06

DELIVERY AND FUNDING

FUNDING IS THE BIGGEST RISK TO DELIVERING INFRASTRUCTURE. AS THIS DOCUMENT HIGHLIGHTS, THERE ARE PRESENTLY SIGNIFICANT GAPS IN FUNDING OF ALL TYPES OF INFRASTRUCTURE ACROSS THE COUNTY. WITH THE SHAPE AND LEVEL OF PUBLIC SECTOR FUNDING VERY DIFFICULT TO PREDICT SURREY LOCAL AUTHORITIES AND THEIR INFRASTRUCTURE DELIVERY PARTNERS FACE SIGNIFICANT FUNDING CHALLENGES TO ENSURE THE DELIVERY OF INFRASTRUCTURE TO SUPPORT EXISTING AND FUTURE RESIDENTS.

In light of this funding challenge delivery partners must explore every potential avenue of funding as part of the project delivery process. This chapter sets out:

- Organisations within Surrey with access to funding and their respective funding source options which could be relevant to infrastructure delivery.
- A high level analysis of the ability of developer contributions through Section 106 agreements and the Community Infrastructure Levy to deliver infrastructure, recognising the dependence on overall scheme viability relating to land values across Surrey.
- Other potential sources of funding.

The funding situation outlined in this chapter reflects current knowledge of approaches to the delivery and funding of infrastructure. However, an important point to note is that over the document time period (to 2031) at least three general elections will take place. This makes it difficult to predict the policy towards various types of infrastructure (health, education, transport etc.) in five years' time, and even in one years' time.

To illustrate this point, an education authority working 10 years ago, planning for an additional secondary school forecast as required in 2015 would have been unaware of the forthcoming creation of the Building Schools for the Future (BSF) programme, the subsequent abolition of that BSF programme, the Academies model and the recent direction towards free schools. Surrey local authorities can only work with what is currently known which highlights the need for flexibility - essential to accommodate the inevitable changes to delivery and funding over the planning period.

6.1 RELEVANT ORGANISATIONS WITH ACCESS TO FUNDING

AS IDENTIFIED IN EARLIER CHAPTERS THERE ARE A WIDE RANGE OF ORGANISATIONS RESPONSIBLE FOR THE DELIVERY AND FUNDING OF INFRASTRUCTURE WITHIN SURREY. THIS SECTION PRESENTS AN OVERVIEW OF THESE ORGANISATIONS AND THEIR SOURCES OF FUNDING.

SURREY COUNTY COUNCIL

As set out in previous sections SCC is responsible for providing many key local services and oversaw a gross annual expenditure of £1.85 billion in the financial year 2014/15. SCC is responsible for managing public money in the provision of these services including schools, social services, the fire service, roads, libraries, trading standards, land use, transport planning and waste management. SCC is the transport authority responsible for delivering the majority of the transport-related infrastructure to support development proposals in each local authority within Surrey.

Transport infrastructure projects in Surrey are funded through a blend of funding sources including Department for Transport grants, developer contributions and from other sources within SCC.

Education and Children's Services represents the biggest outlay, in 2014/15 gross expenditure was over £1 billion, although the majority of costs are covered through government grants.

BOROUGH AND DISTRICT COUNCILS

The main services provided by the majority of local authorities include:

- Planning and Development Control
- Environmental Health
- Housing
- Leisure and Recreation
- Waste Collection

Sources of finance for local authorities include receipts from Council Tax distributed by Central Government, developer contributions (S106 or CIL) for specific local level infrastructure and service income.

The following additional funding sources are also now available to local authorities to support development growth:

- **New Homes Bonus** - this commenced in April 2011, and will match fund the additional council tax raised for new homes and empty properties brought back into use, with an additional amount for affordable homes, for the following six years. It is based on the council tax of additional homes and those brought back into use, with a premium amount for affordable homes, and paid for the following six years.
- **Retention of business rates** A business rates retention scheme was introduced in April 2013. It will provide a direct link between business rates growth and the amount of money councils have to spend on local people and local services. Councils will be able to keep a proportion of the business rates revenue as well as growth on the revenue that is generated in their area.

HIGHWAYS ENGLAND

Highways England (formally the Highways Agency) become a publicly owned corporation on 1st April 2015. Highways England reports to the Department for Transport and has responsibility for managing the Strategic Road Network in England. It operates a variety of information services, liaises with other government agencies as well as providing staff to deal with incidents on their roads.

Highways England responsibilities most relevant to the growth plan include undertaking large scale improvements through a programme of major schemes, carrying out routine maintenance of roads, structures and technology to make the network safe, serviceable and reliable and making sure traffic can flow easily on major roads and motorways.

A 'Road investment strategy' (RIS) sets out a long-term programme for UK motorways and major roads. Between 2015 and 2020, the first RIS will see £15.2 billion invested in over 100 major schemes to enhance, renew and improve the network nationwide.

Recent government announcements have confirmed a £1.4 billion package of 18 new road schemes in London and South East of England and of particular importance to Surrey a strategic study to look at long-term answers to conditions on the south-west quadrant of the M25, that can make the route effective for a generation to come.

NETWORK RAIL

Network Rail owns the infrastructure, including the railway tracks, signals, overhead wires, tunnels, bridges, level

crossings and most stations, but not the passenger or commercial freight rolling stock.

Although it owns over 2,500 railway stations, it manages only 19 of the biggest and busiest of them, all the other stations being managed by one or other of the various train operating companies.

Track renewal, the ongoing modernisation of the railway network by replacing track and signalling, continues to be carried out by private engineering firms under contract.

ENVIRONMENT AGENCY

The Environment Agency (EA) is a non-departmental public body, established in 1996 and sponsored by the United Kingdom government's Department for Environment, Food and Rural Affairs (DEFRA), with responsibilities relating to the protection and enhancement of the environment in England.

There are two "policy and process" directorates. One deals with Flood and Coastal Risk Management and the other with Environment and Business. These are backed up by the Evidence directorate. The fourth directorate is a single Operations "delivery" unit, responsible for national services, and line management of all the Regional and Area staff.

