

# Matter 10A/South East England Regional Assembly



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## Matter 10A: Implementation

### **10A.1 Do the proposed implementation mechanisms and delivery agencies in the draft RSS, as supplemented by the Implementation Plan<sup>1</sup>, establish a clear means for translating RSS policies into action?**

1. Government policy as set out in PPS11 (Regional Planning) makes it a requirement that the draft Regional Spatial Strategy identify appropriate implementation mechanisms. It requires that an implementation plan is submitted to the Secretary of State alongside a draft RSS revision. It should form the basis for informing both lower order strategies, plans and programmes and national delivery agencies in order to provide greater certainty that the infrastructure required to support the delivery of the planned levels of development, will be provided at the appropriate time.
2. The draft Implementation Plan was prepared and submitted as an integral part of the draft South East Plan in March 2006. At that time the Assembly advised the Panel that further work was required and that a revised version would be submitted during the autumn. The revised version was the result of further work undertaken by the Assembly in partnership with local authorities and other delivery agencies in the region. The Revised Implementation Plan and an accompanying Sustainability Appraisal was sent to the Panel on Monday 9 October 2006, and published in final form on the Assembly's website<sup>2</sup>. The Assembly also provided a note to the Panel setting out the additional work undertaken on the Implementation Plan since the submission of the South East Plan in March 2006. The note forms an annex to this statement.
3. The South East Plan revised Implementation Plan provides the basis for the region entering into the long-term partnership with the Government necessary in order to ensure delivery of a more sustainable pattern of development. It provides a comprehensive framework for identifying and aligning the activities of a wide range of delivery agencies and mechanisms that will be responsible for the successful implementation of the plans objectives, however, the delivery of the Plan will be dependent upon these organisations taking account of the Plan's policies and identified investment requirements when developing their own investment programmes and policies.
4. For the first time the Implementation Plan specifically identifies the roles, responsibilities and actions required by specified organisations and other key stakeholders to deliver the objectives and policies in the South East Plan. These will be a mixture of investments, policy decisions and behavioural change. Building upon the recommendations of the Eddington Study and the Barker and Leitch reviews, the Lyons Inquiry has highlighted the importance of recognising that economic activity does not respect administrative boundaries.

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<sup>1</sup> Updated by SEERA prior to EiP and available online at <http://www.southeast-ra.gov.uk/southeastplan/key/infrastructure.html>

<sup>2</sup> A final version with minor amendments (and a schedule of changes) was resubmitted to the Panel following the Assembly's Executive Committee Meeting on 20 October 2006.

It has also highlighted the importance of bringing together different policy issues in a comprehensive way in order to ensure efficient use of public resources. The Implementation Plan provides an effective and practical mechanism for ensuring that the region addresses these issues. In particular having identified the need for a number of discrete sub-regions in response to identifiable policy deficits the Implementation Plan provides the mechanism for ensuring a continuation of cross boundary working within the sub-regions both in terms implementation and monitoring.

5. The level of detail in the Plan is greater for the period 2006-2016 than for the second half of the plan period, as the infrastructure needs for the second half of the Plan period will be partly dependent upon the extent to which the Plan's objectives have been delivered during the first ten years - particularly in relation to reducing resource consumption and securing behavioural change. Nevertheless the Assembly sees the investment needs identified in the Plan as robust and therefore not requiring a fundamental review before a full review of the Plan. However, it is acknowledged that the delivery mechanisms required to implement the Plan will be subject to change, largely for reasons beyond the Assembly's control, as Government policy evolves.
6. In some cases the certainty of implementation will be increased and delivery expedited through the development of joint local development documents, for example where large scale development and/or associated infrastructure provision straddles local authority boundaries. Examples of where this approach may provide increased certainty include the provision of mitigation land to enable housing delivery in proximity to the Thames Basin Heaths Special Protection Area and the expansion of Milton Keynes Urban area. The widespread adoption of the business plan approach underpinning the Implementation Plan (which in itself builds upon the region's experience in locations such as Milton Keynes) at the sub-regional and local level, through the development of Local Infrastructure Plans, provides a firm basis for ensuring a realistic approach to delivery.

