

9. ADDRESSING THE GAP

This framework identifies a number of challenges for delivering infrastructure to support growth:

- Cross-cutting challenges around the complexities and timeliness of delivery of infrastructure to enable sustainable growth in the County;
- Solutions are needed to address the viability gaps that are impeding timely and sustainable delivery;
- The cost of maintaining existing and new infrastructure. 2050 scenario testing emphasises the need to provide future-proofed and resilient infrastructure to avoid the need to reactively retrofit new technology at great expense.

Fundamental to overcoming the problem of delivering infrastructure is the need to correct what is ultimately a flawed system of infrastructure funding. The GIF analysis has shown a significant gap between the funding required and that secured from Central Government and other investment.

It also highlights the significant dependency of infrastructure on expected funding – a proportion of funding which is calculated based on past rates of attracting funding from developer contributions and other sources. In a challenging financial climate, there is increased risk that investment cannot continue to be secured at historic rates.

9.1 THE INFRASTRUCTURE GAP

Funding is the primary risk to delivering the infrastructure required to support growth across Kent and Medway, with a **total gap of £3.96bn**. There are significant gaps in funding across all types of infrastructure identified within the GIF; a situation that will not be improved with the shape and level of public sector funding proving very difficult to predict.

The funding situation outlined reflects current approaches to the delivery and funding of infrastructure. However, there is clearly uncertainty as, over the GIF time frame to 2031, there will be at least two general elections, making it difficult to anticipate Central Government policy with respect to various infrastructure types. Furthermore, estimated project requirements will be dependent on future housing growth being realised.

This framework takes a significant step in providing a picture of the infrastructure need across Kent and Medway, allowing partners to start looking to strengthen their approach to existing funding streams through making the most of existing mechanisms (such as Section 106 and CIL), whilst also looking to diversify.

Canterbury Cathedral

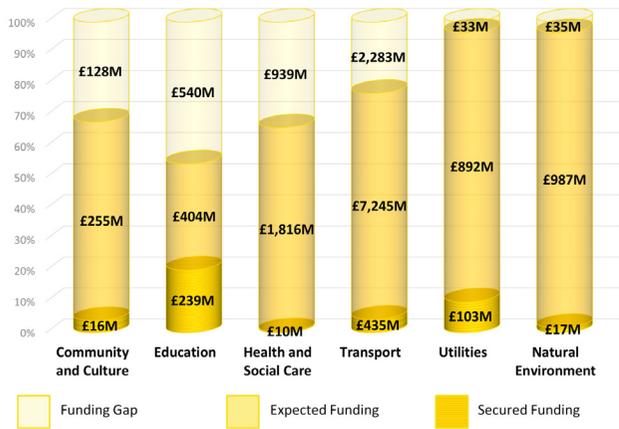


Figure 9.1: Infrastructure Sector summary of funding gaps vs identified funding

FILLING THE GAP

Whilst this framework identifies an overall funding gap of £3.96bn, there are a number of factors that could affect this gap as time progresses. The greatest risk amongst these is how much funding is “expected” as these anticipated amounts may not be received.

Over **90%** of the total funding to meet Kent and Medway’s infrastructure requirement is identified as expected. This is particularly true within the transport sector where the GIF assumes that funding will be found for critical national infrastructure, such as the Lower Thames Crossing, and county-wide priorities such as rail improvements.

Given current national trends in both demographic change and the financial challenges that local authorities are currently facing, this funding is at significant risk of not being available.

FACTORS THAT MAY INCREASE THE FUNDING GAP	FACTORS THAT MAY DECREASE THE FUNDING GAP
Expected funding not realised	Using current infrastructure more efficiently; reducing the need for new infrastructure
Current funding schemes discontinued	Technological improvements
Increases in the cost of delivering capital infrastructure e.g. increased material costs	Modal shift - changing behavioural and usage patterns
Increases in inflation or interest rates	New funding streams becoming available
Changes in Government policy - prioritising house building to the point where mitigating infrastructure cannot cope	Decreased pace of housing delivery reducing the need for upfront infrastructure to be put in place