As a risk management authority, authorities can apply for an allocation of government funding annually from the Environment Agency (EA). Authorities can use flood and coastal erosion risk management grant in aid (FCERM GiA capital grants) towards the costs of building new flood and coastal erosion defences. The amount of government funding the EA allocates to a project depends on the public benefit it provides. Benefits include reducing flood risk to households, businesses and infrastructure and creating habitat for wildlife.

Authorities would need to apply to the FCERM Programme a year in advance. For example, to apply for an allocation for a project starting in April 2016, Authorities need to submit details in the 2015 submission period.

NHS COMMISSIONING (NHS ENGLAND AND CLINICAL COMMISSIONING GROUPS)

NHS commissioning is the process of planning, agreeing and monitoring services. This includes the development of new buildings and health infrastructure.

Commissioning is not one action but many, ranging from the health-needs assessment for a population, through the clinically based design of patient pathways, to service specification and contract negotiation or procurement, with continuous quality assessment.

The NHS commissioning system was previously made up of primary care trusts and specialised commissioning groups. Most of the NHS commissioning budget is now managed by 209 clinical commissioning groups (CCGs). These are groups of general practices which come together in each area to commission the best services for their patients and population.

Nationally, NHS England commissions specialised services, primary care, offender healthcare and some services for the armed forces. It has four regional teams but is one single organisation operating to a common model with one board.

The NHS recognise that there is no single geography across which all services should be commissioned: some local services can be designed and secured for a population of a few thousand, while for rare disorders, services need to be considered and secured nationally. In Surrey therefore, there is no single commissioning body that adheres to the County boundary.

CCGs and NHS England are supported by new commissioning support units (CSUs).

The CCGs and NHS England receive direct funding for commissioning from the Government. In some instances they may also be recipients of developer contributions or other sources of local funding.

LOCAL ENTERPRISE PARTNERSHIPS (LEPS)

Surrey is covered by two cross-boundary LEPs:

- Enterprise M3 - which covers the M3 corridor to the west of the County
- Coast to Capital - which covers the corridor from Brighton to Croydon to the east of the County

LEPs are business-led, public/private bodies established to drive economic growth. With constrained public funding, the LEP need to find innovative ways to ensure the funding they receive has the greatest impact, and (where possible) creates future funding opportunities at the same time.

In March 2013, Lord Heseltine published a report on economic growth entitled 'No stone left unturned: in pursuit of growth', which outlined a number of new roles and responsibilities for LEPs. Since then the Government

established the Single Growth Pot, worth £2bn per year, that LEPs can bid into (the Growth Deal). LEPs are also now responsible for overseeing the creation of a European Funding Strategy for 2014-2020 for their individual areas.

With regards to funding, the LEP's role is to:

- Explore new ways of funding infrastructure and enterprise investment
- Identify the finance gap for innovative SMEs looking to expand
- Help develop a 2014-2020 European Funding Programme that meets the need of the area
- Design innovative financial models to make best possible use of Enterprise Zone Business Rates income and Growing Places Fund recycled funds
- Provide clear guidance on where help, support and finance is available for enterprises

Growth Deal
Enterprise M3 and Coast to Capital have received the following growth deals:

Enterprise M3
£118.1 million received in the first tranche of the Local Growth Fund announced in July 2014

A further £29.9 million award in the second tranche plus £42 million in loans from the Public Works Loan Board.

Identified to support 14 infrastructure projects to support creation of 4,000 new homes, 7,000 new jobs and attract up to £410 million public and private investment in Surrey and Hampshire.

Coast to Capital
The deal is worth £238m over six years, starting with investment of £41.5m of new funding in 2015/16.

This investment will unlock an additional £390m of investment from local public and private sector partners. Combined together this will create a total new investment package of £628m for the Coast to Capital region.

There will be a further £237m invested in new housing which will subsequently be enabled by this investment.

Overall, the Coast to Capital Growth Deal will deliver up to 21,000 jobs, 9,000 new homes and 380,000 sq m of employment space.

RELEVANT UTILITY COMPANIES

Utilities infrastructure delivery and funding is largely the responsibility of the relevant utility companies with connections to services also funded through site developers. Of importance to this business plan however is clarifying the procedure by which these utility companies consider development sites and how these are included within their own investment strategies.

Utility Providers are regulated by OFGEM and OFWAT; in principle, neither regulator supports installing new infrastructure on a speculative basis, rather they are reactive to providing supply to new developers once schemes are consented. However, if a robust business case that gives a good level of certainty that development will take place in a definite timescale is put to the Regulators, advance funding may be approved.

PARISH AND TOWN COUNCILS

Parish councils are the first tier of local government. They are elected corporate bodies, have variable tax raising powers, and are responsible for areas known as civil parishes. A parish council serving a town is called a town council, and has the same powers, duties and status as a parish council.

Local Parish and town councils have powers to provide some facilities themselves, or they can contribute towards their provision by others. There are large variations in the services provided by parishes, but they can include the following relevant to this business plan:

- Support and encouragement of arts and crafts
- Provision of village halls
- Recreation grounds, parks, children's play areas, playing fields and swimming baths
- Cemeteries and crematoria
- Public conveniences
- Provision of cycle and motorcycle parking
- Acquisition and maintenance of rights of way

The Council also has the power to raise money through taxation, the precept. The precept is the parish council's share of the council tax. The precept demand goes to the billing authority - the local authority - which collects the tax for the Parish Council.

Parish councils and associated neighbourhood forums also now receive a "meaningful proportion" of Community Infrastructure Levy receipts to the neighbourhoods affected by development, typically 15-25%. The scale of this contribution is directly linked to the number of homes developed in the Parish and the existing scale of the parish (in terms of dwellings). The meaningful proportion can be spent on anything to help mitigate the impact the development has on the town or parish. It is the decision of the town or parish council where the money is spent.

It should be noted that there is incomplete coverage of town and parish councils across the local authorities in Surrey with none in Epsom and Ewell or Spelthorne.

6.2 DEVELOPER CONTRIBUTIONS

DEVELOPER CONTRIBUTIONS' INCLUDE "SECTION 106 AGREEMENTS" HIGHWAY CONTRIBUTIONS KNOWN AS "SECTION 278 AGREEMENTS" AND THE COMMUNITY INFRASTRUCTURE LEVY (CIL). THIS SECTION PRESENTS AN OVERVIEW OF DEVELOPER CONTRIBUTIONS IN SURREY.

