

CAMBRIDGESHIRE HORIZONS

Agenda Item No: 10

Investment Package Update:

The Variable Rate Tariff and the Integrated Development Programme

To: **Cambridgeshire Horizons Board**

Date: **30 June 2009**

From: **Chief Executive**

Purpose: **To update Board members on progress with the package of investment measure presented at the March meeting, specifically the Variable Rate Tariff and Integrated Development Programme**

Recommendation: **The Board is invited to:**

- a) Comment on the points raised;**
- b) Agree the approach proposed for progressing these pieces of work in tandem, which includes consideration through each local authority's processes in addition to the views of the Horizons Board**

Contact:

| | |
|-----------------|--|
| Name: | Alex Plant |
| Job Title: | Chief Executive |
| E-mail address: | alex.plant@cambridgeshirehorizons.co.uk |
| Telephone No. | 01223 714054 |

1. INTRODUCTION

- 1.1 In March of this year the Cambridgeshire Horizons Board was presented with a package of investment measures, intended to deliver infrastructure during the economic downturn and beyond. This paper sets out progress that has been made on the Variable Rate Tariff (“tariff”) and Integrated Development Programme (IDP), with particular emphasis on the engagement and consultation that has taken place with partners. A number of issues and questions have been raised during this process, and this paper seeks to address and respond to these.
- 1.2 To date, the IDP and the tariff have been considered as separate projects. However, because the IDP will form an important part of the evidence that justifies and informs the tariff, they are now being brought together. This paper sets out the interactions between the tariff and the IDP, as well as the process proposed for taking both forward.

2. WHY DO WE NEED A TARIFF (AND AN IDP)?

- 2.1 The context for the overall investment package as proposed to the Board in March was one of much changed economic circumstances. Since then, and as a result of the unprecedented increase in public sector borrowing as a result of the banking crisis, it has become very apparent that over the next ten to fifteen years there will be severe cuts in public spending. However, the same infrastructure pressures face us now as before the downturn, and we still need to look at all available funding solutions. The tariff, and the IDP in its wider sense, are part of this package of solutions.
- 2.2 The preparation of an IDP dovetails neatly with work on the tariff, as it evidences the level of strategic infrastructure needed to ensure sustainable new communities are built and a balanced economy promoted through the growth agenda. The tariff requires a detailed evidence base of local and sub-regional infrastructure needs in order to be robust. So, to support the tariff, the IDP evidences sub-regional infrastructure needs, whereas the emerging suite of Local Infrastructure Frameworks evidences local infrastructure requirements.
- 2.3 In addition to this, the two wider purposes of the IDP are as follows:
- To inform EEDA’s work on the Joint Implementation Plan for the Regional Spatial Strategy and Regional Economic Strategy, which seeks to identify key interventions required to deliver the RSS and RES targets, and in so doing, to forge stronger links between Cambridgeshire’s economic, spatial and environmental ambitions;

- To inform funding bids at regional and national level, for example relating to the Regional Infrastructure Fund and future rounds of Housing Growth Fund;

2.4 It should be noted that the original EEDA statement of purpose for IDPs was:

'To plan and manage social, economic and environmental growth holistically and sustainably, based on a single delivery plan for capital-led investment which will allow for appropriately phased development'.

2.5 However, each IDP must reflect the particular characteristics and circumstances of the area it covers. The Cambridgeshire IDP is trying to serve three main purposes: an evidence base for the tariff, a sub-regional implementation plan for the RES and RSS; and an evidence base for bidding into future regional/national funding rounds.

2.6 Each of these require slightly different emphases, although they are mutually reinforcing, which requires a balance to be struck within the document. This has not yet been completely achieved, and we are working with stakeholders to improve the document and address all the issues raised.

2.7 Even in its current draft form (see Appendix C), the IDP demonstrates the value of aiming for a strategic response to infrastructure funding, and the tariff work is a key part of this.

2.8 Since beginning work on a tariff proposal in February 2008, a considerable amount of work has been done to examine how a variable rate tariff could work in Cambridgeshire. This work has been undertaken with consultancy support from PricewaterhouseCoopers and Denton Wilde Sapte, and includes two key reports that were presented to the Cambridgeshire Horizons Board in June 2008 and March 2009.

