinet</p> <ul style="list-style-type: none">• Formal investment proposal is submitted to Cabinet• Report to set out the key provisions of the proposed investment alongside the repayment mechanism• Advice of the Cranbrook Strategic Delivery Board to be included in the report
<p>Stage 4: Full Council</p> <ul style="list-style-type: none">• Ratification at full Council
<p>Stage 5: Legal agreement</p> <ul style="list-style-type: none">• Funding agreement entered in to with main delivery partner (if not EDDC)• Funding agreements entered in to with relevant developer parties
<p>Stage 6: Construction</p> <ul style="list-style-type: none">• Project starts on site with progress reports made to Cranbrook Strategic Delivery Board
<p>Stage 7: Monitoring and repayment</p> <ul style="list-style-type: none">• Ongoing monitoring including in relation to repayment triggers
<p>Stage 8: Annual report</p>

- | |
|---|
| <ul style="list-style-type: none">• An annual report to Cabinet setting out the financial position of the Fund in terms of project investment and associated expenditure and recovery |
|---|

2.6 This process is considered to provide a robust framework for successfully deploying the funds and ensuring that there are the checks and balances in place necessary to ensure recovery of monies such that the Fund can operate on a revolving basis going forward. It is a specific recommendation of this report that this methodology is endorsed.

3 Project selection

3.1 Suggested criteria are outlined above as to the types of project that will benefit from forward funding. This includes the need for there to be wider community benefit and for the project to be identified within the Cranbrook Infrastructure Delivery Plan. In order to provide greater definition of the types of projects that will come forward an initial cohort of potential investments has been developed. This is set out in the table at Appendix A.

3.2 It can be seen that these projects range from bringing forward the next primary school to ensuring a comprehensive enhancement scheme for London Road to turn it from a road in to street that is orientated towards supporting pedestrians and cyclists. The overall quantum of funding required by these projects is in excess of the £40m that currently has in principle agreement. A first key task therefore will be to come forward with a prioritised list of investments to the Cranbrook Strategic Board based on this table. This can then support individual investment proposals.

4 Assessment

4.1 Utilising revolving infrastructure funds is a proven mechanism for helping to support the delivery of strategic scale developments such as Cranbrook. In this way the delivery of critical infrastructure can be accelerated whilst also overcoming potentially prohibitive cash flow issues. The viability work for the Cranbrook Plan highlights the positive impact that such a fund can have in financial terms alone. Significant community development and sustainability benefits can also accrue on top of this.

4.2 In the absence of such funding being available from Government agencies the Council needs to play a leading role in both constituting and capitalising the proposed Fund. The importance of this is only heightened by the fact that the delivery of the Cranbrook expansion areas will be outside of a single consortium-ised model.

4.3 This report sets out what is considered to be a robust methodology for operationalising the Fund. This approach is clearly not without financial risk to the Council. There are though proven mechanisms for safeguarding repayment of the monies. Equally through applying an additional margin to the borrowing cost this will ensure that the any associated costs to the Council, for example in terms of preparing legal agreements, are covered.

4.4 The Council establishing the Fund also has the advantage of us being able to manage how the repaid funds are re-invested whereas previously the equivalent funds have gone back to the Treasury nationally. This is significant in the context of the Local Plan review. Arguably the greater risk is that without the Fund, Cranbrook could be left bereft of elements of the critical infrastructure needed to support an ultimate population of around 20,000 people or at the very least, delivery could end up being delayed beyond when the infrastructure is required.

5.0 Conclusion

- 5.1 Forward funding helps to facilitate an infrastructure-led approach which ensures that critical improvements remain firmly in step with, or even in advance of, development coming forward. Constituting a local infrastructure fund for Cranbrook will demonstrate real leadership from the Council in enabling the delivery of critical infrastructure to support the growing population of the town.
-

Financial implications:

The financial implications are detailed in the report, the Fund will support key delivery objectives of the Council and is designed to be cost neutral or better for the Council.

Legal implications:

As has been noted previously, what is proposed is within the powers of the Council and the approach to governance and decision making appears acceptable and reasonable. Legal will be involved in the due diligence process and completion of the legal paperwork associated with each project coming forward to ensure that appropriate documentation is in place and to ensure that the repayment of any funding is appropriately secured.