SECTION 106

Planning obligations under Section 106 of the Town and Country Planning Act 1990 (as amended), commonly known as s106 agreements, are a mechanism which make a development proposal acceptable in planning terms, that would not otherwise be acceptable. They are focused on site specific mitigation of the impact of development. S106 agreements are often referred to as 'developer contributions' along with highway contributions and the Community Infrastructure Levy.

The common uses of planning obligations are to secure affordable housing, and to specify the type and timing of this housing; and to secure financial contributions to provide infrastructure.

The legal tests for when you can use a s106 agreement are set out in regulation 122 and 123 of the Community Infrastructure Levy Regulations 2010 as amended. The tests are:

- necessary to make the development acceptable in planning terms
- directly related to the development; and
- fairly and reasonably related in scale and kind to the development.

The Government viewed S106 as providing only partial and variable response to capturing funding contributions for infrastructure. As such, provision for the Community Infrastructure Levy (CIL) is now in place.

In terms of developer contributions, the Community Infrastructure Levy (CIL) has not replaced Section 106 agreements. The introduction of CIL has resulted in a tightening up of the s106 tests. S106 agreements, in terms of developer contributions, should be focused on addressing the specific mitigation required by a new development. CIL has been developed to address the broader impacts of development. There should be no circumstances where a developer is paying CIL and S106 for the same infrastructure in relation to the same development.

Section 278 Agreements – Highways Act 1980 - Developer Funded Improvements Works to the Existing Highway

Where highway objections to proposals can be overcome by improvements to the existing highway, developers can enter an agreement that requires them to pay for or undertake such works. These works may include minor highway realignments, roundabouts, traffic signals, right-turning lanes, passing bays, etc. S278 funds are exempt from CIL pooling restrictions.

DEVELOPMENT VIABILITY

A development's ability to contribute to infrastructure is dependent upon the value it will generate and the costs required to deliver it. This in turn is in part dependent on the value of the land. The "viability" of a scheme will impact on its ability to contribute through Section 106, CIL and other contributions to supporting infrastructure such as highways provision, affordable housing, education and green infrastructure.

Residential Land Values across Surrey

Figure 6.1 illustrates average land values across local authorities in Surrey. This is based upon Valuation Office Agency (VOA) data an average price per hectare for land with planning permission for residential uses.

Across Surrey the average price ranges from £3,876,000 per hectare in Spelthorne to £7,081,000 in Elmbridge. In general it is not surprising that the local authorities with best connectivity to London (i.e Guildford, Woking, Elmbridge, Epsom & Ewell) have highest land values..

The estimated value of a typical residential site for England (excluding London) was £1,958,000 per hectare. When London is included the average value rises to £6,017,000 . All authorities in Surrey are significantly above the average for England.

It should be noted that the VOA produce annual reports of residential land transactions until late 2010 when Government withdrew funding for it. This is despite the requirement in the NPPF for local authorities to have regard to land values.

The locally-based values illustrated in Figure 6.1 are produced by the VOA on a theoretical basis and provide a means to compare variations across Surrey. However, they do not necessarily represent true land values, and are not able to demonstrate variations between sites or conurbations within each local authority.

