

Report to: **Cabinet**



Date of Meeting 28 July 2021

Document classification: Part A Public Document

Exemption applied: None

Review date for release N/A

Cranbrook Local Infrastructure Fund

Report summary:

This report puts forward a proposal for the establishment of a revolving infrastructure fund to support the delivery of critical infrastructure in step with new homes as an essential part of the continued expansion of the Cranbrook new community. The report highlights how an equivalent mechanism has been used successfully in the past to enable infrastructure, such as new schools, to be brought forward and delivered at the earliest opportunity. The proposals would both 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 members;

- 1) Note the significance of revolving infrastructure funds to both the past delivery of infrastructure at Cranbrook and the potential impact in terms of improving viability in relation to the future expansion areas
- 2) Recommend to Council that there is an in principle agreement to borrow up to £40m from the Public Works Loan Board to capitalise the Cranbrook Local Infrastructure Fund
- 3) Consider a further report setting out the detailed Terms of Reference for the Fund at a future Cabinet meeting

Reason for recommendation:

To ensure the cost effective and timely delivery of critical infrastructure to support the continued development of the Cranbrook new community.

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Portfolio(s) (check which apply):

- ☐ Climate Action and Emergencies
- ☐ Coast, Country and Environment
- ☐ Council and Corporate Co-ordination
- ☐ Culture, Tourism, Leisure and Sport
- ☐ Democracy and Transparency
- ☐ Economy and Assets
- ☒ Finance

- ☒ Strategic Planning
- ☒ Sustainable Homes and Communities

Equalities impact Low Impact

Climate change Medium 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 \(test k\)](#)

Link to [Council Plan](#):

Priorities (check which apply)

- ☒ Outstanding Place and Environment
 - ☒ Outstanding Homes and Communities
 - ☒ Outstanding Economic Growth, Productivity, and Prosperity
 - ☒ Outstanding Council and Council Services
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1.0 Background

- 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. Arguably Cranbrook has been at the forefront nationally of the use of revolving infrastructure funds to help address and unlock this challenge. In 2008 the Cranbrook Consortium entered in to funding agreements with the Regional Development Agency to utilise £12m from the Regional Infrastructure Fund. This was to support the delivery of the main spine road, the Clyst Honiton By-pass and the first primary school. The funds were to be repaid on a roof tax basis as the development proceeded and house sales were made. From a developer perspective this had the twin effect of both improving cash flow and managing down risk.
- 1.3 The net result of this funding was threefold. Firstly it enabled the development to commence at a time when the country was only recently emerging from one of the deepest recessions in living memory. Secondly it brought forward the timing of key infrastructure improvements. A

particular highlight here was St Martin's primary school which opened in September 2012. This was at a point when there were only a handful of completed homes at Cranbrook, well in advance of the trigger in the section 106 agreement of 500 homes. The availability of places and the role of the school at the centre of the community cemented Cranbrook's attractiveness in the housing market place to young families which in turn supported accelerated house sales. As such, a potential barrier to delivery became very much a selling point. Finally the revolving funds were made available on the basis of wider conditions being met, particularly the roll out of district heating which underpins Cranbrook's sustainability credentials. This was over and above what was possible in planning policy terms at the time.

- 1.4 A further £20m of revolving funds were secured from the Government's Local Infrastructure Fund in 2013, the first such investment in the country. This helped to bring forward the delivery of the Cranbrook Education Campus that opened in September 2015 alongside extending the main spine road. Again these funds were repaid by members of the Cranbrook Consortium as development proceeded and house sales were made.

2.0 Cranbrook Development Plan Document

- 2.1 The Cranbrook Development Plan Document (the Plan) sets the framework for the future expansion of the town from the 3,500 homes that currently have the benefit of planning permission to circa 7,800 homes. This will be used as the basis for determining the live planning applications.
- 2.2 The Plan is currently in the process of Examination in Public by The Planning Inspectorate with the main outstanding issue relating to viability. The infrastructure required to facilitate and support the delivery of the additional 4170 homes within a fledgling new town is significant and the early phasing of big ticket items such as new schools can place a cash flow burden upon developers. The delivery of these items early within the next phase of development is further complicated by the reality that going forward, and unlike the first phases of development, there will be no single consortium of developers. This effectively removes the ability to internalise the delivery of common infrastructure within a single commercial structure. In response the Plan and its associated Infrastructure Delivery Plan (IDP) seek to equalise infrastructure costs so as to ensure that no one site has an uneven or disproportionate cost burden.
- 2.3 With several of the developers for the expansion areas expressing concerns over the viability of the Plan, the ability to absorb some of the risk and reduce costs via forward funding is attractive to the developers and may help to remove barriers to the delivery of these expansion areas. This is essential to the continued delivery of housing in East Devon and also crucial in providing a wider complement of social and community infrastructure to support the resultant town and its surrounding villages.