### **10A.2 Will the draft RSS help to promote a climate that is conducive to high investment confidence (for both public and private sector investors)?**

1. The Implementation Plan clearly sets out four pre-conditions for effective implementation. Should any of these pre-conditions not be met, then there is a risk that the Plan will fail to meet its objectives.
2. Taking the pre-conditions as given, one of the biggest issues in relation to implementation remains the need to ensure the timely provision of infrastructure to support planned growth. This requires new innovative delivery mechanisms to be developed that will enable forward funding of investment. These will need to combine more effective methods for capturing increases in land value, an agreed understanding between private and public sectors of infrastructure needs and requirements and a means of forward funding. Conventional s106 arrangements are ill-suited to paying for upfront infrastructure investment (e.g. that required to unlock development sites) as contributions are paid as development proceeds on site.

Earlier payments have a significant financial impact upon developers and can adversely affect the viability of a scheme.

3. Milton Keynes and Ashford have both invested considerable effort in developing mechanisms to enhance local infrastructure planning based on fully costed local infrastructure plans, strategic tariff approaches to securing developer contributions and forward funding mechanisms. This approach enables the infrastructure required to support large scale development to be put in place in advance of the receipt of developer contributions, which are reclaimed as the development is built out. The Assembly sees merit in rolling out similar approaches across the region, based on comprehensive local infrastructure planning as part of the LDF process - in accordance with Circular 05/2005<sup>3</sup>.
4. The introduction of a regional forward funding mechanism (Regional Infrastructure Fund), combined with a more strategic approach to capturing land value uplift, and a robust prioritisation process, would provide additional certainty about the timely provision of critical sub-regional and regional infrastructure schemes. Without such a forward funding mechanism it is possible that the delayed provision of key infrastructure may delay or prevent proposed levels of development. The South East and South West Assemblies and Regional Development Agencies (RDAs) jointly submitted a Regional Infrastructure Fund (RIF) to DCLG, HM Treasury and DfT in December 2006<sup>4</sup>. This is attached at Annex B. As set out in the Prospectus, the RIF would complement local and sub-regional delivery mechanisms through the provision of a single forward funding mechanism through which the proposed strategic element of PGS could be targeted at regional and sub-regional priorities. The RIF would therefore provide regional stakeholders access to, and control over, infrastructure funding which would otherwise return to the Exchequer. A region wide approach to the establishment of a forward funding mechanism would provide considerable economies of scale and avoid the need for individual authorities or sub regional partnerships to negotiate individual borrowing arrangements with HM Treasury. Where new innovative delivery mechanisms are brought forward it is essential that these are additional to the current level of resources available to support delivery of infrastructure.

### **10A.3 Is there a role for the Regional Assembly to coordinate strategic reviews of land holdings (Policy CC6)?**

1. Policy CC6 aims to ensure that the best use is made of public land, especially for delivery of development and supporting infrastructure, and that strategic appraisals are undertaken to inform future planning and delivery. No organisation currently has an overview of public sector land holdings in the South East or the disposal strategies of the relevant landowners.

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<sup>3</sup> ODPM Circular 05/2005 'Planning Obligations'.

<sup>4</sup> Regional Infrastructure Funds: A Prospectus (South East England Regional Assembly, SEEDA, South West Regional Assembly, SWRDA, 2006) available online at <http://www.southeast-ra.gov.uk/southeastplan/key/RIF.html>

The Assembly's work with the Ministry of Defence<sup>5</sup> illustrates the type of approach that could be rolled out to other landowners (e.g. National Health Service, Crown Estates, English Partnerships).

### **10A.4 To what extent are the Investment Schedules in the Implementation Plan<sup>6</sup> affordable and realistic?**