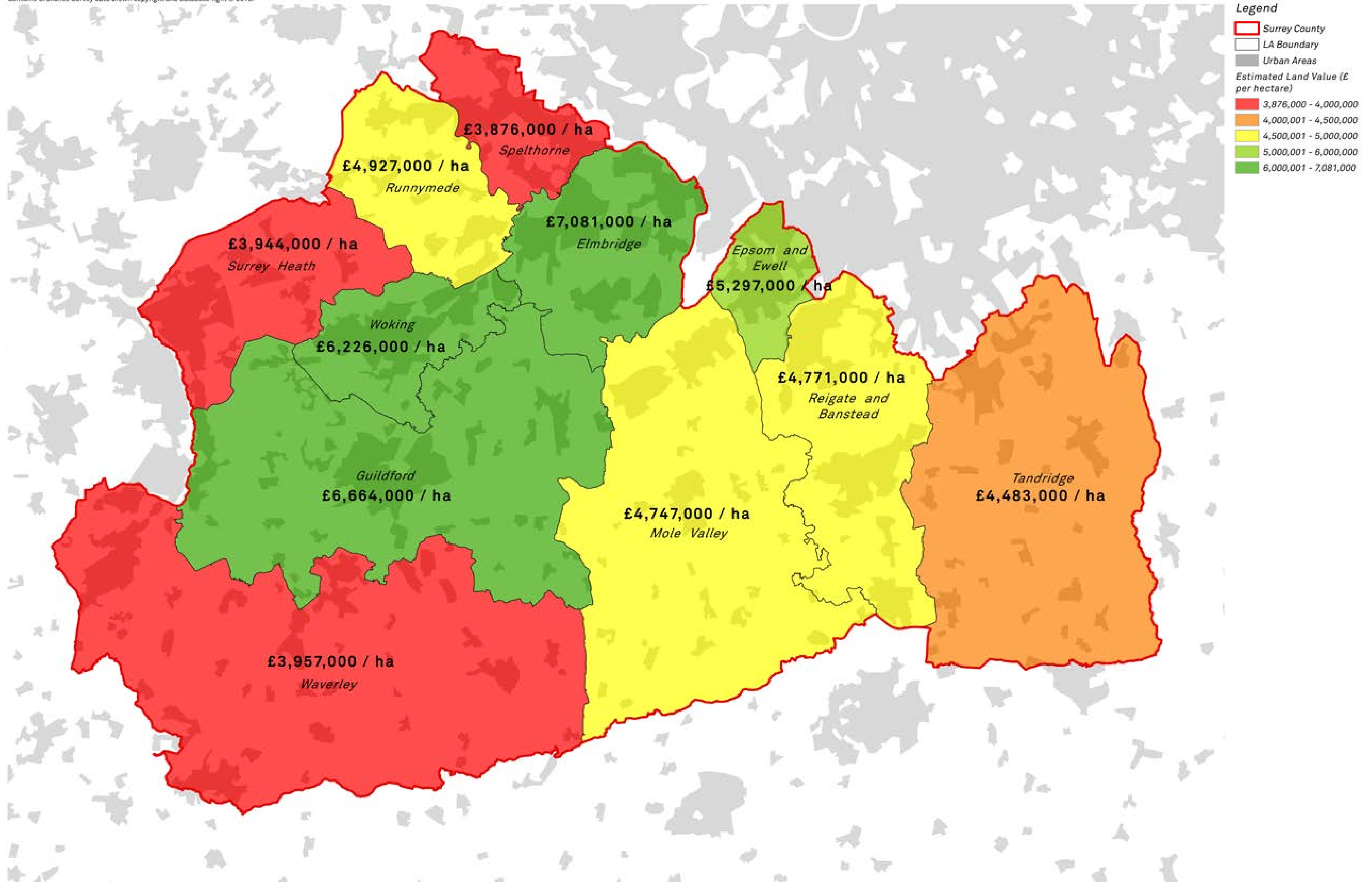

FIGURE 6.1 - LAND VALUES ACROSS LOCAL AUTHORITY AREA IN SURREY

Source: The Valuation Office Agency (VOA)

COMMUNITY INFRASTRUCTURE LEVY

The Community Infrastructure Levy (CIL) came into force in April 2010. It is a fixed tariff based levy directed at new development to fund infrastructure.

The Government considers the CIL to be “fairer, faster and more certain and transparent than the system of planning obligations which causes delay as a result of lengthy negotiations”. Levy rates are set by individual local authorities and may vary across each LPA and are subject to consultation with local communities and developers.

Figure 6.2 shows how CIL has been taken up across Surrey.

Six authorities are currently charging CIL with typical residential charges of between £100 and £150 per sq metre.

Reigate & Banstead and Mole Valley are expected to adopt their CIL in 2016. Meanwhile Runnymede and Guildford are each delayed in bringing CIL forward, as is Waverley’s work on CIL whilst the Council gives priority to preparing their new Local Plan.

As Figure 6.2 shows, adopted and draft CIL rates are fairly consistent across Surrey representing the viability of development is broadly comparable across the county.

IMPLICATIONS OF CIL REGULATIONS ON SECTION 106 AGREEMENTS

The 2014 CIL Statutory Regulations placed additional restrictions on LPA’s use of Section 106 funding. Since 6th April 2015 local authorities can no longer pool more than five s106 obligations together (dating back to March 2010) to pay for a single infrastructure project or type of infrastructure (however Section 278 agreements are unaffected). While this will not stop the use of S106 altogether, it now means that LPA’s must be clearer on what projects specific developments will be contributing to and restricts the ability of the county council to fund projects using S106 contributions.