2.9 The first report examined the principle of a charge for all new housing development in Cambridgeshire. The rate of this would vary in different parts of the county according to the characteristics of the housing market, and would include an element of pooling to fund strategic infrastructure projects. The report concluded that, compared to business as usual, there were considerable potential benefits to introducing a tariff system. The June 2008 Horizons Board approved the progression of this work to the next stage.

2.10 The second report in March 2009 presented a more detailed proposal for how a variable rate tariff for Cambridgeshire could be designed and operated. It included draft tariff levels and boundaries for indicative charging zones. The Board approved progression of the work, with emphasis on developing the governance arrangements in more detail and preparing a strategy for consultation.

- 2.11 Work since then has focussed on these issues, and included further discussion with a range of partners and stakeholders, including through the Growth Partnership Board and Variable Rate Tariff Steering Group. These officer groups have commented on both the tariff and IDP, and all the points raised with us are set out in an Issue Log (see Appendix A).
- 2.12 The most significant and widely-raised issues are discussed in the next section of this paper.

Benefits of a tariff system

- 2.13 The detailed design of the tariff will be worked through to maximise the potential benefits of such a system, which, to recap, are:
- **Clarity and predictability**, as there will be a standard charge per unit of housing, known by landowners and developers in advance;
 - **Speed**, as detailed negotiations will be avoided unless there are exceptional circumstances;
 - **Additionality**, as over a third of developments across the county do not currently make any infrastructure contribution and the value of contributions is lower than could be achieved under the tariff in many cases;
 - **Equity**, as all new housing units will contribute to the infrastructure needs they generate;
 - **Accountability**, as the tariff will be accompanied by a detailed Business Plan that sets out what tariff revenues will be spent on, based on evidence from Local Infrastructure Frameworks and the IDP;
 - **Partnership**, as the tariff will allow a proportion of revenue to be pooled for strategic infrastructure projects that benefit the whole county;
 - **Leverage**, as the revenue streams from the tariff will be steadier and more predictable than current S106 contributions, which will make it easier to borrow against them, and potentially increase access other funding sources.
- 2.14 Experience in other areas, most notably in Milton Keynes, suggests that these benefits have held, even during the more difficult economic climate that we are now experiencing.
- 2.15 Given the levels of infrastructure needs shown in the IDP and the developing Local Infrastructure Frameworks, the additionality point is especially salient.
- 2.16 The sensitivity analysis undertaken by PricewaterhouseCoopers for the March 2009 Board report is included below. There were some doubts raised at the last Board meeting about the validity of the figures, which we have checked back with our consultants. We are confident that the numbers they used did

incorporate both District and County contributions through s.106, and that there has neither been double-counting nor under-counting.

- 2.17 The analysis below demonstrates the extent to which the tariff could address the additionality point.

“The potential impact of these illustrative tariff bands for each of the Districts in Cambridgeshire is outlined in the following table, using anticipated housing growth in 2008/09.

The figures below show the marked differential between tariff implementation and the business as usual scenario. It should however be noted that these figures are indicative and that the 2003-07 S106 figures do not take account of works in kind.

Table 1

| 2008/09 REVENUE | | | | | |
|--|---------------------------|---|---|-------------------|-------------------|
| | Number of units projected | Average S106 cash contributions 2003-07 | Business As Usual (Average 2003-07 contributions, 40% of housing units pay nothing) | Upper Band Tariff | Lower Band Tariff |
| Cambridge City | 343 | £5,000 | £1,029,000 | £7,717,500 | £4,287,500 |
| South Cambridgeshire | 625 | £4,000 | £1,500,000 | £7,812,500 | £4,687,500 |
| East Cambridgeshire | 400 | £2,500 | £600,000 | £4,000,000 | £2,000,000 |
| Huntingdonshire | 753 | £5,000 | £2,259,000 | £7,530,000 | £3,765,000 |
| Fenland | 512 | £2,000 | £614,400 | £5,120,000 | £1,536,000 |
| TOTAL | | | £ 6,002,400 | £ 32,180,000 | £ 16,276,000 |
| % Increase on Business as usual | | | | 436% | 171% |

This table suggest that, should the tariff be implemented at the low end of the indicative bands, S106 revenues could be nearly trebled. However, if the tariff is implemented at the higher end of the indicative bands, revenues could increase more than fivefold. This is due to the wider coverage (every new home contributes) and a higher average level of monetary contributions per site.”