1. Cost estimates included within the Plan are based, where possible, on assumptions employed by the relevant delivery bodies. For all transport schemes costs are taken from the relevant agency or transport authority. All costs provided for regional and sub-regional transport schemes (2006-2016) are taken from the evidence submitted to the Regional Transport Board for the purposes of developing its advice to Government on regional priorities.
2. The Assembly has worked closely with principal authorities to develop the Sub-Regional Investment Frameworks (SRIFs), which identify the sub-regionally significant infrastructure investments required to deliver the spatial strategy. In the briefs issued to the sub-regional groupings in August 2004, January 2005 (and subsequently amended April 2005) they were specifically requested to identify the infrastructure requirements, priorities, and delivery mechanisms needed to support the sub regional spatial strategy and associated district housing distribution.
3. Subsequent to the submission of the draft South East Plan to the Secretary of State in March 2006, the Assembly has continued to work with the principal authorities and key delivery agencies to further develop and refine the SRIFs. As a result of this further work, it was decided to remove some of the local infrastructure needs from the SRIFs and identify them separately within the Annex 4 of the Revised Implementation Plan. It is acknowledged that these will require further refinement through the local development framework process; however, considerable effort has been expended to ensure they are based upon robust assumptions. The SQW Report 'Technical Report on Infrastructure Requirements in the South East'<sup>7</sup> sets out in detail the methodology employed to determine sub regional and local infrastructure requirements and costs included in the Revised Implementation Plan. This work incorporates and updates the earlier cost estimates provided by Roger Tym and Partners for the South East Counties.<sup>8</sup>
4. Tym's work estimated an infrastructure funding gap of at least £8bn, or £400m per annum. A relatively small figure compared to the region's annual net contribution to the Exchequer, which equated to £11bn in 2004/5 and £18bn in 2003/4. However this figures is based on a set of assumptions which if not fulfilled would inevitably mean an increase in the funding deficit.

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<sup>5</sup> Joint Defence Estates and SEERA studies on the Development Potential of the Ministry of Defence Estate in the South East Region (GVA Grimley, 2006)

<sup>6</sup> Updated by SEERA prior to EiP and available online at <http://www.southeast-ra.gov.uk/southeastplan/key/infrastructure.html>

<sup>7</sup> South East England Regional Assembly Technical Report on Infrastructure Requirements in the South East (SQW, 2006) available online at [http://www.southeast-ra.gov.uk/southeastplan/key/infrastructure/sqw\\_infrastructure\\_report-oct06.pdf](http://www.southeast-ra.gov.uk/southeastplan/key/infrastructure/sqw_infrastructure_report-oct06.pdf)

<sup>8</sup> South East County Leaders 'The cost and funding of growth in South East England' (Roger Tym and Partners, 2004).

5. Apart from transport and affordable housing, the most significant funding gaps are overwhelmingly concentrated in local authorities, which capacity to fund capital expenditure is extremely limited. With planning contributions increasingly seen as a critical source of funding effective local collection and use of this funding will be crucial. Key risks identified by the Tym report include:
  - The ability of utilities providers to commit to forward funding of critical infrastructure;
  - The increasing fragmentation of health funding and provision;
  - Macro-economic pressures and their implications for funding the big ticket items (i.e. transport and affordable housing);
  - The need for mainstream funding to reflect the needs of the ageing population over the Plan period.
6. Another key issue will be the extent to which funding is split between capital and revenue expenditure. The Assembly's Regional Transport Strategy (RTS) is based on a 'manage and invest' approach which emphasis the need to make the most of existing assets and promoting behavioural change through mobility management. Unfortunately current funding regimes do not enable this. As the Panel Report of the Public Examination of the RTS (July 2004) stated 'Whereas the LTP system enables LTAs to make a case for additional capital funds we agree with the RA that there is no effective mechanism through which additional revenue investment for transport can be secured. We therefore feel bound to recommend that Government should address the implications of inadequate revenue funding for transport as a matter of urgency because of its significance for delivery of national and regional transport policies.'
7. Since the submission of the revised Implementation Plan, the Assembly has continued to work with the Environment Agency to develop estimates for the environmental infrastructure costs and associated funding mechanisms required to support the delivery of the Plan. The final report entitled 'A Strategy for Provision of Environmental Infrastructure to Meet the Needs of the South East Plan' was submitted to the Panel by the Agency in January 2007. The study provides initial estimates of the total (and sub-regional) cost of delivering key environmental infrastructure required to support the levels of growth set out in the Plan. This is a significant piece of evidence which has not previously been available.
8. The study estimates the total cost of Environmental Infrastructure over the next 20 years to be £42bn. Of this approximately only £11bn is required to meet the needs of the additional growth proposed in the South East Plan (i.e. the total housing proposed over the period of the Plan). The majority (£31bn) will be required to provide for existing level of population in the region. All these costs will be additional to the £37-£47bn cited in Delivering the South East Plan<sup>9</sup>. The total Environmental Infrastructure costs set out in the report are broken down as follows:

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<sup>9</sup> Delivering the South East Plan does not include any estimates of costs associated with Water Resources, Water Quality, or Biodiversity. The estimates included in relation to Flood Risk

- Water Resources and Supply £12bn
- Water Quality £16bn
- Flood Risk Management £6bn
- Waste £6bn
- Biodiversity £2.5bn

8. The report distinguishes between those elements of environmental infrastructure for which current funding levels appear to be adequate to meet estimated costs (Water Resources and Supply, Water Treatment and Waste) and those for which additional funding will be required (Flood Risk Management and Biodiversity). It is interesting to note that it is those which are most heavily dependent upon public funding which are considered most at risk. The key challenge in relation to the privatised utilities will be to ensure that funding is delivered when it is needed to enable infrastructure to be in place prior to or alongside growth as required.

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Management and Waste Management are now superseded by the Environment Agency's evidence. It should be noted that the Agency's estimates for waste only include costs for the development of thermal treatment, composting, recycling facilities and landfill. This encompasses municipal solid waste, commercial and industrial waste and construction and demolition waste.

**Additional Work on Implementation Plan (March - October 2006)**

1. The draft Implementation Plan was submitted as an integral part of the draft South East Plan in March 2006. At that time the Assembly advised the Panel that further work was required and that a revised version would be submitted during the autumn. The Revised Implementation Plan was sent to the Panel on Monday 9 October 2006.
2. Specific work streams undertaken since the submission of the draft Implementation Plan in March 2006 include:
  - An independent audit of the sub-regional investment frameworks. This has resulted in the significant enhancement of the identification and classification of infrastructure requirements and the refinement of infrastructure cost estimates;
  - A stakeholder workshop exploring the actions required to bring about the behavioural change required to mitigate the adverse impacts identified in the Sustainability Appraisal of the Core Policies (and the identification of specific action to promote behavioural change within the Policy Implementation Framework);
  - An independent SA of the draft Implementation Plan;
  - A review of infrastructure investment frameworks followed by a sub-regional stakeholder workshop to identify key implementation issues surrounding the delivery of major development sites in South Hampshire;
  - The development of proposals for a Regional Infrastructure Fund, working with SEEDA and regional bodies in the South West of England;
  - Working with the Environment Agency to cost environmental infrastructure needed to deliver the South East Plan;
  - Commissioning an Appropriate Assessment of the South East Plan, including the Implementation Plan;
  - Review of Access Management on Thames Basin Heaths to evaluate robustness of existing measures for delivering English Nature's Delivery Plan for the SPA.
3. The Revised Implementation Plan was endorsed (with minor amendments) by the Assembly's Regional Planning Committee on 27 September as forming the basis of the Assembly's evidence to the Panel in relation to implementation and infrastructure delivery matters. The Implementation Plan was publicly launched on 29 September at an Infrastructure Summit in Reading to an audience of 150 regional stakeholders, comprising local authorities, delivery agencies and utility companies.
4. The IP was also subsequently endorsed by the Assembly's Executive Committee on 20 October. The Panel has been informed of the small number of further amendments arising from this meeting. The Revised Implementation Plan and the Sustainability Appraisal of the Revised Implementation Plan are both available on the Assembly's South East Plan website<sup>10</sup>.

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<sup>10</sup> [http://www.southeast-ra.gov.uk/southeastplan/key/implementation\\_plan.html](http://www.southeast-ra.gov.uk/southeastplan/key/implementation_plan.html)



## REGIONAL INFRASTRUCTURE FUNDS: A PROSPECTUS

### I. Introduction

The Regional Development Agencies and Regional Assemblies of South East England and South West England have proposed the establishment of a Regional Infrastructure Fund (RIF) for each region. The proposal is an integral part of the respective regional submissions to Government in relation to the Regional Funding Allocations (January 2006) and the Comprehensive Spending Review (October 2006). It is also one of eight transformational actions identified in the South East Regional Economic Strategy and is highlighted as a key delivery mechanism for ensuring the timely delivery of critical infrastructure to support housing growth in the South East and South West draft Regional Spatial Strategies (RSS).