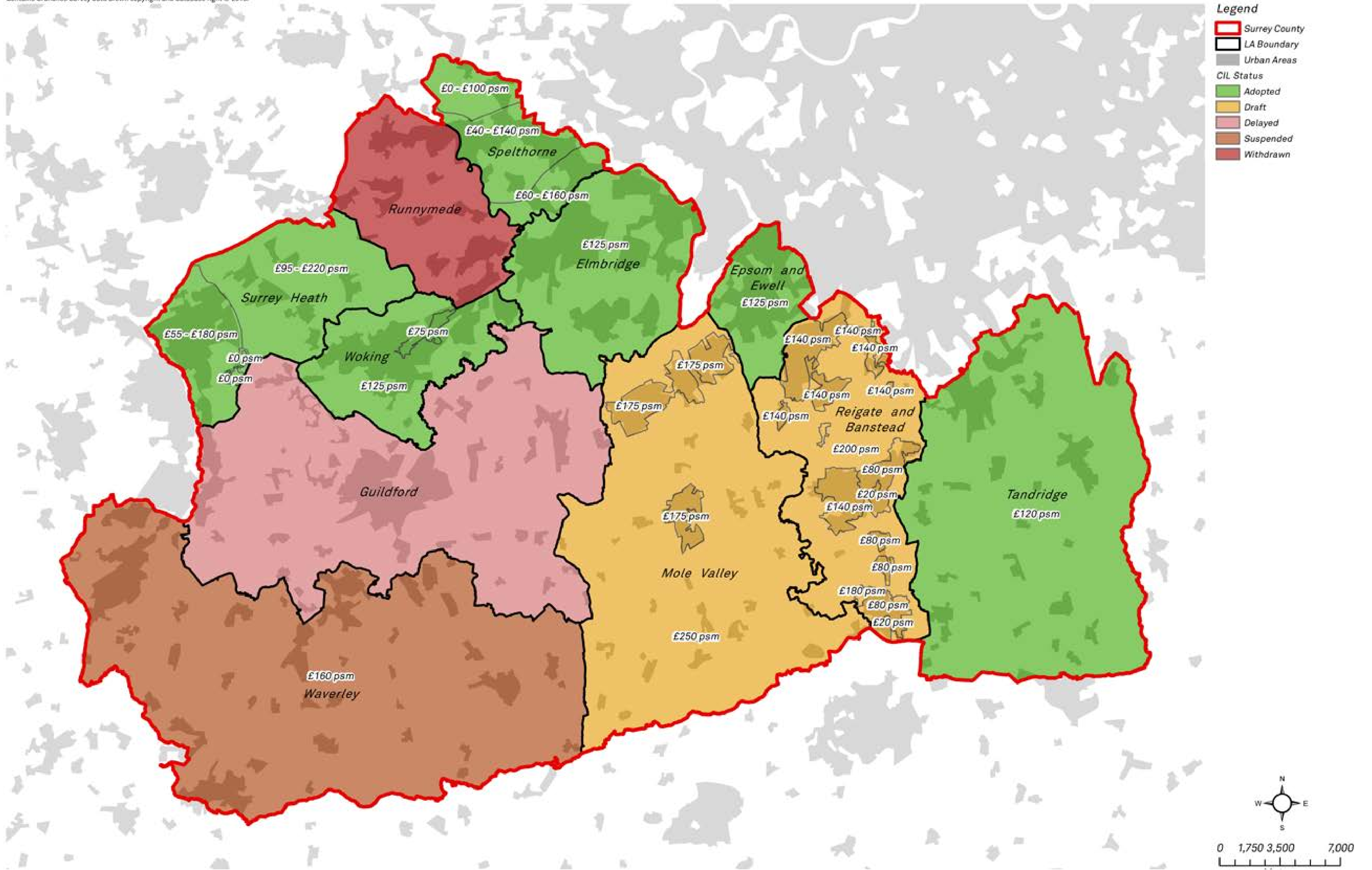

FIGURE 6.2- ADOPTED AND DRAFT RESIDENTIAL CIL RATES ACROSS SURREY

Source: Local Authority Published Draft and Adopted CIL Charging Schedules

6.3 PROJECT LIST FUNDING SENSE CHECK ASSUMPTIONS

TAKING INTO CONSIDERATION OUR UNDERSTANDING OF CURRENT AND PROJECTED DEVELOPER CONTRIBUTIONS AS SET OUT IN THE PRECEDING SECTIONS, THIS SECTION SETS OUT THE WORKING ASSUMPTIONS THAT WE HAVE USED IN ASSESSING LIKELY FUNDING AND GAPS FOR INFRASTRUCTURE PROJECTS TO 2030.

As set out in earlier chapters, the information on projects and costs set out within this study has been obtained from a variety of sources, with inputs from SCC officers, local authority IDPs and infrastructure providers.

In many instances information has been provided on likely costs but a considerable gap in information remains regarding likely funding sources.

In order to provide a "sense check" against total costs, a series of funding assumptions have been made based upon an analysis of current and projected funding sources.

A number of infrastructure topics have been assessed theoretically using benchmark calculations where no actual infrastructure projects have been identified. These theoretical costs have subsequently had a theoretical level of funding applied to them from either developer contributions, public sector funding or private sector funding.

The assumptions applied are set out here.

Developer Contributions
Table 6.2 on the facing page summarises our research into potential developer contributions through the community infrastructure levy to theoretically apply to projects with no identified funding. Surrey County Council have undertaken an estimate of potential CIL contributions across the Country in light of the fact that eight out of eleven authorities will be charging a CIL rate from 2016. Taking into account affordable housing exemptions the average level of CIL receipt per dwellings across all types of housing unit is estimated at £8,160.

The county have refined this analysis further with an assumed breakdown of this contributions across the various topics from transport, education through to the administrative costs of CIL. A different breakdown has been applied to those authorities charging for SANGS projects and those that are not. This breakdown and the list of authorities to which this applies are set out on the facing page.

These combined sources have allowed us to develop a working assumption with regards to the potential level of CIL contribution per unit that could be expected across each of the infrastructure topics. The analysis presented in table 6.2 suggests that a total contribution of £6,732 can be assumed per dwelling which has subsequently been applied to the post 2015 housing trajectories to generate the 'Expected Funding' presented within this report.

It is important however to note there will also be additional developer contributions in the form of S78 and S106, particularly in those local authorities where there are identified and potential strategic sites. There could also be some CIL contribution towards specific library projects and flood defences but both of these factors have not been included in the figures presented here and is therefore presented as a conservative estimate.

The county have established these estimated contributions only for the purpose of this study as a theoretical exercise and are based on the current CIL regulations which have the potential to change.

Public & Private Sector Funding Assumptions
A number of the theoretical costings can also be assumed as funded by either public or private sector organisations and subsequently be discounted from the identified funding gap. The table below highlights the % of identified costs assumed to be funded after all known secured funding and developer contributions have been taken into account.

Table 6.1

High level Funding Assumptions for Modelling

INFRASTRUCTURE	*FUNDING WORKING ASSUMPTIONS*	*%*
Healthcare	NHS	***75***
Waste Facilities	SCC / Local Authorities	***75***
Early Years	Private sector operators	***90***
Social Care	Private sector investment and institutional investment	***90***
Electricity & Gas	Electricity and Gas providers	***100***
Water and Sewage	Water supply and waste water providers	***100***
Broadband	Broadband communication providers	***100***

The funding assumptions presented on this page are indicative and provide an overall rule of thumb in sense checking funding streams required to support infrastructure delivery in Surrey. These should be subject to review in dialogue with county and local authority officers and other infrastructure providers.

SCC Estimated CIL contributions across Surrey Local Authorities	Local Authorities with SANG Projects	Local Authorities without SANG Projects	Applicable to Project List
Transport	£1,632	£1,632	100%
Education	£1,632	£1,632	100%
Local Authorities / healthcare	£1,877	£2,448	100%
Parish / Neighbourhood Proportion	£2,040	£2,040	50%*
SANGS	£571	£0	100%
CIL Administration	£408	£408	0%
Total	**£8,160**	**£8,160**	**£6,732**

Source: Surrey County Council

Local Authorities with SANGS:
Elmbridge, Guildford, Runnymede, Surrey Heath, Waverley and Woking

Local Authorities without SANGS:
Epsom & Ewell, Mole Valley, Reigate & Banstead, Spelthorne and Tandridge

*Working assumption applied that a percentage of the Parish / Neighbourhood meaningful proportion of CIL could be contributed towards local infrastructure projects.

SCC Estimated CIL contributions across Surrey Local Authorities		Per Dwelling CIL Contribution	
		Local Authorities with SANG Projects	Local Authorities without SANG Projects
Motorways			
Highways	50%	£816	£816
Public Transport	25%	£408	£408
Rail			
Other Strategic	25%	£408	£408
Primary Education	30%	£490	£490
Secondary Education	70%	£1,142	£1,142
Community Learning	5%	£145	£173
Early Years	5%	£145	£173
Primary Healthcare	15%	£435	£520
Acute Healthcare	5%	£145	£173
Mental Healthcare	5%	£145	£173
Adult Social Services			
Libraries			
Youth Services	5%	£145	£173
Community Facilities	20%	£579	£694
Sports Facilities	20%	£579	£694
Outdoor sport & Recreation	20%	£579	£694
Green Infrastructure	100%	£571	£0
Energy (Electricity & Gas)			
Water and Sewage			
Waste			
Broadband			
Flood Defences			
Total		**£6,732**	**£6,732**

TABLE 6.2 - REVIEW OF POTENTIAL COMMUNITY INFRASTRUCTURE LEVY CONTRIBUTION FORMING WORKING ASSUMPTION

6.4 ADDITIONAL SOURCES OF FUNDING

GIVEN THE LIMITATIONS OF CIL AND SECTION 106 TO FULLY FUND INFRASTRUCTURE ACROSS SURREY, CONSIDERATION MUST BE GIVEN TO WIDER (AND MORE INNOVATIVE) FUNDING MECHANISMS THAT ARE BEING DEVELOPED BY THE PUBLIC AND PRIVATE SECTORS.

