Title:	**Match Funding for South Devon Link Road**		
Public Agenda Item:	**Yes**		
Wards Affected:	**All Wards in Torbay**		
To:	**Council**	On:	**13 July 2011**
Key Decision:	**Yes – Ref. X9/2011**		
Change to Budget:	**Yes**	Change to Policy Framework:	**No**

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1. What we are trying to achieve and the impact on our customers

1.1 Delivery of the South Devon Link Road (SDLR) is seen as a major factor in sustaining, promoting and enhancing Torbay's economy. It will also bring major benefits to the sub-region, including Teignbridge and South Hams. Most importantly it will protect existing jobs and deliver new ones and without it Torbay and its neighbours will face increasing challenges in the future in tackling the high levels of socio-economic deprivation we currently endure.

1.2 Devon County Council are equal partners in promoting the scheme and have identified SDLR as its highest priority of unfunded schemes in Devon. The new road will provide enormous benefits to residents and tourists alike and there are also substantial benefits to Kingskerswell as congestion is removed and the Newton Road reverts to a green travel route with opportunities for cycling, walking, bus use and improved public realm.

2. Recommendation(s) for decision

2.1 That the Executive Head of Finance, as Section 151 Officer, be authorised to commit Torbay Council to approximately £11.5 million of additional match funding required to deliver the South Devon Link Road scheme if the bid is successful. (Information in relation to the potential spending programme is set out at Appendix 1 to the submitted report).

2.2 That the additional £11.5 million be provided from prudential borrowing.

2.3 That the potential sources of funding available to the Council to repay and service the interest on that borrowing, particularly in relation to New Homes Bonus (NHB) and Community Infrastructure Levy (CIL) be noted.

2.4 That the risks associated with this borrowing and the potential impact on the delivery of other infrastructure and services be noted.

2.5 That the Council authorises signature of a formal Agreement with Devon County Council committing to a 50/50 Cost Share arrangement for preparation of the bid and delivery of the scheme if the bid is successful.

3. Key points and reasons for recommendations

3.1 The business case for South Devon Link Road has been made elsewhere at length. It is vital to Torbay's and the sub-regions' future economies and a fundamental pre-requisite of attracting inward investment and regeneration – the keys to tackling our current socio-economic problems. It will help in providing a sustainable future for the Bay. It delivers excellent value for money.

3.2 It is considered to be Torbay's Number 1 infrastructure priority.

3.3 A briefing note explaining the current position in relation to planning and finance and delivery and programme is at Appendix 2.

For more detailed information on this proposal please refer to the supporting information attached.

Les Crump
Executive Head of Spatial Planning

Paul Looby
Executive Head of Finance

Supporting information

A1. Introduction and history

A1.1 This report does not attempt to make a case as to why we need South Devon Link Road. Torbay, Devon County Council and the neighbouring Authorities of Teignbridge and South Hams have all identified the road as a fundamental component of regeneration over many years. There is an enormous weight of argument in favour of the road's delivery in other reports which can be made available on request, including the extensive bids for funding made to the recent Public Inquiry into side road orders and land acquisition.

A1.2 As the briefing note at Appendix 2 makes clear, we are bidding with Devon County Council in attempting to secure £75 million of Government funding to deliver the scheme, with a potential start on site in August 2012. The total cost of the scheme is in the order of £108 million.

A1.3 In 2007 the Council approved £6.5 million of prudential borrowing which is repaid by a £400,000 revenue budget which sits in Spatial Planning. We have been spending money on this scheme as capital for the past 2 years – almost £1 million with £600k already funded from revenue sources. To deliver the scheme we will therefore require an additional £11.5 million.

A2. Risk assessment of preferred option

A2.1 **Outline of significant key risks**

A2.1.1 The principal risk associated with the recommendation is that the Council will have difficulty in servicing the prudential borrowing required to front end delivery. In general terms it is anticipated that to borrow an additional £11.5 million it would cost in the order of £850,000 per annum with repayment over 25 years, or £650,000 per annum over 40 years. The Council's financial difficulties are well rehearsed and in the context of the Critical Spending Review both the Council's revenue and Capital Budgets are under severe pressure. The most likely sources of funding to service the loan are New Homes Bonus (NHB) and Community Infrastructure Levy (CIL), but both are dependant on achieving new homes and development in a period of acute financial difficulty for the building industry.