In summary, there will be added value as a Regional Infrastructure Fund will:

- Be a flexible forward funding mechanism designed specifically for addressing the timely provision of critical infrastructure to support growth
  - Make best use of existing public resources to address regional priorities
  - Leverage in additional private sector funding for infrastructure
  - Provide greater certainty to the private sector and the public at large that infrastructure will be delivered alongside new housing development
  - Adopt a business planning approach to infrastructure delivery at the regional, sub-regional and local levels
  - Provide a clear incentive for sub-regional and cross boundary collaboration for infrastructure planning and delivery
  - Transfer public sector risk from individual localities to the regional level and the associated economies of scale
  - Maximise the impact of regional infrastructure funding resulting from the introduction of the proposed Planning Gain Supplement (PGS), interim tariff arrangements and any future road user charging schemes
- Be operational quickly, subject to the granting of reasonable financial flexibilities to regional bodies.

This prospectus sets out the purpose, rationale and added value of a RIF alongside practical suggestions for potential governance and operational arrangements, thereby forming the basis for a more detailed dialogue with Central Government (particularly HM Treasury (HMT), Department for Communities and Local Government (DCLG) and Department for Transport (DfT)) and stakeholders in the South East and South West.

#### What's needed now to make it happen?

- Support in principle from HMT, DCLG and the DfT
- Further dialogue with these Government departments about the detailed arrangements around operation and financing, to reach agreement on the following propositions:
  - Agreement by HMT that the region provides the appropriate level at which to operate a transparent and accountable forward funding mechanism
  - The granting of the necessary freedoms and flexibilities to use Regional Funding Allocations to pump prime the South West RIF
  - Assignment of the strategic element of PGS revenues and/or an enhanced Community Infrastructure Fund to the Regional Funding Allocation to pump prime the South East RIF
  - In the event of PGS not proceeding, confirmation of arrangements for regional bodies to secure anticipated s106 contributions / standard tariffs under the current system to recover forward investment in strategic infrastructure
  - Agreement in principle that a RIF would be able to secure investment against anticipated road user charges
- Both regions would welcome the opportunity to discuss with HM Treasury and Partnerships UK the best way of taking these ideas forward.

## 2. What is a Regional Infrastructure Fund?

A RIF is a rolling infrastructure fund operated at the regional level and for which regional partners are held accountable. Its primary purpose is to facilitate the timely provision of regionally or sub-regionally significant infrastructure that supports the delivery of planned growth as set out in the Regional Spatial Strategy and/or the Regional Economic Strategy.

The RIF is a mechanism through which a region can pump prime or forward fund major infrastructure schemes, in situations where the anticipated public or private funding for the scheme will not be available in full at the time when the infrastructure is needed to support planned growth or development. The cost of the capital investment would then be recovered from pre-determined public and/or private funding streams as they become available. The RIF also provides an effective mechanism for progressing projects from outline proposals to regionally prioritised schemes with a robust financial, economic and business case.

## 3. Why do we need a Regional Infrastructure Fund?

There is an acknowledged need to improve the funding and delivery of strategic infrastructure. A forward funding mechanism operating at the regional scale will provide an effective part of the solution for the following reasons:

- Some infrastructure is regional in its scope; either in terms of its geographical coverage or the fact that it cannot easily be related to individual development proposals as it serves a wider strategic function
- Some items of infrastructure will be too expensive to deliver through local funding mechanisms (including developer contributions)
- Some large scale development site related infrastructure (eg flood defence or transport) will need to be forward funded and the RIF allows for a greater spread of risk across a number of strategic investments, than similar local area based approaches
- There is a need to lever in additional private sector contributions towards infrastructure, these can be maximised at the regional level.

### To deliver regional growth aspirations

The South East and South West of England share a similar set of challenges in relation to the timely delivery of infrastructure to support significant regional growth and development.

Both have high levels of planned growth coupled with a need to deliver affordable housing, address high levels of traffic congestion and the need for major investment in flood defence, water resources and water treatment infrastructure.

They have dispersed polycentric urban structures, rather than large metropolitan centres, which places additional emphasis on the need for high quality strategic inter-urban infrastructure.

These factors are reflected in high infrastructure costs. They are also reflected in the nature, scale and scope of strategic infrastructure requirements identified in their respective RSS and RES. This is illustrated by the definition of infrastructure included within the draft RSS for the South East (Table 1).