CONTEXT

The market is in an economy where development investment finance is less freely available and risk is under greater scrutiny. This is coupled with an austerity budget position in the public sector resulting in lower availability of funding to support infrastructure projects.

Local authorities need to look across their full range of funding streams when considering delivery and prioritisation of infrastructure requirements. The flexibility to mix funding sources at a local level enables local authorities to be more efficient in delivering outcomes. Funding sources change over time with emerging priorities and changes in regime either at local, regional or national level. In addition, other partners and stakeholders may be able to play a part.

The following options reflect current possibilities for funding. They reflect a wide range of options based on proposals across Surrey, experience of the developer/financier community and existing and emerging sources of public sector funding.

The analysis has focused on four categories:

- **Cash and Funds** – funding from sources of 'investment capital', including grant funding and commercial finance, potentially delivered through a joint venture mechanism;
- **Assets** – funding sources that arise from capturing an increase in land value;
- **Fiscal** – funding that comes from the application of main stream fiscal tools (e.g. business rates); and
- **Other potential funding sources** – thinking creatively and learning from other forward thinking authorities.

1) CASH AND FUNDS

PRUDENTIAL BORROWING (PUBLIC WORKS LOAN BOARD OR 'PWLB')

This is the main direct funding source for local authorities and is still perceived as a cheap form of financing. It is also arguably an efficient option to implement as the obligations fall predominantly on the local authority to ensure it has properly assessed affordability.

Under the PWLB option, SCC or the local authority would have to assess its own level of borrowing commitment at the time the capital is needed. Effectively, the local authority would have to assess the level of income it would generate against repayments it has to make, or whether wider County resources will be required.

It has the benefit of being a relatively reliable source of finance, not being subject to commercial market appraisals in the way that a bank financed project would be. However, it does place the local authority in a position of risk in terms of repaying the whole value of infrastructure from resources, if revenue or value through the schemes to come forward cannot be captured.

The PWLB has tended to offer an interest rate only 0.15-0.20% above the government's borrowing costs, but in October 2010 this differential was raised to 1%. As a result, a number of larger local authorities began to investigate whether a bond issue could achieve a more favourable interest rate. However, in the 2012 Budget, the Government introduced a discount for borrowing from the PWLB for local authorities which provided information requested on long-term borrowing and capital spending. This took the form of a new 'certainty rate', a discount from 1% to 0.80%, available from 1 November 2012. A further discount to 0.60% for borrowing regarding an infrastructure project nominated by a Local Enterprise Partnership was introduced in November 2013.

EUROPEAN FUNDING

This information is included for reference purposes to explain how previous funding sources have evolved into the current available funds. JESSICA funds were initially set up using European Regional Development Fund (ERDF) money. The JESSICA structure was focused around an Urban Development Fund (UDF), which held the ERDF money, and made either loans, equity or guarantee investments into projects. ERDF funding allocations were divided by the nine English regions in accordance with the former Regional Development Agency regions. The last round of funding was to last until 2013.

The UK Government has since brought the European Regional Development Fund (ERDF), European Social Fund (ESF) and part of the European Agricultural Fund for Rural Development (EAFRD) together into a single 'EU Structural Investment Funds (ESIF) Growth Programme' and made it available to Local Enterprise Partnerships (LEPs) on a competitive basis.

The large majority of the funds in the ESIF Growth Programme are allocated to LEP areas where LEPs work with local partners, to set out their priorities for the EU Growth Programme Funds in their area through an

investment strategy. This has been covered earlier within this chapter under the review of Enterprise M3 and Coast to Capital LEP's.

2) ASSETS

The increase in land value has been a mainstay of economic development financing over recent years. Utilising a range of tools, such as development agreements, local asset backed vehicles or other joint ventures, local authorities have been able to secure large amounts of infrastructure from improvements to land values. This has needed to be combined with careful use of planning consents and S106 agreements, but with the restrictions on pooling of S106 contributions moving forward then the ability to use this option may narrow.

LOCAL ASSET BACKED VEHICLE (LABV)

The rewards or benefits of a Local Asset Backed Vehicle (LABV) in certain circumstances outweigh the costs although the financial implications of setting up a LABV are significant. Procurement, preparing and agreeing legal documentation, to include specialist property and financial advice require significant Officer and external advisor time. Once in place, on-going management and due diligence needs to be considered, along with post procurement advice and support to the authority. If such costs were sought to be recovered through the vehicle it would in effect become a reduction of the land costs.

STRATEGIC ASSET MANAGEMENT

There are a range of approaches to ensuring public sector assets are managed to maximise efficiencies. A number of innovative approaches to asset management, co-location of services and provision of infrastructure are underway in Surrey.

Surrey like many other counties are seeking innovative ways to maximise returns from their assets. For example, Cambridgeshire County Council have an initiative called Making Assets Count (MAC) which brings together the County Council, all of the Cambridgeshire District Councils, as well as Fire, Police and Health Authorities have formally signed up to the Project. MAC aims to reduce the size of the public estate by removing poor quality, inefficient and incorrectly located buildings from the property portfolio, making better use of the remaining property assets and investing in new assets where these are required. New assets will have a focus on providing joined-up services to the communities they serve and providing spaces for local groups to use.

3) FISCAL

BUSINESS RATE RETENTION - THE LOCAL GOVERNMENT FINANCE ACT 2012

Business rate retention and Tax Increment Financing represent a real opportunity to bridge the infrastructure funding gap. It has required the enactment of new legislation which received Royal Assent in October 2012 and produced the Local Government Finance Act 2012. The Act introduced local retention of business rates, as well as powers for the Secretary of State to introduce Tax Increment Financing to allow councils to borrow against future increases in income.