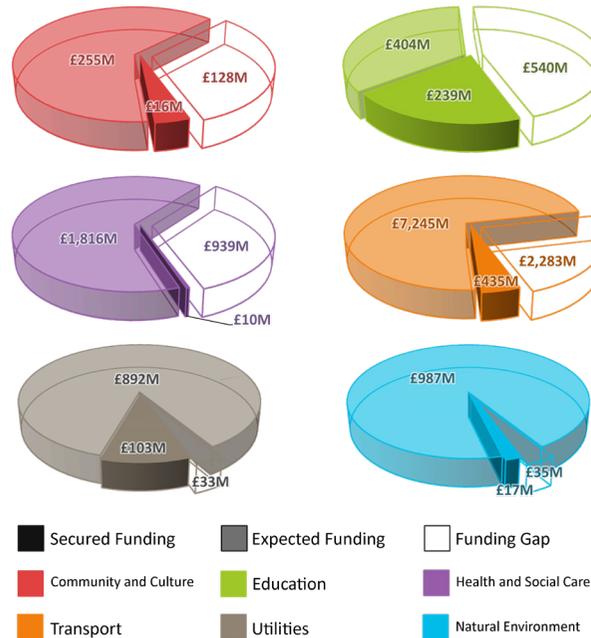


Figure 9.2: Breakdown of secured, expected and funding gaps by each infrastructure sector

9.2 INFRASTRUCTURE FUNDING

Infrastructure in the County is largely funded through public funds from taxation, developer contributions, consumer utility bills and user charging. These sources provide the revenue to cover the costs of construction, operation and maintenance. Upfront capital investment is required in order to get projects underway.

In light of this funding challenge, it is imperative that delivery partners explore every potential avenue of funding as part of the project delivery process.

In recent years, the amount of money available from Government has been decreasing, while demands for public sector services have been increasing – a trend that is expected to continue. Within that overall context, local councils have already made significant cost and efficiency savings.

FLAWS WITH CURRENT FUNDING MECHANISMS

Funding Policy - Increased limitations and complexities and lack of forward funding

Funding Bids - Local planning authorities and developers spend disproportionate amounts of time navigating a complex, and at times contradictory, set of bids for funding

Disproportionate Risk - The risk of developing a business case for investing in major infrastructure is too heavily slanted towards local authorities and developers

Developer Contributions - Funding secured through developer contributions is proving insufficient in providing the comprehensive infrastructure that communities would and should expect from sustainable new developments



In addition to these Government Departments and non-ministerial bodies, the following organisations influence infrastructure funding decisions:



*These government departments co-ordinate the decision making on European Structural and Investment Funds (ESIF) from the EU.

Figure 9.3: Infrastructure funding bodies in the South East

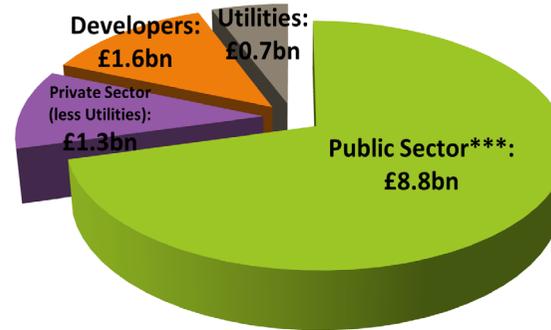


Figure 9.4: Estimated breakdown of secured and expected funding by source

FUNDING BODIES

There are a wide range of organisations responsible for the delivery and funding of infrastructure within Kent and Medway, as shown in Figure 9.3.

9.3 DEVELOPER CONTRIBUTIONS AND DEVELOPMENT VIABILITY

DEVELOPER CONTRIBUTIONS

Where proposed developments will directly create a pressure on infrastructure which cannot be accommodated, the planning system allows for obligations to be placed on the developer to either directly provide additional infrastructure or to contribute financially so that the public body responsible can. Historically, the majority of developer contributions have been secured through Section 106 agreements (s106); whilst highways improvements, which tend to be delivered directly by the developer, have been through s278 agreements.

S106

Section 106 monies are secured for a range of infrastructure. The County Council secures contributions towards primary and secondary education, highways and transportation, adult social care, libraries, adult education and youth and community facilities. The district councils secure contributions towards infrastructure such as; affordable housing, healthcare, local play areas and further education.

The legal tests used to consider a s106 agreement are set out in regulation 122 and 123 of the Community Infrastructure Levy Regulations 2010. The tests are that the contributions must be:

1. Necessary to make the development acceptable in planning terms;
2. Directly related to the development; and
3. Fairly and reasonably related in scale and kind to the development.

s106 agreements are secured on a site-by-site basis with payments typically being made in instalments as the development is built out. As an indicator, Figure 9.5 shows the s106 amounts that KCC has sought and secured for its services between 2014/15 and 2016/17.