### To provide forward funding

The need for forward funding arises in many different circumstances – where the site has abnormal up front costs; where there are several owners involved; or where the sheer scale of development and the necessary upfront investment means a long payback period.

In many cases the infrastructure will be needed alongside the development it supports, but the funding streams (public and private) that will contribute to the cost will not flow until after the development is completed.

Typically, large scale strategic development will generate demands upon infrastructure beyond its own boundaries, for example transport or utilities infrastructure, which serves a wider purpose or geographical market.

In many cases there is no current mechanism at all for recouping private sector contributions towards strategic infrastructure needs, although the introduction of a Planning Gain Supplement (PGS) may assist in this respect.

**Table 1: Definition of Infrastructure**

Transport	Airports, ports, road network, rail network, travel management systems, other public transport improvements
Housing	Affordable housing Gypsy and Traveller sites
Education	Further and higher education Secondary and primary education Nursery
Health	Acute care and general hospitals Mental hospitals Health centres/primary care trusts Ambulance services
Social Infrastructure	Supported accommodation Social and community facilities Sports centres Open spaces, parks and play space
Green Infrastructure	Outdoor recreation and sports facilities, parks, gardens and allotments, tracks and pathways, natural and historic sites, canals and water spaces, as well as accessible countryside. It is a network of multi-functional green spaces in urban areas, the countryside in and around towns, and the wider countryside
Public Services	Libraries Cemeteries Emergency services
Utilities and Waste	Water (including water supply and wastewater treatment) Energy (including renewable and non-renewable) Waste management (including waste disposal and recycling)
Flood Defences	Coastal and fluvial

Source: Delivering the South East Plan (South East England Regional Assembly, October 2006)

However a more efficient and effective mechanism for generating developer contributions, such as PGS, will not in itself address the issue of timing of infrastructure delivery or improve the co-ordination of funding streams. A Regional Infrastructure Fund will address both these issues.

#### **To co-ordinate funding streams to deliver regional priorities**

The co-ordination of strategic (often cross local authority boundaries) infrastructure may be beyond the remit of individual Local Delivery Vehicles or the capability of local authority joint working. There is a need for a regional 'ring master' to provide co-ordination and/or interim funding for strategic infrastructure investment that can be recouped from developer contributions, user charges and appropriate public funding streams as they become available.

This is the role of the RIF; a practical application of the 'ringmaster' approach. A 'ringmaster' could also provide technical assistance to project promoters with feasibility work and identifying opportunities for leveraging private investment.

#### **4. How will it work?**

A RIF will need to be designed to reflect the particular infrastructure needs and priorities of the region in question, as well as specific governance requirements. The South West and South East regions have slightly different initial proposals for how a RIF will operate – these illustrate the flexibility of the model to meet the specific requirements of each region.

Both models require common prerequisites:

- A business planning approach to the identification of infrastructure need, including a thorough assessment of costs, timing, funding streams and responsibilities for delivery of major schemes
- The existence of identified revenue streams through which the RIF would recoup its up front capital investment. This could be a combination of strategic planning contributions (s106, tariff or PGS), user charges, other private investment, for example the sale of concessions or longer term public funding commitments
- The identification of appropriate ‘banker’ arrangements through an accountable body; the status of which (public or private) will be dependent upon the sources of finance employed and the nature of contractual relationships with infrastructure providers
- Robust and transparent governance arrangements to ensure appropriate levels of public accountability and scrutiny
- Projects to be considered for the application of RIF monies would need to demonstrate a clear evidence of need and a direct contribution to the delivery of regional growth and development targets as set out in the RSS/RES. This will require the adoption of a ‘business planning’ approach to infrastructure planning by local planning authorities and their partners
- To facilitate the process the ‘ringmaster’ function would allow for the provision of a wider technical assistance or sub-regional brokerage role.

### Generating Additional Resources

Both regions recognise that the real added value of the RIF will lie in its ability over time to attract additional private resources.

The RIF could borrow, initially within the public sector, against future receipts. This will require the RIF to have established a portfolio of projects across the region to minimise counterparty and project risk to acceptable levels. Public borrowing would be kept to commercial levels in order to keep open the prospect of using commercial borrowing as and when required.

Additional private sector resources could be made available through debt financing or equity investment. Possible sources of funding include the European Investment Bank, utilities funding, road charging revenues or direct joint ventures with developers. SWRDA are undertaking financial modelling to assess the potential role of private finance on the RIF.