- 2.18 Taking this analysis forward, if it is assumed that around 20% of the tariff may be pooled into a county-wide strategic fund, the remaining 80% to be used for local infrastructure is still higher than 100% of business-as-usual S106 contributions, as shown in the table below:

Table 2

| District | Number of Units | Business As Usual | Lower Band Tariff (local 80% only) | Upper Band Tariff (local 80% only) |
|----------------|-----------------|-------------------|------------------------------------|------------------------------------|
| Cambridge City | 343 | £1,029,000 | £3,430,000 | £6,174,000 |
| South Cambs | 625 | £1,500,000 | £3,750,000 | £6,250,000 |
| East Cambs | 400 | £600,000 | £1,600,000 | £3,200,000 |
| Hunts DC | 753 | £2,259,000 | £3,012,000 | £6,024,000 |
| Fenland | 512 | £614,000 | £1,228,800 | £4,096,000 |
| TOTAL | | £6,002,400 | £13,020,800 | £25,744,000 |

3. STAKEHOLDER ENGAGEMENT

- 3.1 Since the last Cambridgeshire Horizons Board in March 2009, the IDP and Tariff have been discussed by a number of groups.
- 3.2 The Tariff has been discussed at the Chief Planning Officers' Group, the Developer's Forum, the Cambridge Land Owners' Group and the Growth Partnership Board.
- 3.3 The IDP has been circulated for detailed response to the Variable Rate Tariff Steering Group, Growth Partnership Board, and the Economic Development Forum, with the request to circulate it within attending organisations to any party that would be interested. There have also been a number of informal Member briefings.
- 3.4 All the responses have been coordinated through the Variable Rate Tariff Steering Group, and all the comments and questions raised in connection with both the tariff and IDP are now collected in an Issue Log, which we are working through.
- 3.5 Appendix A of this paper sets out all of the responses received to date, other than specific factual corrections, and alongside each is the mitigation we are undertaking to ensure that the issue can be resolved.
- 3.6 Any further issues raised will also be incorporated so that they can be addressed in the same way. For the tariff and IDP to work effectively, both need to be developed in partnership with all stakeholder organisations. This engagement is therefore vitally important and will continue as the work progresses, including officers and members.
- 3.7 The most frequently raised and significant issues, and the emerging responses to them, are summarised below.

IDP

- It is too long.

As a function of the scope and purposes of the document, the latest version runs to more than 140 pages. This makes it unwieldy, and we therefore intend to reduce it in size by stripping out any sections that are repetitious or unnecessary. Indeed, the IDP could be restructured to include project detail in an annex or appendix, if this would be most appropriate.

- Lack of clarity about what it is.

The IDP concept was created by EEDA. The document seeks to bring together spatial and economic aspirations for the sub-region, contained in the RSS and the RES. It details how these ambitions will be achieved, and identifies the

infrastructure required to support them. The IDP is not a planning policy document, and neither does it allocate funding. It brings together existing work to show the overall strategic picture of infrastructure investment needed to support housing and economic growth in Cambridge to 2021.

- The figures are unfamiliar.

3.8 The data within the IDP has been gathered from district and sub- regional plans and strategies, taking the Long Term Delivery Plan as a base. All figures within the document should show provenance, but in such an extensive piece of work there may be inaccuracies. Input from Local Authorities via the Variable Rate Tariff steering group has been very helpful in identifying corrections.

Variable Rate Tariff

- What is the difference between strategic and local infrastructure?

3.9 The Long Term Delivery Plan, Integrated Development Programme and Huntingdonshire District Council Local Infrastructure Framework have taken a broadly common approach to this. Note that the current approach is not intended to be definitive, as there will be important implications to the classification of projects as local or strategic. Agreement of this approach will require more discussion, including at member level.

3.10 What is needed is a taxonomy of infrastructure that divides projects into four categories: Strategic nationally-funded, Strategic sub-regionally funded, Local district level-funded, and Local County Council-funded.

