

**WEST OF ENGLAND PARTNERSHIP**

**8<sup>th</sup> DECEMBER 2006**

**Report by Ian Piper, Southwest Regional Development Agency**

**REGIONAL INFRASTRUCTURE FUND: POSITION STATEMENT**

**This Position Statement by Ian Piper of the South West Regional Development Agency confirms, supplements and updates information provided at the West of England Partnership in September**

**Background**

1. As part of the work underpinning The Way Ahead, the RDA has been developing proposals for a Regional Infrastructure Fund. The requirement for such a proposal was generated by work undertaken with all the Principal Urban Areas (PUAs), and then key areas, to identify the barriers to delivering sustainable growth over the next twenty years. The timely provision of infrastructure was almost unanimously referred to as the number one constraint to delivery. In addition, the lack of perceived support for 'upfront infrastructure' is also a major political barrier as it deters local elected government supporting the concept of growth in their patch.
2. Through regeneration work and discussions with funders, we recognised that there was an appetite from financial institutions to support the delivery of public sector backed schemes. The need and apparent opportunity have been brought together in developing the proposals for a Regional Infrastructure Fund.

**Progress**

3. The primary purpose of the Regional Infrastructure Fund (RIF) is to assist in the timely delivery of regionally or sub-regionally significant infrastructure that supports delivery of planned growth. The infrastructure that could be supported through this means would be any infrastructure needed to deliver sustainable communities, for example schools, health and other community facilities, as well as transport. The RIF would not support delivery of infrastructure where its delivery can be secured in a timely way, with certainty, through traditional funding mechanisms. The proposed Fund would receive and recycle revenues derived from planning gain obligations, and Planning Gain Supplement. The proposal is to initially establish the RIF with funding from the public sector. Our Regional Funding Allocation (RFA) advice suggested an initial contribution of £80m over a ten year period, £40m from the RDA's budget and £40m from the regional transport pot. We are, however, currently developing proposals for the Fund to access private finance and anticipate broadening the concept in this way once it is established and the risks/benefits associated with it become more clearly defined.

4. Overseen originally by The Way Ahead Advisory Group, the RDA has commissioned consultants to assist with the development of the proposal. Ernst & Young were engaged initially to identify possible options and outline structures and recommend a preferred route. They presented these findings to the Advisory Group in October 2005. Following that meeting, the Advisory Group helped to shape the future direction of the work and recommended a twin track approach whereby we develop a proposal based on a fund utilising public sector only resources, whilst in parallel developing the thinking for E&Y's preferred approach which was a public/private sector fund. The rationale for this approach was that the Advisory Group could foresee more significant issues with the public/private fund which might take some time to address, whereas a public sector supported fund might get off the ground more quickly.

5. We continue to develop the proposals for the public/private fund and we will report the outcome of this work to the Board in due course. The remaining elements of this paper, in respect of the RIF, refer to a 'public sector only funded' RIF.

6. It was also clear that to further develop the idea, and to improve understanding of the proposal and gain more explicit support, it would be beneficial to model the fund around some actual projects. To this end we selected two projects, the East of Exeter Growth Area and Poole Harbour Regeneration that were able to provide the sort of detailed information needed to inform the modelling. Both projects are of the type and scale envisaged to be supported by the RIF, in terms of length of programme (where upfront carrying costs become a real issue for viability) and scale of outputs/impact. A number of other places have expressed interest in utilising the fund.

7. This has therefore been the approach we have adopted in taking the idea forward. E&Y were commissioned to model the two projects, drawing out from that modelling how the fund might be structured and operate. As part of the work, they have consulted with stakeholders and interested parties including Treasury, DfT and DCLG officials, EP and the two local authorities responsible for delivering the projects being modelled.

8. Essentially the fund would be used to provide upfront resources for vital infrastructure, receiving money back as the development progresses. The revenue back to the RIF will be generated from contributions from landowners and developers under their s.106 agreements with Local Planning Authorities, or, if approved by Ministers, an element of Planning Gain Supplement.

9. The provision of the funding for the upfront infrastructure has a number of key benefits:

- It unblocks issues in the planning process by providing upfront commitment to infrastructure provision that developers alone would otherwise be unable to commit to.
- It improves the viability (both in terms of profitability and 'return on working capital') of the project enabling the developer to commit to the project, by reducing the developer's debt burden and easing cash flow. The improvement in viability can be used to buy additional sustainability features.

- Although the particular infrastructure provision that is preventing the scheme going ahead might not be needed until some way through the scheme, greater impact is obtained if the fund supports infrastructure that is needed early in the scheme, and this could be infrastructure of a broad nature including contributions to schools, community infrastructure etc.

10. Both the modelled projects could potentially benefit from the involvement of a RIF approach, but they are quite different in their current viability and the fund might be employed for slightly different reasons. With the East of Exeter Growth Area the main impediment is one of timing issues in the planning and delivery system. The RIF's role would therefore be to remove uncertainty and hence the impediment. The expectation would be that the RIF's initial investment would be wholly recovered.

11. The work suggests that the RIF would contract, usually indirectly (see below), with landowners and developers to receive revenue stream made up of a portfolio of:

- Fixed payments
- Payments linked to completion of dwellings (roof tariff approach) or other milestones
- Payments linked to sales values/profitability achieved.