A2.1.2 A final bid will be made to DfT and the Minister in September this year and as part of that bid we must guarantee that our share of the necessary match funding will be available to deliver the scheme. The match funding is split 50/50 with Devon County Council and amounts to some £17-£18 million for each Authority. A report will be presented to each Authority in July (Torbay date 13th July). Preparing the bid itself will incur considerable expense (over £500,000 required in 2010/11) and there is a risk that this money will be lost if the bid is unsuccessful. Every effort is, however, being made by Devon and Torbay to ensure the quality of our bid is of the highest standard and there is confidence that it will be successful.

A2.2 **Remaining risks**

A2.2.1 There will no doubt be a wide range of demands on NHB and CIL. Whilst not ring-fenced, the Government have identified that NHB should be available as a tool in Neighbourhood Planning to foster and encourage growth. CIL will substantially replace Section 106 contributions and whilst the Council has latitude in fixing the rate, it is important not to inhibit inward investment by setting the bar too high. There will also be an extensive list of other infrastructure more directly needed to deliver development such as drainage infrastructure or local highways improvements required to enable growth to practically proceed.

A3. Other Options

A3.1 The fundamental alternative option is to no longer proceed with SDLR because the match funding requirements are too onerous. This would be contrary to the clear advice about the enormous difference the road will make to Torbay's economy and future and is not considered further.

A3.2 Given that there is a need to deliver the money it is possible to consider a cocktail of other sources of funding which could either obviate or diminish the requirement to borrow.

A3.3 These could include:

1) Reallocation of unspent New Growth Points funding
2) Sale of Council assets
3) Adjustment of capital programme
4) Tax Incremental Financing
5) Business Rate Investment.

A3.4 It is recommended that further thought be given to all of the above if the Government confirms that the bid is successful and the scheme is funded. We should know this in December this year. The priority at this juncture is for the Council to guarantee its intention to match fund this project if we are successful. It is anticipated that CIL and NHB should be able to provide all the necessary funds to service the loan and that the guarantee can be made, but in a worse case scenario financial advice is that in 2015 the Council builds the cost of outstanding debts against the road into its forward plan and budget process.

A4. Summary of resource implications

A4.1 Assuming prudential borrowing of an additional £11.5 million, a choice will be needed as to whether the Council chooses to repay over 40 or 25 years with costs at £650,000 or £800,000 per annum respectively. Servicing the entire £18 million is likely to cost £1.2 million per annum.

<u>New Homes Bonus</u>

A4.2 As an incentive to Growth, the Government have pledged to match Council Tax Receipts for new homes for 6 years. The trigger for payment is the Council Tax Base Return. Extra incentives are provided for affordable homes and also for bringing empty homes back into use. These payments are of course a bonus to the receipt of Council Tax new properties would attract in any event.

A4.3 The table at Appendix 3 identifies the potential receipts for the Council from NHB over an initial 6 year duration of the scheme. Assuming 320 new dwellings per annum in year 1 rising to 500 in years 3 and 4 and thereafter based on average tax band levels, it is estimated that £11,194,000 could be available from this source.

New Homes Bonus has, however, only been funded by the Government for the first 4 years of CSR as follows:

Year 1	196 million
Year 2	250 million
Year 3	250 million
Year 4	250 million
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	946 million

A4.4 The sum is finite for that period and it has been made clear that any National overspend on NHB will be made good by reductions on all Councils' Revenue Support Grant. Growth levels were comparatively low in 2010/11 and given the way receipts rise in steps as shown in Appendix 3, it seems likely that £250 million per annum will be insufficient to fund all NHB commitments across the country with consequent reductions of RSG across the board. If Torbay is to benefit rather than disbenefit from this system it is therefore vital that higher than average growth levels in the next 2 years are obtained. The Government has so far indicated that NHB can be relied on as a long term commitment but there are concerns about whether it is affordable for the Government in the long term.