3.11 Examples of Strategic nationally funded infrastructure are trunk road improvements, hospitals and rail infrastructure. Examples of Strategic sub-regionally funded infrastructure are major arts and culture facilities and large-scale public transport projects such as the Cambridgeshire Guided Busway. Examples of Local district-level funded infrastructure are health centres, community centres and open space. Examples of County Council-funded infrastructure are libraries, primary and secondary schools, and local road network improvements.

3.12 It is important to note that some types of infrastructure could be local or strategic, depending on the scale of the project. Green infrastructure and economic development are examples of this, with smaller projects having only local impact but larger, cross-boundary projects having strategic impacts. A clear definition will be incorporated into the Business Plan, and strategic projects to be funded by the tariff will require agreement across the Local Authorities.

- Where will tariff monies be spent?

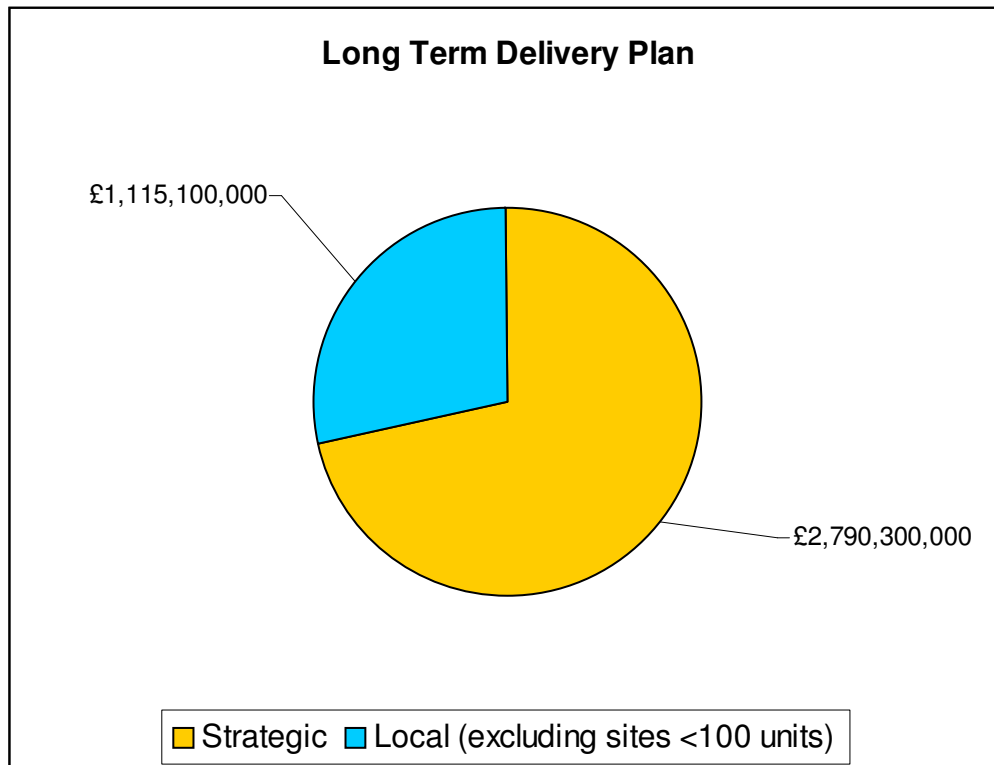
3.13 The tariff will include a Business Plan, as other tariff systems around the country have done. This will include forecasts of how much is expected to be

collected through the tariff, how it will be collected and how it will be spent. The evidence for the Business Plan will be drawn from the Local Infrastructure Plans in preparation across the County, as well as the IDP.