However, limitations have been introduced on the use of s106 agreements; in particular, restrictions on how contributions can be pooled to deliver strategic infrastructure. This, combined with an increased use of CIL, will make it challenging to achieve the same levels of developer contributions in the future as have been secured in the past.

SERVICE	AVERAGE CONTRIBUTION SOUGHT (£ PER UNIT)	AVERAGE CONTRIBUTION SECURED (£ PER UNIT)	% SECURED FROM SOUGHT
Primary Education	£3,412	£3,261	96%
Secondary Education	£1,644	£1,617	98%
Adult Social Care	£54	£48	89%
Libraries	£116	£106	91%
Adult Education	£35	£29	85%
Youth & Community	£75	£56	74%
Total KCC Services (less transport)	£5,337	£5,119	96%

Figure 9.5: Average active s106 agreements made to Kent County Council 2014/15 to 2016/17. Agreements applied against 27,400 units.

CIL

The Community Infrastructure Levy came into force in April 2010, designed to largely replace the s106 regime, and allows local planning authorities to raise funds from developers through a tariff-style approach to help fund infrastructure. As at December 2017, only four authorities in Kent have an adopted CIL in place – Dartford, Maidstone, Sevenoaks and Shepway.

Under CIL, each district is to create a charging schedule which is applied to the floor space of the development. The funding raised from CIL is collected by the districts, pooled into a ‘pot’ and can be spent on a wide range of infrastructure types. The infrastructure that receives CIL funding will be determined by the local Council.

As the allocation of CIL monies takes place independently of assessing the impact of the development proposal, in the majority of cases it won’t be until after the development has been built that it will be known which infrastructure service the district is to allocate money to. It may be that money won’t be allocated under CIL to some services which would have contributed via s106. This compares to s106 which sets out what infrastructure the development will fund from the moment it is granted planning permission.

The Government commissioned an independent review of CIL in November 2015 to assess the extent to which CIL does, or can, provide an effective mechanism for funding infrastructure, and to recommend changes that would improve its operation in support of the Government’s wider housing and growth objectives. The independent review group submitted their report to ministers in October 2016, the report was published in February 2017 and proposes significant changes to how CIL could operate in the future.

It is not known to what extent the Government will change the current CIL mechanism in response to the review; prior to the general election it had been announced that policy changes would be

implemented through the Budget in November 2017. These decisions could have wide-reaching impacts on infrastructure delivery across Kent and Medway.

DEVELOPMENT VIABILITY

A development’s ability to contribute to infrastructure is dependent upon the value that it will generate. This in turn is in part dependent on the value of the land. The “viability” of a scheme will impact on its ability to contribute through Section 106, CIL and other contributions to supporting infrastructure such as highways provision, affordable housing, education and green infrastructure.

As a result of the current financial climate the country faces, a number of major schemes have had to reconsider the amount of infrastructure and affordable housing being provided. As a result, LPAs across Kent and Medway have had to renegotiate s106 agreements due to viability issues, resulting in the loss of necessary infrastructure provision to mitigate the impact of development.

The Kent and Medway Economic Partnership (KMEP)

- Set up in 2013, KMEP is the economic partnership for Kent and Medway
- Aims to drive forward economic growth and prosperity throughout the region.
- One of the four federated partnerships that comprise SELEP
- Governed by a Board, whose membership is drawn from business, local government, further and higher education
- KMEP has been pivotal in unlocking transport, skills (FE colleges), capital and commercial growth.

AFFORDABLE HOUSING

Affordable housing is defined (by the NPPF) as social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market.

Providing for the range of housing needs and securing homes that are affordable for all is vital in ensuring sustainable and balanced communities. This can be achieved through the delivery of a range of housing and tenure options that can support those on lower incomes as well as those who are able to purchase a home on the private market.

The graph below demonstrates the level of affordable housing delivered against the overall level of housing delivery across the County.

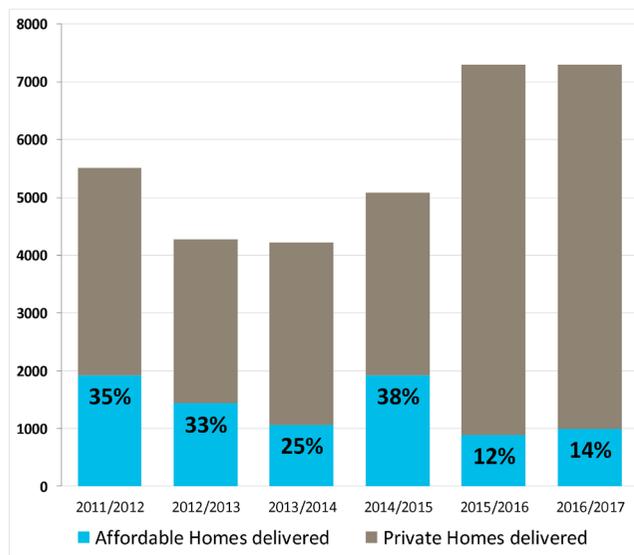


Figure 9.6: HCA Affordable housing 2016/17 and Kent and Medway Local Authorities (Business Intelligence Statistical Bulletin July 2017)