Community Infrastructure Levy (CIL)

A4.5 This is a levy which effectively replaces Section 106 payments for everything except essential on or close to the site infrastructure and affordable housing. In simple terms the Council will calculate the overall costs of infrastructure delivery on a broad range of requirements, e.g. road and transport improvements, schools, parks and open space which the Council will need to provide because the developer has not delivered on site. Unlike NHB, CIL is a one-off payment usually received at trigger points from commencement to completion to occupation. The total amount of CIL anticipated to be received from residential development over a six year period is illustrated in Appendix 4. There will also be opportunities to charge CIL for commercial development but as yet this figure has not been calculated.

Summary of resource implication

A4.6 It is clear that with potential receipts of £11.195 million from NHB and £5.5 million from CIL that in the medium term repayments of an £18 million loan are affordable. With the timing of expenditure identified in Appendix 1 which shows the need to draw down over 5 years the structure of the loan is also likely to reduce the repayment requirement. As well as CIL and NHB we will of course also receive core Council Tax for all new properties but this will be required to provide services, infrastructure and facilities for the new residents.

A4.7 Clearly, however, the allocation of NHB and CIL to SDLR, particularly in the short term, will inhibit the Council in its ambitions to provide other infrastructure and in its delivery of services. There are also risks to be assessed in relation to the delivery of the numbers of houses referred to in a depressed housing market and potential changes to the planning system. These funding packages, particularly NHB, may not be sustainable in the longer run.

A4.8 On balance, however, given the structure of funding, i.e. £75 million from Central Government and £33 million from the two Councils and also the enormous direct benefits the road will bring to Torbay's economy and long term sustainability it is considered that the resource implications can and must be managed.

A5. What impact will there be on equalities, environmental sustainability and crime and disorder?

A5.1 The benefits SDLR brings to these issues have been addressed at length in various other submissions and reports. It is clear that in facilitating new jobs the road will greatly reduce benefit reliance and social and economic deprivation thus improving equalities. On environmental grounds great care has been taken in designing the road to minimise its impact and it has planning permission. The road provides a sustainable future for Torbay. Reducing social deprivation can only reduce crime and disorder in the Bay and the sub-region.

A6. Consultation and Customer Focus

A6.1 SDLR has been the subject of extensive consultation. The scheme was first considered in 1951! It has been examined and supported by the public and stakeholders on numerous occasions. The latest position is that to enlist support in the bid and also to ensure consultation is fully conclusive, a series of public exhibitions are proposed as set out in Appendix 5.

A7. Are there any implications for other Business Units?

A7.1 The delivery of SDLR will benefit every Business Unit in the Council. Most particularly it is supported by the TDA in the interests of regeneration. The financial implications of delivery are also of particular relevance corporately in understanding what impacts this commitment will bring on the resources available to the rest of the Council.

Appendices

Appendix 1	SDLR – Match Funding Needs Timetable
Appendix 2	Briefing Note re: South Devon Link Road (SDLR)
Appendix 3	New Homes Bonus – Potential Income
Appendix 4	Community Infrastructure Levy – Potential Income
Appendix 5	Programme of Consultation Events – June 2011

Documents available in members' rooms

None

Background Papers:

The following documents/files were used to compile this report:

Advice from Spatial Planning staff and colleagues in Finance regarding the potential costs of borrowing and the sources of finance available (handwritten notes only)

Appendix 1

SDLR – Match Funding Needs Timetable (assuming Bid is successful)

	Total	Torbay Council share
2011/12	£1.15 million	£575k
2012/13	£5 million	£2.5 million
2013/14	£5 million	£2.5 million
2014/15	£5 million	£2.5 million
2015/16	£8.7 million	£4.35 million
2016/17	£8.6 million	£4.3 million
	£33.45 million	£16.725 million

Appendix 2

Briefing Note re: South Devon Link Road (SDLR)