- 3.14 The Business Plan will be owned by each district that adopts the tariff. It will be comprehensive and frequently reviewed, as projects are completed and new ones identified. The Business Plan will be public, as will the planning obligations Supplementary Planning Document through which the tariff will be embedded in Local Infrastructure Frameworks. This will allow tariff spend to be clearly known and will increase transparency as to where monies raised are being spent, and increase accountability for local authorities.
- 3.15 An extract from the Milton Keynes Business Plan can be found in Appendix B of this paper. This kind of approach will be necessary for any tariff proposals in Cambridgeshire.
- 3.16 Tariff revenues will be used towards district, county and sub-regional infrastructure. Local Planning Authorities will collect the tariff. A pre-agreed amount, 20% being the indicative figure used to date, will be transferred into a county-wide infrastructure fund, administered under the same procedures currently used for Housing Growth Fund. This fund will use the tariff towards strategic infrastructure projects, agreed through the Cambridgeshire Horizons Board in the same way Housing Growth Fund is currently allocated.
- 3.17 For the remaining 80% of the tariff, a proportion will be kept by the District, with a proportion transferred to the County Council for the delivery of education, waste, etc.
- 3.18 The appropriate level to be transferred to the County is likely to vary district by district, so will need to be individually negotiated. The basis for these negotiations will be the local infrastructure plans that districts are developing, with support from Cambridgeshire Horizons.
- 3.19 These plans, once complete, will show the local infrastructure requirements of each district. With the IDP, they will form the evidence base for the tariff Business Plan. Although there will inevitably be some overlap in coverage between the IDP and district infrastructure plans, great care will be taken to ensure that there is no double counting for the purposes of the tariff.
- 3.20 The charts below display the evidence available now on infrastructure costs for the growth agenda. Each document of the three analysed uses different geographical parameters, but each confirms the requirement for significant infrastructure investment, of which a sizeable proportion is strategic in nature.

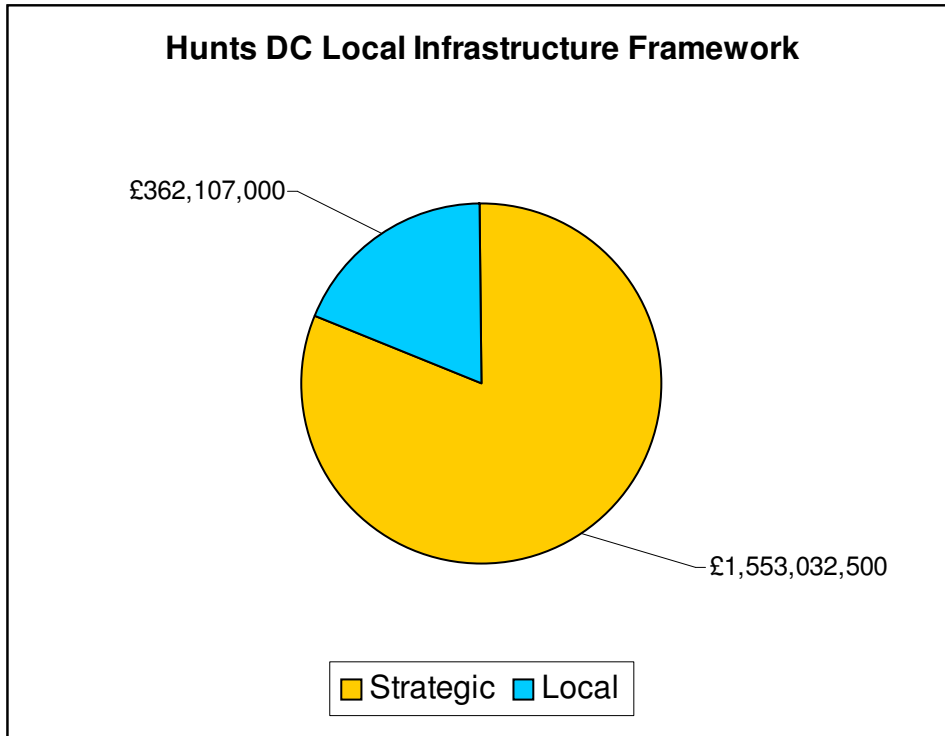
3.21 Figure 1 shows the infrastructure needs identified by the Long Term Delivery Plan (LTDP) in 2007. The figures within it are likely to be slightly out of date given changing circumstances. The LTDP also excludes sites of less than 100 units and includes the Northern Fringe East site, which is no longer allocated for major housing-led redevelopment within the plan period. The LTDP does not take into account the costs required to deliver zero carbon building from 2016. It calculates total infrastructure costs in the sub-region to 2021 as £3,985,700, of which a large amount is related to nationally funded infrastructure projects and so is not directly relevant to the tariff.