The introduction of private finance will have implications for the status and structure of an accountable body for the RIF. For example incorporation as a company limited by guarantee will give an accountable body a separate legal identity (as a Regional Infrastructure Company) which allows it to enter directly into contracts with suppliers. A trading subsidiary would then be established as a company limited by shares.

### Case Studies

The following four infrastructure schemes provide practical examples of the added value of a RIF. Each scheme illustrates a different feature of the RIF approach:

- **Reading Station** - a RIF ‘ringmaster’ approach addresses market failure to ensure delivery of a scheme which is a regional priority for both the South East and the South West but not a high national priority. A single appraisal process will also enable efficient co-ordination of funding streams.
- **Western Section of East West Rail** - a ‘ringmaster’ approach would assist cross boundary co-ordination of delivery.
- **A3 Hindhead** – a scheme prioritised by the Regional Transport Board and now funded through the RFA process. It is an example of where a RIF could have been employed to bring forward and manage investment through the co-ordination of planning contributions from areas beneficially impacted by not physically adjacent to the scheme.
- **East of Exeter** - a targeted RIF ‘ringmaster’ intervention would help overcome local delivery obstacles and developer cashflow constraints.

### The added value of a Regional Fund:

- It will provide a transparent and accountable process for the prioritisation, co-ordination and alignment of a wide range of public funding streams in line with regional objectives as expressed in RSS and RES to deliver accelerated rates of growth
- It addresses market failure in the delivery of critical infrastructure to facilitate the delivery of regional growth targets
- As a regional scheme it will have sufficient leverage to generate attractive rates and levels of borrowing and private sector investment
- It will enable the transfer of risk from local authorities to the region, thereby:
  - Reducing counterparty risk through operating a portfolio of projects
  - Generating efficiencies through large scale procurement
  - Lowering administration costs compared to multiple local funds.

## Alternative approaches to a Regional Infrastructure fund

### RIF South West

The South West proposed in its advice to the Department for Transport on Regional Funding Allocations (RFA) that a RIF would be funded initially through top slicing £30m from the RFA to be matched by a £50m contribution from the Regional Development Agency's single pot.

The RIF would be managed in the South West by a Regional Investment Board comprising public and private sector members that will be responsible for establishing and agreeing a business plan against which investments from the fund will be determined.

The RDA will be the accountable body, acting as the banker, and undertake the day to day operation of the fund, including project and financial appraisal. The RDA is well placed to take on this role, given

it is an accountable body in its own right, and it fits well with its project delivery focus and existing skill sets.

The fund would be used primarily to address market failure in the delivery of infrastructure on major development sites. Financial modelling work undertaken for SWRDA illustrates how forward funding a package of infrastructure schemes over the life of major development projects can significantly address developer cashflow constraints and increase development value, which in turn enhances potential private sector contributions towards infrastructure costs. A practical illustration of how the fund could operate in the context of an actual proposal for an urban extension is the proposal to the east of Exeter.

### RIF South East

In its advice to Government on Regional Funding Allocations (RFA) in January 2006 the South East proposed that a RIF be initiated through an additional 10% on top of its RFA allocation, amounting to £77m. The fund would be enhanced by funds arising through the implementation of the PGS and additional RFA funding once there is headroom in the programme following the delivery of existing commitments. The allocation of the Community Infrastructure Fund to the region for the purposes of pump priming a RIF (either directly or through the RFA process) would provide an alternative source of seedcorn funding.

Subject to the granting of certain flexibilities to the region by Government, the South East RIF could be operational almost immediately as an extension of the RFA process. Through this process the region will take a view about how the RIF is best employed alongside other elements of the RFA so as to bring forward critical infrastructure which would be otherwise delayed. In practice this will mean using the RIF to deliver regional priorities identified through an extension of the prioritisation processes currently employed by the Regional Transport Board. The RIF would look to draw in

other sources of funding as these become available.

A Regional Investment Board (RIB), comparable to the established Regional Housing and Regional Transport Boards will be established to perform this role. Building on existing prioritisation processes, the RIB will be responsible for agreeing regional infrastructure investment priorities and assessing these against available funding streams to identify gaps or mismatches in the timing of delivery with a view to allocating forward funding where it is most needed and can have most impact on delivering growth outcomes as set out in the RSS and the RES.