- The project is in partnership with Devon County Council on a 50/50 Cost Sharing Basis.
- We have planning permission and we are in the process of satisfying outstanding planning conditions. Within a few months we will be building some small parts of the scheme to keep the planning consent alive in perpetuity. This will be much cheaper and less risky than having to apply for renewal. Planning permission expires in August 2012.
- All the necessary legal orders to alter existing roads and footpaths and acquire land to enable development have been served and have been subjected to examination at a Public Inquiry. However, the Secretary of State will not release the results of that Inquiry until it is clear that the necessary funding is in place. It is believed that there are no fundamental problems in respect of the Orders and the issue is simply one of timing.
- As part of the Comprehensive Spending Review (CSR) the Government identified 5 categories of schemes which could be considered for implementation within a 4 year window:
    - Category A were the schemes already underway or fully committed;
    - Category B were schemes accepted into the so-called 'Delivery Pool' for delivery without any further biding process;
    - Category C were the schemes which would be subjected to a further bidding process for approximately £630 million of funds. The so-called 'Development Pool';
    - Category D were the schemes which were considered by the Secretary of State not to be included in the Development Pool but worthy of further consideration for inclusion in a competitive bidding process;
    - Category E were the schemes not to be proceeded with.
- SDLR was in Category D but following a successful bid by Devon and Torbay it was promoted to Category C.
- The two Councils are, therefore, currently preparing the necessary bid for final funding approval which must be submitted in September.
- Key elements of the bid are public support, value for money, reducing carbon and the ability to deliver.

Public Support

- We are currently running a campaign to enlist public support. The Herald Express has been very supportive with a series of articles from business leaders. There will be public exhibitions and opportunities to obtain comment from the public at large in June.

VFM

- The value for money score for the road in accordance with DfT standard computation is very high. We are majoring on the economic benefits the road will bring to Torbay in jobs, prosperity and reduction in social deprivation. A recent consultant's report showed that for every £1 spent on the road £9 could be saved from the public purse through the value of new jobs and consequent reduction in benefits reliance and the cost of social support etc.

Carbon

- There are national bodies of objection to new roads in general and there is some focus on SDLR locally based on the argument that the road will increase CO_2 and adversely affect the environment. Our funding bids and also the arguments rehearsed in the Inquiry into the legal orders make it clear that there is no alternative to this proposal which would meet the objectives and deliver the benefits to the economy and produce less carbon. Alternatives such as contraflows on the existing road will not deliver. To bolster our case, however, we are working on a plan to show how the existing Newton Road corridor can be made into a sustainable bus and cycle route once the new road goes in.

Deliverability

- It is understood that there are approximately £900 million of bids for £630 million of available funding. SDLR is however far further forward than many of the other schemes in the Development Pool and it is questionable whether several of them can actually deliver within the CSR window. SDLR has planning consent, legal orders and a contractor committed to deliver to budget in place and a start could be made in 2012 once funding is confirmed and outstanding minor details are resolved.
- We therefore believe that we have an excellent chance of success. The outcome of the bid will be known in January 2012.
- In order to promote the scheme from Category C to Category B and in effect keep it alive the cost of the scheme overall was reduced by some engineering changes and the contribution from the two Councils increased. The current cost is approximately £110 million with £75 million provided from DfT and each Council providing approximately £17 - £18 million as match funding.
- The Council's Section 151 officers will be required to confirm in the September bid submission that each Council is committed and capable of making their contributions.
- Reports are currently in preparation which will be placed before the respective Councils in July. The construction contract could be completed by the end of 2015 and the expenditure programmed accordingly. Potential sources of funding for Torbay will include prudential borrowing, Community Infrastructure Levy, New Homes Bonus, Tax Incremental Financing, Business Rate Investment. It is clear, however, that commitment to the scheme will have substantial impact on the Council's ability to deliver other services and new initiatives.

Conclusion

- The South Devon Link Road has staunch support from Members and colleagues at Devon County Council and the Torbay Community at large. Because of the socio-economic benefits the scheme will bring as well as all the environmental advantages, it is considered to be Torbay's No. 1 infrastructure project.

- The mayor and the Council will therefore be asked to endorse the bid in July.

Appendix 3

Match Funding for South Devon Link Road

New Homes Bonus – Potential Income

New Homes Bonus (NHB) is intended to create a "powerful, simple, predictable and effective incentive" to local authorities and communities to facilitate housing growth. The scheme match funds average council tax receipts for 6 years following a new house being registered for council tax, or net number of empty homes being brought back into use.