Figure 1



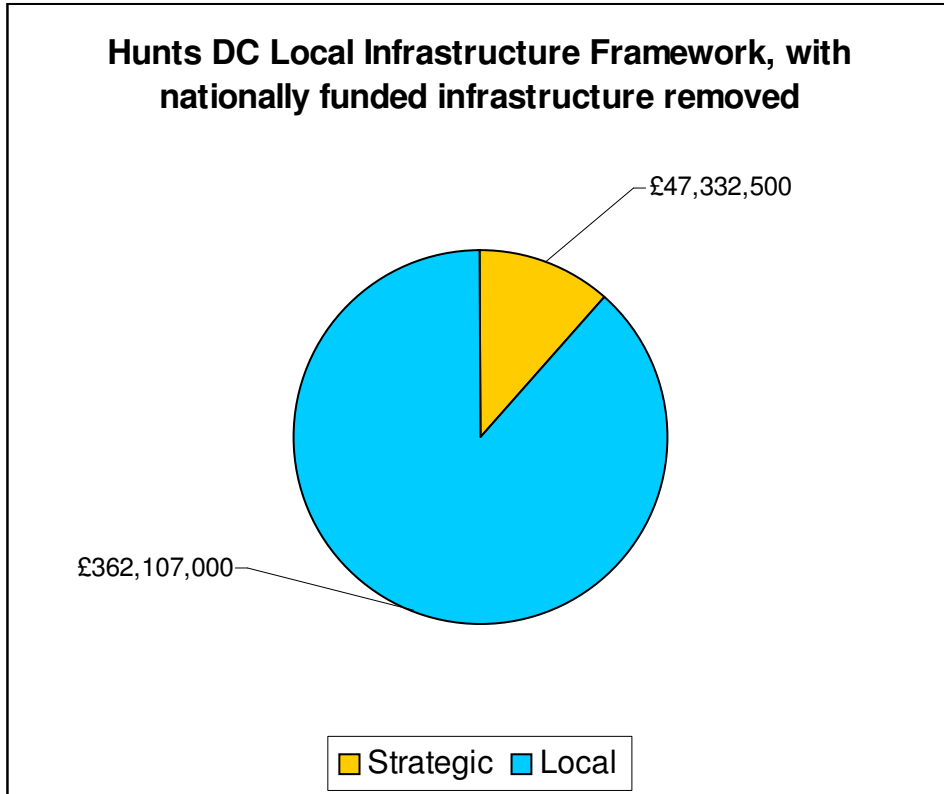
3.22 Figure 2 sets out the conclusions of the Huntingdonshire District Council Local Infrastructure Framework (LIF). This document, finalised in January 2009, sets out the local and strategic infrastructure investment required to deliver growth in Huntingdonshire to 2026. It calculates total infrastructure costs in Huntingdonshire District to 2026, assuming high growth in St Neots, as £1,915,139,500.

Figure 2



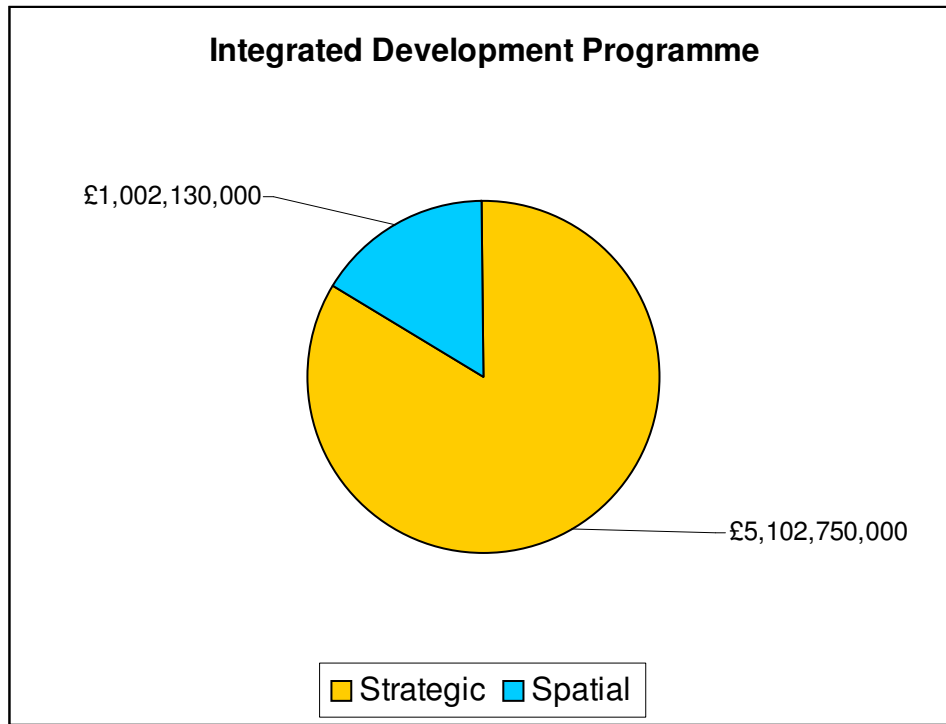
3.23 When projects funded by central government are stripped out of the LIF, removing a total of £1,505,700,000 for trunk road upgrades and strategic health, the local/strategic split shifts dramatically, to 88% local and 12% strategic, as figure 3 shows. However, as this is on a district-only basis it does not take account of all IDP projects.