Funds would be transferred from the RIF accountable body to the relevant public body or public-private partnership responsible for delivering the infrastructure scheme. This could be a local authority, a local delivery vehicle or an RDA. Funds will be repaid through a range of revenue streams. Planning gain is likely to be a significant source of funding. Annex A illustrates how the RIF would operate within a PGS environment.

## ANNEX A: THE USE OF PLANNING GAIN SUPPLEMENT

### Assumptions

One of the features of a RIF is that it is equally workable with PGS and the current system of planning obligations as set out in ODPM Circular 05/05. Nevertheless the Government's proposals for a Planning Gain Supplement (PGS) provide a potentially valuable source of additional funding for strategic infrastructure provision.

It is envisaged that the proposed PGS will provide an important and secure (but not exclusive) source of revenue for the rolling Regional Infrastructure Fund. This annex sets out how PGS would be used within a RIF.

For the purposes of this Prospectus we have made the following assumptions about the implementation of the proposed PGS:

- Overall PGS will generate significant additional private sector contributions towards infrastructure investment
- PGS will be introduced as a hypothecated tax, collected and administered centrally, but the local element will be allocated to authorities in accordance with value capture
- PGS revenue will not be restricted to uses which mitigate the impact of development but rather seen as a general revenue stream for infrastructure funding as set out in the agreed local infrastructure plan
- S106 contributions will be scaled back in accordance with the development site approach proposed in the PGS consultation document
- Allocation of PGS should be in accordance with regional/ local / sub-regional infrastructure plans. These will be essential for providing certainty to investors, and are in accordance with advice in Circular 05/05, but it is not yet clear what form these should take at the sub-regional or local level (LDDs and/or LAAs)
- A proportion of PGS revenues (undetermined) will be available for use at the regional level and this will be additional to existing regional funding pots recently reviewed through the RFA process.

One of the implications of this is that PGS would be set at a level that yields more than an efficiently operated s106 system; in other words it yields enough to cover some regional infrastructure items that could not be justified as relevant under existing s106 legislation.

Hewdon Consulting (2006) assessed the likely take from PGS using a 20% tax rate (with all the proceeds going to local level) as being about £4bn over a 20 year period in the South East. If, for the sake of argument, an 80:20 split between local and regional elements is used, this implies a total yield of £4bn with £800m for the regional element. These figures should be treated as orders of magnitude rather than anything more precise. We have not attempted to calculate the impact on the South West but for comparison the (draft) South East RSS assumes 28,900 dwellings are built each year whereas the draft South West RSS assumes 23,000.

In principle, the regional element of PGS is a (relatively) predictable income stream derived from the rate of development and economic growth in a region. But the rate of development and economic growth is dependent on the amount of infrastructure provided. Moreover the return from PGS will increase in proportion to economic growth. Even assuming increased land supply keeps prices down, more land will be developed quicker, leading to faster returns. This is an extremely powerful incentive to regional bodies to invest wisely.

PGS also has significant implications for local infrastructure planning. It is envisaged that local planning authorities would prepare an infrastructure plan as part of their Local Development Documents. This infrastructure plan would identify needs, sources of funding and their likely contributions, funding gaps and an allocation of PGS. The plan will not just identify how PGS should be allocated, it will also spell out what needs to be done by who and what resources there are to achieve this – including other central government funding.

In principle, the local planning authority would keep all the local PGS element (or in a two-tier system, share it with the county).

Infrastructure plans should be co-ordinated at sub-regional level and funding redistributed at that level. The majority of infrastructure items - local roads, hospitals, education, sewage and water, local trains – cross local authority boundaries, but they rarely go beyond sub-regional level.

Aggregating to sub-regional level evens out disparities between neighbouring authorities and (often) unites rural authorities, which bear the brunt of expansion, with urban authorities that benefit economically.

So, consortia of local authorities would band together and produce or commission infrastructure plans. The infrastructure plan would allocate available funding, including PGS, towards an agreed order of priorities.

Figure 1 sets out how developer contributions would be used for infrastructure funding at local, sub-regional and regional levels under the current arrangement vis a vis the introduction of PGS.

**Figure 1 Funding arrangements – PGS and s106**

