

Note to the Inspector on use of Prudential borrowing to facilitate delivery

Request from Inspector:

To provide a note on delivery issues around infrastructure and how prudential borrowing will assist cash flow as part of delivery.

Response from Calderdale Council

The Council's work pursuant to the refresh of the Infrastructure Delivery Plan during 2020 provided us with a clear understanding of the points in time that key items of infrastructure will need to be delivered. As set out in the IDP, the two primary schools in Brighouse and Rastrick need to open in time for the 2024/25 academic year; and the various transport interventions pursuant to the A641 Corridor Improvement Programme need to be completed by 2025.

The Council has worked closely with the representatives of the landowner consortiums for the two Garden Suburb sites (in both cases the lead consultant is ID Planning) as these are the most significant contributors to housing supply in Southeast Calderdale. Based on this work we have a clear understanding of the expected housing delivery trajectory and the economic viability of the sites.

As outlined above, the infrastructure needs to be delivered by 2025, whereas the housing is delivered at a more steady rate across the life of the Plan (see housing trajectories at Appendices 6 and 9 of the Council's matter 8 hearing statement). As such, over £50m worth of infrastructure needs to be funded upfront through Prudential borrowing to ensure that it is delivered by the necessary dates. The Council will recover this investment through financial contributions from developers. The proposed mechanism for this is explained below.

The Council needs to establish an approach to financial contributions from developers that reconciles the following requirements:

- Infrastructure being delivered at the right time
- Developers making a fair and proportionate contribution to the cost of infrastructure
- Undue burdens not being placed on public resources, developers or house purchasers
- Landowners not being disincentivized from releasing land for development on account of unfeasible upfront costs
- An adequate supply of housing land being maintained in order to ensure that the Council can meet its identified housing requirements during the Plan period.

The Council considered the relative benefits of funding this infrastructure through Section 106 obligations or Community Infrastructure Levy. The first option was chosen for the following reasons:

- The Council has identified specific projects that need to be delivered in Southeast Calderdale, rather than a more generalised burden on infrastructure (that CIL lends itself to);
- The Council needs to provide certainty over the availability and viability of infrastructure funding at the stage of examining the deliverability of the allocations, rather than deferring the issue to a later CIL examination;
- The Council needs to start securing financial contributions to infrastructure as soon as the Plan is adopted – mindful that adoption of CIL could take 12-18 months after the adoption of the Local Plan, and then could not be applied retrospectively.

The considerations set out above led the Council to progress the 'roof-tax' approach that is outlined in the IDP. The roof tax would be charged at a per dwelling rate that is paid in instalments for any given phase of development (say occupation of 25%, 50% and 75% of units within a phase). The payments would be secured through a Section 106 agreement signed prior to planning permission being granted for the relevant phase.

As requested during the first set of stage 2 hearings, the Council is preparing a potential main modification to the Local Plan to insert an additional policy and supporting text as a pre-cursor to the adoption of a Supplementary Planning Document (mindful of the advice at Paragraph: 008 Reference ID: 61-008-20190315 of the Planning Practice Guidance, relating to formulaic approaches to planning obligations).

It is necessary to Prudentially borrow because most dwellings will be built after the infrastructure has been delivered on site. In relation to council borrowing, House of Commons Library Briefing Paper Number 05797 (1 May 2020) provides some helpful background information:

"Expenditure for new roads, school buildings, libraries or residential homes is an example of what is called 'capital' expenditure. Such expenditure implies that the object of expenditure has a long life: it is an asset. Such items are usually very expensive: they involve a heavy outlay, and for that reason they tend to be financed largely from borrowed money (and so repaid over a long period)" (Tony Byrne, Local Government in Britain, Penguin, 2000, p.336; cited in <file:///C:/Users/pd02/Downloads/SN05797.pdf>).

"Under part 1 chapter 1 of the Local Government Act 2003, a local authority may borrow for any purpose relevant to its functions or for "the prudent management of its financial affairs". The total amount that a local authority may borrow is governed by the requirements of CIPFA's Prudential Code for Capital Finance in Local Authorities; and by the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), as amended. Each authority must set a total borrowing limit for itself in accordance with the principles of the Prudential Code. The borrowing limit will be related to the revenue streams available to the local authority, with which it can repay the debt. Authorities are prevented

by law from using their property as collateral for loans”
(<file:///C:/Users/pd02/Downloads/SN05797.pdf>).

Whilst matters relating to the Council’s financial and capital programme governance are outside the remit of the Local Plan examination, the question of Prudential borrowing is linked to the deliverability of the Local Plan. As stated in the IDP, The Council commissioned Bentley Project Management to carry out a cashflow exercise to model the points in time that the Council would need to draw down loans and the adjustments that would need to be made to the roof-tax figures to account for the Council’s borrowing costs. Through charging the roof-tax at a rate that is inclusive of the interest charged on the Council’s borrowings, the Council is seeking to ensure that it has the revenue stream to repay the debt without placing an additional burden on public finances. The Council has not submitted the Bentley Project Management cashflow work to the examination library because it was prepared primarily to inform related discussions within the Council rather than to evidence the Plan itself.

Conclusion

Prudential borrowing is necessary in order to deliver the development identified in the Local Plan in a manner that is aligned with the provision of essential infrastructure. This is because the financial receipts from the roof-tax are expected to be received throughout the life of the Plan (i.e. to 2032/33) in line with the housing trajectory, whilst the education and transport infrastructure needs to be provided by 2025.

The Head of Finance (the Council’s Section 151 Officer) has been consulted on the proposed approach to funding of the infrastructure and will be working with our consultants to develop the roof tax at a level which is both viable and affordable and reflects the risks involved, before this is presented to Council for approval.