The amount of New Homes Bonus earned is determined by net increase in the Council Tax Base return submitted each October. Therefore ensuring a comprehensive Tax Base return is important to make sure that the correct amount off New Homes Bonus is earned.

New Homes Bonus- Pessimistic Scenario: £6.4 Million over 6 Years

A pessimistic scenario is that completions stay at 2010/11 levels. There were 322 completions (April 2010 - March 2011), but the New Homes Bonus earned was based on an increase of 249 new dwellings registered and 7 empty home being brought into use.

Table A3.1 Shows that New Homes Bonus will generate about £6.4 million over 6 years. As noted the market was bad in 2010/11 so this figure is a very pessimistic one.

Table A3.1 Pessimistic New Homes Bonus Scenario, based on 2010/11 Building levels (£s).

Year	2011/12	2012/13	2013/14	2014/5	2015/6	2016/7
1	305,000	305,000	305,000	305,000	305,000	305,000
2		305,000	305,000	305,000	305,000	305,000
3			305,000	305,000	305,000	305,000
4				305,000	305,000	305,000
5					305,000	305,000
6						305,000
Total	305,000	610,000	915,000	1,220,000	1,525,000	1,830,000

6 year total £6,405,000.

New Homes Bonus- Optimistic Scenario: £11.2 Million over 6 Years

The emerging Core Strategy seeks to provide around 500 dwellings per year. The Council has previously supported this level of growth, and it has been subject to a sustainability appraisal (2006). The scenario below assumes that house building recovers over a two year period, so that 500 dwellings per year are built in 2013/14 and after, with an intermediate figure in 20012/13.

Table A3.2 Optimistic New Homes Bonus Scenario, based on market recovery to 500 dwellings per year by 2013-14 (£s)

Year	2011/12	2012/13	2013/14	2014/5	2015/6	2016/7
1	305,000	305,000	305,000	305,000	305,000	305,000
2		500,000	500,000	500,000	500,000	500,000
3			686,400	686,400	686,400	686,400
4				686,400	686,400	686,400
5					686,400	686,400
5						686,400
Total	305,000	805,000	1,491,400	2,177,800	2,864,200	3,550,600

Notes: This assumes that house building recovers to 500 dwellings per year by 2013/14.
The model above assumes 100 new homes each in Council tax bands A, B,C,D; 50 band E properties, 20 band F and G and 2 band H. This would earn about £686,400 per year. New Homes Bonus in year 2

(£500,000) is based on a midway position.   Six year total is £11,194.

This more sanguine assessment suggests that about £11.2 Million of new homes bonus could be achieved in a 6 year period. It will be noted that supporting this growth scenario will require development of some greenfield land to build houses, at an early stage of the Core strategy Plan period.

Affordable Housing New Homes Bonus

Affordable homes earn a supplement of £350 per year (£2,100 over 6 years). Building 135 affordable homes a year, which is the target in the Saved Torbay Local Plan, would generate an additional £992 thousand over 6 years.

Long Term Affordability of New Homes Bonus

The 2010 Comprehensive Spending Review allocated £946 million, over 4 years, of new money for New Homes Bonus. The Government has indicated that councils should assume that New Homes Bonus is a long term measure, but funding beyond 2014/15 is not known. A significant amount of NHB will be taken from existing local authority rate support grant.

Even if national house building remains at its very low 2010 levels (about 147,000 dwellings a year), New Homes Bonus will require a top-slice of over £600 million in 2014/15, and over a billion pounds by 2015/16.

Appendix 4

Match Funding for South Devon Link Road

Community Infrastructure Levy – Potential Income

Community Infrastructure Levy (CIL) is a tax on developments that create 100 sq m or more of new floor space. It cannot be charged on conversions of existing buildings, social housing or charities.

Forthcoming legislation in the Localism Bill will require a “meaningful proportion” of funding goes directly to local communities. However a major use of CIL is intended to be to help fund the infrastructure needed to make development sustainable. A reduced S106 Agreement regime remains in place to deal with matters such as direct site mitigation, that are needed to make the development acceptable in planning terms. The scope for these has been reduced by the CIL Regulations. In addition, affordable housing is still sought through S106 Agreement.