Figure 3



3.24 Figure 4 sets out the conclusions of the Integrated Development Programme. This takes into account the Low Carbon Appraisal of the Long Term Delivery Plan, as well as using information from the LTDP and LIF. Note that spatial projects are to be considered local infrastructure.

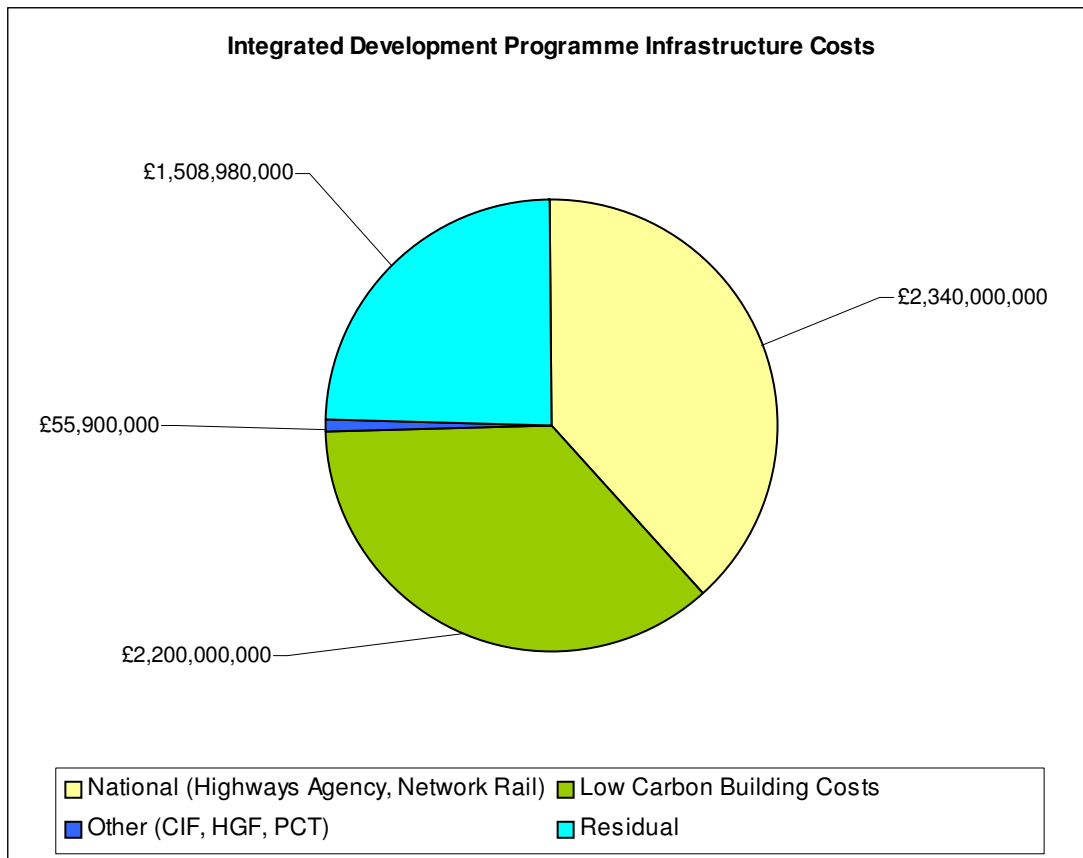
Figure 4



3.25 The above charts displaying the headlines of the three documents give a strong indication of the scale of investment needed. A complete picture of the total infrastructure needs of the county will emerge when all district Local Infrastructure Frameworks have been completed and the IDP finalised. For the purposes of considering strategic infrastructure investment in Cambridgeshire as a whole, the emerging IDP provides the clearest snapshot.

The funding situation as set out in the IDP is shown in Figure 5 below.

Figure 5



3.26 This chart shows broadly how the costs within the Integrated Development Programme are anticipated to be funded. Upgrades to the trunk road and railway networks form 38% of total costs, to be funded by central government (note that this funding has not been confirmed for all projects). 36% of total costs are incurred through meeting zero carbon building targets, and it is currently anticipated that these costs will be necessitated by regulation and so will need to be absorbed by the development industry. 0.9% of infrastructure funding will be met by other public sector funding sources that have already been identified, such as Housing Growth Fund, the Community Infrastructure Fund, and Primary Care Trust investment. There is potential for further funding of this kind to 2021, but as Housing Growth Fund for example is allocated over 3 year periods, this is speculative. The residual amount, approximately 25% of the total, does not have an identified source of funding.

3.27 The projects within this residual section can therefore be considered possible candidates for tariff funding, and so for inclusion in the Business Plan.

NEXT STEPS

3.28 The process for taking forward the IDP and tariff is set out below.

| June | July | August | September | October | November | |
|--|---|--------|-------------------------------|----------------------------------|--|--|
| IDP | | | | | | |
| Paper to CH Board | Further engagement and work, using Issues Log | | Steering Group approval | CH Board approval | LA Cabinets approval | IDP to act as evidence base for Tariff Business Plan |