12. By adopting a mix and match approach, the RIF can manage its risk profile according to circumstances. It would clearly be less risky to receive all revenue as fixed payments contracted in advance to cover full RIF expenditure, than it would be to take payments linked to performance. However with these latter payments the opportunity arises to benefit in the upside of projects that will run over a longer time period and where value uplift could be significant.

13. In the case of the Poole Harbour project, at present the modelling suggests that the project is less viable, given the aspirations for community gain the LPA are seeking to achieve. What the modelling does demonstrate is that the RIF will have little impact on schemes with large funding deficits, but where a scheme is only marginally unviable, the RIF can improve the project cashflow making it viable overall.

14. In each case, the modelling makes assumptions about funding secured from other sources (RFA transport pot, for example). It is vital to understand that the RIF is not an alternative for main stream transport or other infrastructure funding, as it will not be 'gap funding' (save the example above where a project is marginally unviable and the use of RIF improves cashflow). It will in many instances work alongside mainstream infrastructure funding. It may have the effect of working to minimise the contributions from these other sources, by having detailed financial modelling and ensuring the public sector is getting better value for money overall.

15. Our conclusion is that the RIF is most likely to be effective where the scheme is either marginally viable but there is a particular impediment in the planning system hampering delivery, or marginally unviable. Projects with large deficits will need other forms of support, perhaps alongside use of the RIF.

16. The report suggests some other key operating criteria for the RIF:

- That the fund should only contribute the minimum needed to enable the scheme to go ahead.
- That projects supported by the RIF must be in line with and support delivery of the Regional Spatial Strategy, Regional Economic Strategy and Regional Housing Strategy.
- Agreement on the public sector sources of funding.

### Governance Structures

17. In order to determine when and how the fund should be used, and administer the fund, it will be necessary to set in place appropriate governance arrangements. The E&Y report considers a number of options for the operating structure. Although a preferred option is not identified, it is clear that in all circumstances, a 'steering group' or 'management board' will be required, possibly with an independent private sector chair.

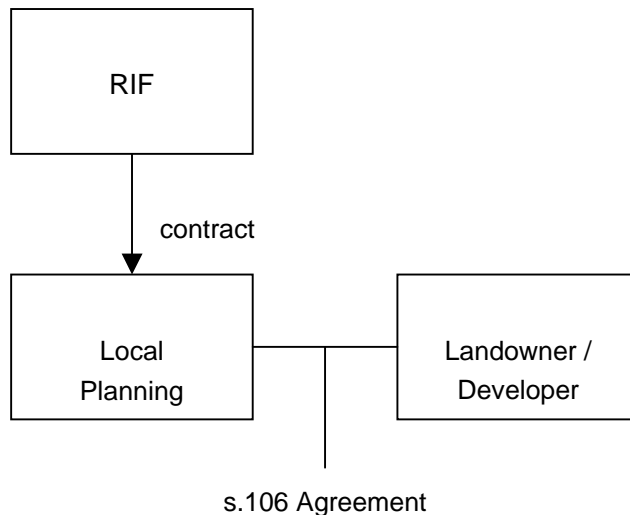
18. Any board managing the RIF would require representation from SWRDA, SWRA, GOSW/DfT and possibly other transport organisations, but should also include the private sector; this is particularly important to ensure commerciality, as we move to a public / private sector fund.

19. It is further proposed that, rather than establish a stand alone financial vehicle for administering the fund, the RDA offer to perform the 'accountable body' role. In this role, the Agency would negotiate and enter into contracts with Local Authorities and/or land owners / developers on behalf of the RIF, and would keep proper accounts of all financial transactions.

### Contractual Arrangements

20. For the fund to succeed, it is vital that any expenditure it incurs is capital. It is therefore important that the RIF is not regarded as a loan, or as a guarantee for a loan.

21. The RIF will need to enter into contracts for the provision of infrastructure and for the receipt of income. These contractual arrangements will need to involve three partners, the RIF, the Local Planning Authority and the developer(s) / land owner(s). Bearing in mind that the RIF will consist of capital funds, it is considered that the most appropriate contractual structure is:



22. Under this scenario, the RIF will need to heavily influence the provisions of the s.106 agreements entered into between the LA and the landowner as this will establish the mechanisms through which the latter make their contributions towards the agreed infrastructure package.

23. If the RIF contracts directly with the landowner / developer, it is considered more likely that the funding provided will be viewed as revenue support, in the form of loan or guarantee. However, where the project involves a small number of landowners, the RIF may be able to contract directly under the terms of a 'Joint-Venture' style agreement.

24. It is worth noting that the South East region, largely lead in their case by the Regional Assembly, have developed a proposal very similar to our own. Through a number of liaison meetings we have agreed to present a single case to DfT, DCLG and Treasury and work will continue on this over the coming weeks.

#### Some important next steps

25. The approval to be sought for the public Regional Infrastructure Fund includes the DfT as well as DCLG and Treasury because £40m of the fund of £80m is from the Regional Transport pot. This is on the basis that the fund will be used in the growth/urban areas in the region where transport is normally a key component of the infrastructure funding required.

26. Subject to government support it is intended to seek and evaluate projects to which the RIF could be applied during 2007/08.

27. Ernst & Young are continuing work on a proposed public/private financed Regional Infrastructure Fund which could complement the publicly funded version that has been developed.

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