Baker Associates are currently preparing an Infrastructure Delivery Study. This report will be completed in Summer 2011 and will provide an updated assessment of viability which can be used as a basis for Torbay’s CIL Charging Schedule. The Draft CIL Charging Schedule will need to be published for consultation and examined by an independent examiner before it can be adopted. There are currently no adopted CILs, and only a handful of published draft or Submitted CILs. Therefore the scope for benchmarking is currently limited.

On this basis, the estimate of how much CIL could raise is a very interim assessment, that is likely to change.

CIL From Residential New Build

Initial advice from Baker Associates is that a CIL of about £7000 per dwelling may be achievable. Newark and Sherwood’s submitted draft residential CIL is between £45-75 per Sq m, i.e. between £4,050 and £6,750 for a 90 sq m house. On this basis an average CIL of £5,000 per new build house seems to be reasonable.

It is assumed that CIL could be introduced in late 2012, given the need for consultation, public examination etc. Therefore a 50% CIL for 2012/13 is assumed.

CIL is only chargeable on new-build market homes (i.e. affordable housing and conversions will not be liable for CIL). As a rough assessment, based on a “brownfield first” approach, it is estimated that a building rate of 500 dwellings per year could include 200 new build homes, of which 60 (30%) would be affordable. This leaves 140 CIL chargeable homes per year.

However, it seems feasible to push this up to around an average of 200 CIL liable dwellings per year. A key way would be to bring forward greenfield sites. Reducing the proportion of affordable housing would increase the number of homes that were CIL liable, but would have negative consequences for “Closing the Gap” and may therefore be less sustainable than allocating new development.

Table A4.1 assesses the contribution to CIL that this could make. In summary, it appears feasible that residential CIL could raise around £5.5 million in the first 6 years of operation. It is reiterated that his is an interim assessment, and that achieving this level of CIL chargeable housing may entail making controversial decisions to develop greenfield sites at an early stage in the Core Strategy Plan period.

	2012/13 (50%)	2013/14	2014/15	2015/16	2016/17	2017/18	Six year total
140 new CIL chargeable dwellings per year, based on average of £5,000 per home)	£350K	£700k	£700k	£700k	£700k	£700k	£3.85m
200 New CIL Chargeable dwellings per year	£500K	£1m	£1m	£1m	£1m	£1m	£5.5m

CIL from Non Residential Development

It is much harder to estimate CIL arising from Commercial and other non-residential development. The Core Strategy will prioritise urban regeneration, particularly within the harbourside and waterfront areas. Much of this will be conversion or redevelopment of existing buildings, which is not CIL chargeable. CIL is only charged on buildings.

New “B” Class employment land tends to be at the margins of viability, and given the need to encourage new jobs it is likely that either a zero or a very low CIL should be applied to new employment buildings (possibly with a caveat that CIL would become payable if a change of use to non-B use took place).

Retail, and to a lesser extent leisure, developments may be sufficiently viable to support a CIL. The Sherwood and Newark draft charging schedule has a CIL of £100 per sq m for large retail developments but a zero rate for leisure. Similar rates are sought in Portsmouth, but only £50 per sq m is sought for in-centre retail.

Pending Baker Associates’ comments, it is suggested that we should assume a zero rate for leisure developments, £50 for new retail in town centres and £100 per sq m for out of town centre retail. Developing about 7,000 sq m in centre retail could generate about £350k CIL. A large (4000 sq m) out of centre store could reasonably be expected to generate a CIL of about £400K. However, this would have significant policy implications in terms of impact on town centres.

On the basis of the above, whilst it appears that some CIL could be generated from non-residential development, it is less certain at this stage than CIL from residential, and would require a policy decision as to the acceptability of development.

Appendix 5

Exhibitions

Monday 20th June, Rosetor Room, Riviera Centre, Torquay.

Tuesday 21st June, Kingskerswell Primary School, Coffinswell Lane.

Wednesday 22nd June, Old Forde House, Newton Abbot.

Saturday 25th June, Union Square Shopping Centre, Torquay.

Monday 27th June, St Luke's Church Hall, Laburnum Road, Milber, Newton Abbot.