Figures from DCLG and the HIA for 2016/17 show that there were 1,500 affordable dwelling completions in Kent (KCC area). This represents about 21% of all dwelling completions. In addition, a total of 100 affordable units were completed in Medway, making a total of 1,600 affordable homes for the whole County.

At the local level in Kent (KCC area), Dartford provided the most affordable units (550 units completed), about 39% of the County total. Five Kent local authorities each completed 100 or more affordable units¹.

The Housing Strategy for Kent and Medway recognises there is a great diversity of housing across Kent and Medway. One of the ambitions is to provide choice and affordability in housing for the citizens of Kent and Medway, including rural communities².

The level of affordable housing required depends on each district's housing market needs and is set out in Local Plan policies. The actual level delivered is often determined on a scheme-by-scheme basis through a viability assessment process within individual planning applications and then secured through Section 106 agreements. The viability assessment process tests the level of affordable housing that can be delivered whilst still securing a viable scheme.

The viability assessment is normally carried out on behalf of the developer to calculate the level of affordable housing that can be delivered (alongside other policy requirements), whilst still retaining a viable scheme. The main factors that influence the level of affordable housing are:

- Land remediation costs;
- High infrastructure costs or delivery; and
- Other Section 106 obligations.

The determining authority will make a judgement as to where the financial or on-site provisions/ contributions should be focused –

whether for education provision, affordable housing, or a mix of other infrastructure contributions. The level of affordable housing provided within a scheme, and more widely across the County, is often reduced, or sometimes sacrificed completely, to enable a viable scheme to go ahead. Additionally, in some instances, the tenure has to be flexed in order to meet the viability issues – it could result in the delivery of more shared ownership than is set out in policy. This has an impact on reducing the amount of other affordable housing tenures (e.g. rented housing), which there might be a higher demand for. Since the introduction of affordable rent, there can be virtually no social rent delivered in some areas, which is very much needed.

This approach to housing delivery is a real challenge to ensuring that balanced communities, offering the right range of affordable housing for all residents' housing needs, are provided.

This is not a problem specific to Kent and Medway. The charity Shelter states that "while Section 106 continues to make an important contribution to affordable housing delivery, this system is not delivering the numbers of affordable homes that it should – and could"³.

EXTRA CARE HOUSING

Within Kent, there are currently 19 extra care schemes and since 2009, the majority of the completed units are affordable rented flats. The tables on the next page show the extra care schemes delivered and in development for Kent. The housing providers comprise of; Housing and Care 21, West Kent Housing Association, Orbit, Abbeyfield Kent Society, Sanctuary Housing and Optivo.

EXTRA CARE HOUSING (APR '09-DEC'17)			
AREA	TOTAL NUMBER OF AFFORDABLE UNITS	AFFORDABLE RENT UNITS	AFFORDABLE SHARED OWNERSHIP UNITS
KENT	895	811	97

EXTRA CARE HOUSING - IN DEVELOPMENT (FORECAST COMPLETION APR '18-DEC'19)			
AREA	TOTAL NUMBER OF AFFORDABLE UNITS	AFFORDABLE RENT UNITS	AFFORDABLE SHARED OWNERSHIP UNITS
KENT	279	239	40

RESIDENTIAL LAND VALUES (VOA)

A key component of viability is the value placed on the land which is to be developed. Land values are typically tied to factors such as land quality, access, existing and potential use and availability, as well as the socio-economic features of the area.

The latest available information from the Valuation Office Agency (VOA) for December 2015 provides an estimated average price per hectare of land with planning permission for residential uses.

It should be noted that the values illustrated are produced on a theoretical basis and provide a means to compare variations across Kent and Medway. They do not necessarily represent true land values, and are not able to demonstrate variations between sites or conurbations within each district or borough. LPAs have or are undertaking more detailed work on viability which includes additional detail on land values within districts.