The Act allows local authorities to now retain a proportion of future non-domestic rates (business rates) growth, subject to various checks and balances. This is called the Business Rates Retention Scheme (BRRS). A proportion of the business rates collected by billing authorities will be paid into a central pool (the central share) with the remaining proportion retained by the authority (the local share). Under the act, authorities will now get a 50% slice of business rates and then retain any new business levies generated in their areas over seven years. The previous regime saw all business rates returned to the Treasury for redistribution according to a formula.

This is intended to provide local authorities with a strong financial incentive to promote local economic growth. This is intended to give local authorities increased financial autonomy, the flexibility to design schemes which reflect local priorities and a greater financial stake in the economic future of their area, while providing continuation of council tax support for the most vulnerable in society, including pensioners.

TAX INCREMENT FINANCING (TIF)

Tax Increment Financing allows local authorities to capture the value of uplifts in local taxes (business rates) that occur as a result of infrastructure investment. Tax Increment Financing allows that uplift to take place by borrowing against the value of the future uplift to deliver the necessary infrastructure. Local retention of business rates removes the most important historic barrier to Tax Increment Financing schemes, namely that local authorities were not permitted to retain any of their business rates and therefore could not borrow against any predicted increase in their business rates.

Borrowing for Tax Increment Financing schemes therefore falls under the prudential system, allowing local authorities to borrow for capital projects against future predicted increases in business rates growth, provided that they can afford to service the borrowing costs out of revenue resources. However, such borrowing can only take place if local authorities and developers have a degree of certainty about the future tax revenue streams and whether there are sufficient guarantees that they will be retained within the authority.

The Local Government Finance Act includes two options for TIF. Option one would see local authorities, within the existing prudential borrowing rules, able to borrow against their income within the business rate retention scheme. Option two would allow a limited number of Tax Increment Financing schemes to be permitted in which the business rates growth would not be subject to the levy or reset for a defined period of time.

PRIVATE FINANCE 2 (PF2)

In December 2012, the Government concluded its review of PFI and published full details of a new approach to public private partnerships, Private Finance 2 (PF2). The Government remains committed to private sector involvement in delivering infrastructure and services, but has recognised the need to address the widespread concerns with Private Finance Initiative and the recent changes in the economic context

They key reforms are as follows:

- **Public sector equity** - The public sector will take an equity stake in projects and have a seat on the boards of project companies, ensuring taxpayers receive a share of the profits generated by the deal.
- **Encouraging more investors with long-term investment horizons** - The use of funding competitions will be introduced to encourage institutional investors such as Pension Funds to compete to take equity in a PF2 project after the design stage. This is significant in terms of risk as Pension Funds are unlikely to invest in projects that are insufficiently developed.
- **Greater transparency** - Companies will have to disclose actual and forecast annual profits from deals. The new PF2 structure will curb gains to be made from refinancing and un-utilised funds in lifecycle reserves.
- **More efficient delivery** - An 18-month limit on procurement will be introduced. Failure to meet this limit will see the respective public sector body lose funding.
- **Future debt finance** - the tender process will require bidders to develop a long-term financing solution where bank debt does not provide the majority of the financing requirement. Institutional investment will, therefore, become an important source of finance for PF2.

The first confirmed programme to which PF2 has been applied is the £1.75 billion privately financed element of the Priority Schools Building Programme (PSBP). While the immediate PF2 pipeline is focused on accommodation projects, an asset class which has been a particular focus of the PFI reforms, the Government wants to ensure that all suitable projects take advantage of the benefits of PF2. Looking forward the Treasury will work with departments to assess which future projects are eligible for PF2.

4) OTHER POTENTIAL FUNDING SOURCES

There is the option to think 'creatively and bigger' and consider a range of further public and private sector sources, including but not limited to the following:

REVOLVING INVESTMENT FUNDS (RIFS)

The pooling of investments to create a regional fund for economic investment. These Revolving Investment Funds (RIF) provide access to a flexible source of capital that can be used to finance projects. Importantly this finance is provided as a loan, not a grant or subsidy. They will not provide quick fix solutions but have the potential to provide a vehicle for local investment that allows more entrepreneurship and experimentation than grant funding models.

There is on the ground experience to draw on in establishing RIFs, for example the Evergreen North West Fund, London Green Fund and the Cambridgeshire Horizon's rolling fund, but the model is new and will require ongoing evaluation to ensure that ventures are supported that realise the best returns. In the face of major cuts to grant funding a number of local authorities are considering the creation of similar schemes for regeneration and infrastructure.

PENSION FUNDS

The Local Government Pension Scheme (LGPS) is a funded, statutory, public service pension scheme. DCLG is responsible for the scheme's stewardship and maintaining its regulatory framework. It is administered and managed by local pension fund authorities. At the end of March 2013, the market value of the 81 funds in England was £167 billion.

A number of recent studies have looked at whether there is more scope for LGPS funds to do more to invest for wider social and economic benefit. A study by the Smith Institute in 2012 summarised the key barriers to developing impact investments (particularly for infrastructure funds) were managing reputational risks associated with new investments and potential conflicts of interest, especially where local infrastructure schemes were concerned. Despite these perceptions, investment for wider impact was certainly much higher up the agenda of all the funds interviewed.

Its recommendations for change included better guidance for local funds, changes to restrictions on investments in the Investment Regulations and the creation of an enabling platform or clearing house. Another report published in 2012, by *Localis*, said that local authorities should be prepared to see an additional 8.5% of LGPS funds invested in domestic infrastructure.

In 2012, DCLG carried out a consultation on possible changes to the Investment Regulations. It proposed two options for overcoming perceived barriers to investing in infrastructure. As a result of the consultation, it amended the investment regulations to increase the proportion of the capital value of a fund that could be invested in partnerships. The CLG said the change would give funds more scope to "invest in infrastructure projects subject to a full risk assessment and satisfying themselves there is no conflict of interests".

LOCAL AUTHORITY BONDS / MUNICIPAL BONDS AGENCY

Local authorities have always had the power to issue bonds. Municipal bonds were used regularly throughout the early and mid-20th century, but fell into disuse during the 1970s and 1980s, as central government introduced controls over capital finance. The Public Works Loan Board became the main source of borrowing during this period. Bonds allow local authorities to raise substantial sums of capital immediately, on the basis of promises to repay the capital with interest at a specified point in the future.