| Variable Tariff | | | | | | |
| Paper to CH Board | Preparation of Consultation Document | | CH Board approval | LA Cabinets approval to progress | County-wide Variable Tariff Consultation | |
| Preparation of Local Infrastructure Plans | | | | | | |
| Engagement with the Homes and Communities Agency | | | | | | |
| Hunts DC SPD | | | | | | |
| Preparation of Hunts DC Supplementary Planning Document by Task and Finish Group | | | HDC & CCC Cabinet approve SPD | SPD Consultation | | |
| June | July | August | September | October | November | |

3.29 In summary, Cambridgeshire Horizons proposes to:

1. Further update and improve the IDP, respond the points listed above and detailed in the issues log, as well as any additional comments from partners;
2. Continue to support Huntingdonshire District Council and Cambridgeshire County Council in preparing to pilot the tariff through consulting on a Supplementary Planning Document;
3. Work with the Variable Rate Tariff Steering Group to prepare the IDP and Tariff for discussion through relevant Local Authority democratic processes;
4. Engage with the Homes and Communities Agency to try to secure initial funding support for the tariff;
5. Continue to support all Local Planning Authorities preparing Local Infrastructure Frameworks;

6. Continue to work on a Consultation Document and Strategy for a full public consultation on the Tariff, once it Cabinet approval has been achieved.

CONCLUSION

- 3.30 There remains much work to do on both the IDP and the tariff. However, the underlying justification for both is strong, and made more urgent by the likely paucity of future funding sources.
- 3.31 A county-wide tariff would deliver a significant increase in developer contributions towards infrastructure, whilst conveying benefits to all parties in terms of speed, predictability, and accountability.
- 3.32 Given the economic downturn and need for much greater thrift within the public sector, the tariff will be a crucial tool to deliver sustainable communities. It is particularly timely given the likely arrival of the Community Infrastructure Levy, regulations for which are expected imminently.
- 3.33 Preparing the IDP, Local Infrastructure Frameworks and the groundwork for the tariff will give Cambridgeshire a head-start if a quick transition into the Community Infrastructure Levy is necessary, and a leg-up even if the Levy were not introduced as we can operate the system proposed under existing legislation.