The average land value for Kent and Medway is estimated at **£2,950,000** and ranges from £6,865,000 in Sevenoaks to £1,275,000 in Dover, at district level. This is above the England average land value of £2,100,000, but below the South East average of £3,600,000 (excluding London). London has an average land value of £29,000,000 per hectare.

AVERAGE HOUSE PRICES

Average house prices are directly related to residential land values and are driven by demand and supply. Areas with high house prices indicate a potentially higher rate of return for developers but come at the risk of low availability and high prices for acquiring the land. The opposite is true for areas with low house prices.

Since the height of the UK financial crisis in 2009, average house prices have risen by 41%, with the average house price in Kent and Medway being **£311,000 in 2016**. This is below the South East average of £353,000. Unsurprisingly, areas in close proximity to London or with fast links to the capital see higher average house prices, the greatest being Sevenoaks at £484,000.

Coastal regions such as Thanet, Dover and Shepway tend to see lower average house prices. However, similar to the rest of Kent and Medway, these areas have also seen significant average price increases since 2009, suggesting that the supply of desirable and affordable housing across Kent and Medway is constrained.

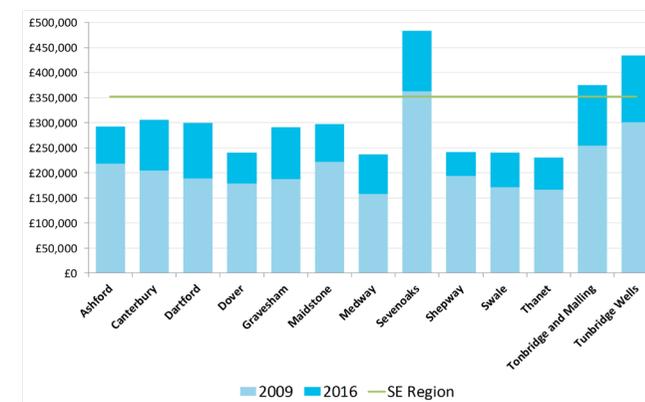


Figure 9.7: Average house prices across Kent and Medway 2016

HISTORIC COMPLETIONS			
AREA	5 YEAR AVERAGE COMPLETIONS TO 2016	GIF PLANNED TRAJECTORY (2011-2031)	PROPORTION OF GIF PLANNED TRAJECTORY (ANNUAL AVERAGE)
NORTH KENT	2,440	78,600	3.1%
EAST KENT	1,840	68,600	2.7%
WEST KENT	990	31,400	3.2%
KENT AND MEDWAY	5,280	178,600	3.0%

*Affordable Housing 2016/17 Kent Local Authorities, Business Intelligence Statistical Bulletin (Jan 2018); *Better Homes: localism, aspiration and choice (2011); *https://england.shelter.org.uk/__data/assets/pdf_file/0010/1434439/2017.11.01_Slipping_through_the_loophole.pdf

HISTORIC COMPLETIONS

The table on page 89 shows average housing completions in the sub-county areas of Kent and Medway in the five years to 2016. This is compared to the total housing identified by the GIF from 2011 to 2031. As a rule of thumb, an annual delivery of 5% of the total requirement could be considered to be a target for sites to 2031. The table demonstrates relatively constrained growth across the County in comparison to the total GIF planned housing trajectory, reflecting in some cases depressed market conditions for the period and in other cases reasons such as long lead-in times or difficult site preparation.

KEY FINDINGS

- Limitations introduced on the use of s106 agreements will make it challenging to achieve the same levels of developer contributions in the future as have been secured in the past.
- As at December 2017, only four authorities in Kent have an adopted CIL in place – Dartford, Maidstone, Sevenoaks and Shepway.
- Development values vary widely across Kent and Medway in terms of residential land values and average house prices.
- Values and prices are higher in the west of the County, despite the majority of development capacity being to the north and east around existing towns, in particular Ashford, Dartford and Medway.
- High land values have implications on the ability of developers to make contributions to support development and infrastructure across the County, without negatively impacting upon scheme viability. Similarly, low land values can also cause lower sale values.
- The pace of housing delivery remains below an average requirement of 5% per year.