It would be possible for a local authority to issue bonds as part of a TIF process. Money would be obtained up-front by selling the bonds (instead of approaching financial institutions), and they could be repaid by the additional tax revenues resulting from the public investment. TIF takes this form in many cities in the USA. If the future tax revenues do not materialise and the local authority is thus unable to repay the bonds, this will of course cause financial problems for the local authority.

Local authorities' borrowing limits will be related to the revenue streams available to them, which influence their ability to repay the debt. Local authorities are prevented by law from using their property as collateral for loans. The only recent instance of bonds being issued is that of the Greater London Authority (GLA), which issued £600 million of bonds to raise funds for Crossrail. The GLA however has access to substantial revenue streams compared to most local authorities (such as fare revenue from Transport for London), and its borrowing capacity will therefore be proportionately larger.

The LGA produced a report in mid-2012 proposing to create a collective bond issuing agency. Participation would not be compulsory, but would be attractive to smaller authorities which might not be able to obtain the best price in the conventional bond market. The agency would also obviate the need for the participating councils to have a credit rating, though they would be required to supply financial information to allow investors to judge the agency's collective creditworthiness. Participating authorities would also be required to supply a small proportion of their desired loan in capital.

The business case assumed at least tacit support from government. Such support is critical in order for financial markets and bond investors to have confidence in the proposed agency. Securing and maintaining the necessary government support is a considerable risk as it appears that some parts of central government may be sceptical to the prospect of such an agency being created at this point.

Interest in this project was rekindled in late 2013, when the LGA management board voted to press ahead with the creation of such an agency. At least eighteen local authorities have expressed interest in participating in the new agency. LGA Modelling work suggests that a Municipal Bonds Agency would allow councils to raise funds at a significantly lower rate than those offered by the PWLB. The model showed that a council borrowing £100 million over 20 years would stand to save as much as £4.7 million compared to a PWLB loan.

CROWD FUNDING

Crowdfunding is the practice of funding a project or venture by raising monetary contributions from a large number of people, typically via the internet. The crowdfunding model is fuelled by three types of actors: the project initiator who proposes the idea and/or project to be funded; individuals or groups who support the idea; and a moderating organization (the "platform") that brings the parties together to launch the idea. There are two primary types of crowdfunding:

- *Rewards Crowdfunding*: entrepreneurs pre-sell a product or service to launch a concept without incurring debt or sacrificing equity/shares.

- *Equity Crowdfunding:* the backer receives shares of a company/project, usually in its early stages, in exchange for the money pledged. The company/project's success is determined by how successfully it can demonstrate its viability

A variety of crowd funding platforms have emerged to allow ordinary web users to support specific philanthropic projects without the need for large amounts of money. Several dedicated civic crowdfunding platforms have emerged in the UK, some of which have led to the first direct involvement of local governments in crowdfunding. Notable examples include:

- Bristol City Council's Mayor's Fund – crowdfunding grants for local charities and social enterprises in as part of its 'Mayor's Fund'. The grants for 2013/14 will fund work with disadvantaged young people and children in Bristol.
- Mansfield District Council - Mansfield District Council successfully used the crowd sourcing platform ***Spacehive*** to raise over £36,000 to install free public WiFi across Mansfield.

There are limitations however, most projects are highly local, limiting the size of the community that might support and financially invest in an idea. Typical campaigns have generated funding around the tens-of-thousands mark. This would not be enough to support larger projects that local government is involved with, such as transport infrastructure and educational projects. This leaves the question of whether locally backed projects can raise enough money to support larger initiatives? It may be the case that crowd funding represents a potential funding stream for the smaller social infrastructure and desirable local level projects that can often be overlooked when allocating limited funding across a range of infrastructure requirements.

SOCIAL INVESTMENT

Social problems transfer from one community to the next, from one generation to another. By investing repayable and recyclable capital into tackling social problems, two types of returns are generated: financial returns to investors, but social returns to investors and to society more generally. This is empowering, efficient and necessary.

Social impact investment is the provision and use of capital with the aim of generating social as well as financial returns. This type of investment carries an expectation of repayment of some or all of the finance. It can cover loans, equity, bonds, and is sometimes used alongside other instruments, such as guarantees or underwriting. As with any other investments, where the investee business performs well, returns generated may be principally reinvested in the business, as well as offering a limited proportion of these to investors.

Investors in social outcomes weigh up the balance between the social and financial returns which they expect from an investment, according to their own priorities. They may accept lower financial returns in order to generate greater social impact.

OVERSEAS SOVEREIGN WEALTH FUNDS

The UK, particularly the London region, offers an extensive set of infrastructure investment opportunities, including in the regulated utility, power generation and transportation sectors. The UK's longstanding track record of private ownership and robust rule of law makes it amongst the most attractive jurisdictions for infrastructure investing."

There is presently strong interest in the UK infrastructure market amongst overseas investors, including Middle East and Far East sovereign wealth funds as well as more traditional investors such as pension funds and which are struggling to find attractive opportunities to invest their cash amid record low interest rates, are committing more money to real assets, which promise higher returns as well as an annual cash yield. Infrastructure funds attracted $40.7 billion in 2013, compared with $30 billion the year before and nearing the 2007 peak of $44 billion, according to Preqin, a global venture capital consultancy.

However, despite the strong interest in the UK market among investors, there are still hurdles to overcome as institutional investors attempt to marry their responsibilities and duties within tight legal and regulatory frameworks that vary across borders. Infrastructure debt competes for attention with other asset classes, and strong competition might see investors move their investment allocations away from the UK's infrastructure assets towards other asset classes.

INDUSTRY AND BUSINESSES

Surrey County is home to a wide range of businesses from multi-national firms to local family run businesses. All of these enterprises have a strong interest in ensuring the appropriate investment in infrastructure is maintained to support economic growth in the County. These firms represent a potential source of partner funding.

THE VOLUNTARY SECTOR

The voluntary sector (from voluntary organisations to individual volunteers) play an integral role in the delivery of social infrastructure provision across the County and will continue to provide capacity to support the existing and new population and assist in the delivery of new projects.