3.0 Proposal: Cranbrook Local Infrastructure Fund

- 3.1 The viability assessment accompanying the Plan assumes that the cost of capital to private sector developers is 6%. This is considerably higher though than the Public Works Loan Board rates that the Council can access. As part of recent work to deliver cost savings in the Plan the principle of a £30m infrastructure fund was modelled and participants to the viability hearings asked for informal comments. The modelling indicated that approximately £9 million from the overall development costs could be saved in interest payments. The response from participants was generally positive, with the four parties with the largest land interests in the expansion areas stating that they welcomed the principle and would be willing to work with the Council to develop the concept.

- 3.2 It is expected that the fund would be used to help deliver a number of pieces of critical infrastructure for the Cranbrook expansion with all potential items already recognised within the Cranbrook Infrastructure Delivery Plan - a link is provided to the Plan in the background information section of this report. Critical to the commencement and establishment of the expansion areas is the delivery of the first primary school, the health and wellbeing hub and improvement works to the B3174 London Road which acts as a spine off which the four expansion areas would be delivered. These three elements of infrastructure come with an accompanying cost of between £20m and £24 (the cost is dependent upon whether the 2 form entry or 3 form entry primary school is delivered first).
- 3.3 Other critical infrastructure which would also benefit from forward funding include a community centre, second primary school and enhanced bus service delivery, as well as contributions towards the delivery of Extra Care provision, and secondary education. A link to the financial modelling work that has been undertaken in support of the Cranbrook Plan is included in the background links.

How would a revolving infrastructure fund work?

- 3.4 Whilst the precise detail of the operation would need to be further refined the main steps are set out below;
- Critical infrastructure improvements are identified in the Plan and accompanying IDP
 - A schedule of proposed investments (with costs and timing) are brought to the Cranbrook Strategic Delivery Board including details on who would be responsible for delivering specific items of infrastructure
 - Individual investments are presented to Cabinet and Council together with the advice from the Strategic Delivery Board
 - Subject to approval the Council borrows the funds to forward fund the infrastructure and enters in to legal agreements with relevant developer parties to recoup the funds over time
 - Regular monitoring/progress reports are made to the Cranbrook Strategic Delivery Board/Cabinet
- 3.5 It is anticipated that developers would be responsible for both the capital sum and the associated interest such that the cost of the Fund would be broadly cost neutral to the Council.
- 3.6 Since a potential £30million revolving infrastructure fund was modelled by our viability consultants further potential costs associated with delivering the requiring electricity infrastructure to service the expansion areas have been identified. This is currently being explored further with Western Power Distribution with a view to framing how proposals to enhance overall capacity can be brought forward. To cater for this scenario and allow for potential flexibility Members are asked to consider the principle of establishing a fund of up to £40million.

4.0 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 approach is clearly not without financial risk to the Council. There are though proven mechanisms for safeguarding repayment of the monies. The Council establishing the Fund also has the advantage of being able to manage how the repaid funds are re-invested whereas previously the equivalent funds have gone back to the Treasury nationally. 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 would demonstrate real leadership from the Council in enabling the delivery of critical infrastructure to support the growing population of the town.
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Financial implications:

This is an in principle recommendation to Council to enable further work to progress to bring back details to Cabinet and Council for final decision. The principle, that needs to be evidenced, is that there will be no cost implications for the Council.

Legal implications:

It is within the power of the authority to borrow money for the purpose identified and utilise it in the way proposed. As this is an 'in principle' decision, the detail of how the Revolving Infrastructure Fund will work in terms of the release of funds and crucially repayment of them will need to be subject to detailed consideration and comment at the appropriate time.