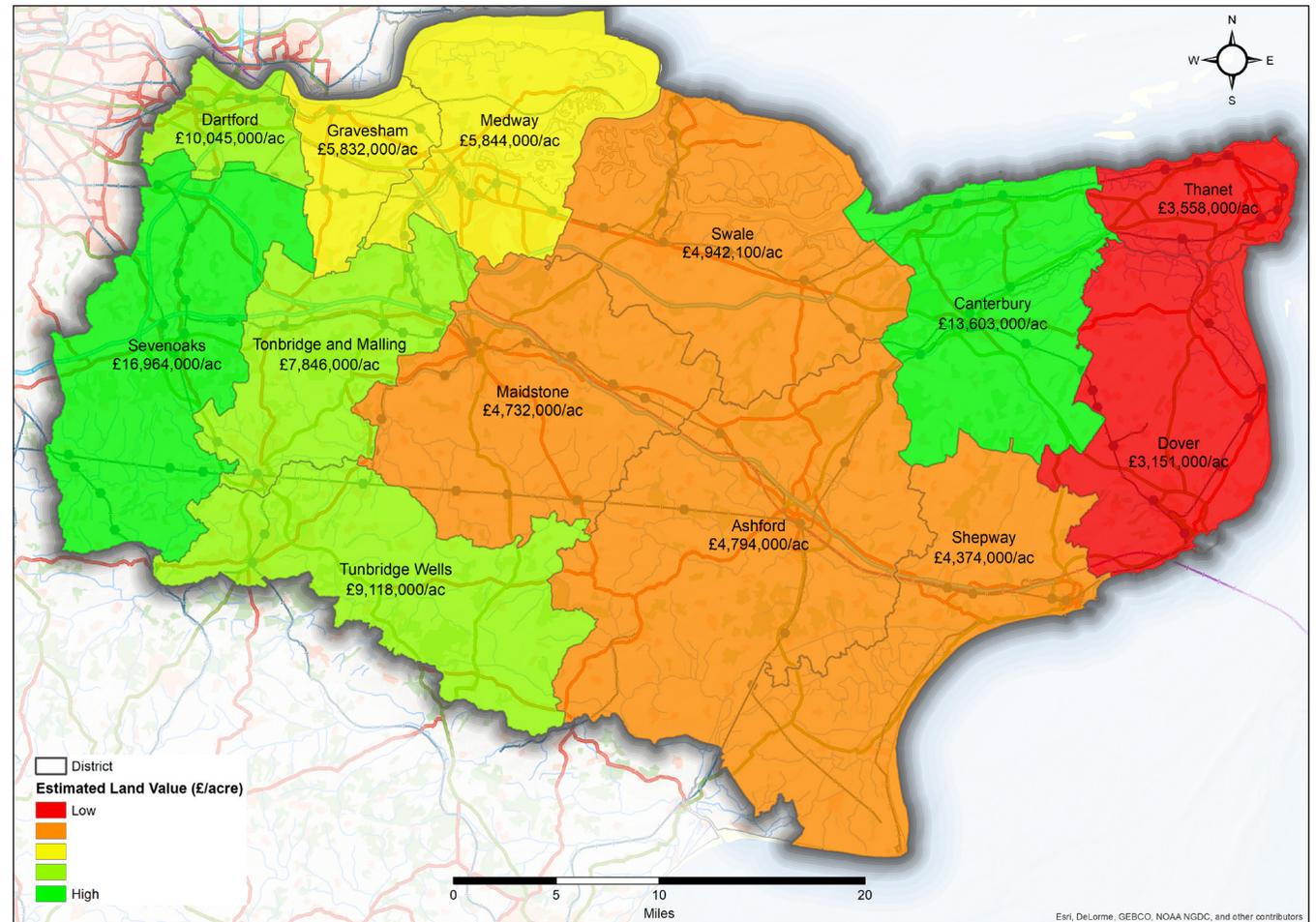


Figure 9.8: Residential Land Values across Local Authority area in Kent and Medway (VOA, December 2015 - latest figures available)

AN IMPERFECT SYSTEM

What is clear is that both s106 and CIL have limitations in leveraging sufficient developer contributions to fully mitigate the impact of planned growth and enable sustainable communities across Kent and Medway.

S106 agreements are generally not applied on smaller developments or permitted development, which are a significant part of Kent and Medway's planned residential housing growth. Recent pooling restrictions also make it difficult to use s106 to help deliver necessary strategic infrastructure. CIL is not widely adopted in Kent and Medway and it takes some time for sufficient funding to come in before a project can be delivered, and there is no certainty where CIL will be applied.

Both are adversely affected by development viability issues associated with land values and the pace of housing delivery, which affect a developer's upfront rate of return.

Taking this into account and acknowledging that developer contributions are just part of the funding puzzle, the GIF demonstrates that there is a case for a form of strategic infrastructure delivery framework, either at a County or National level, that can lever in contributions proportionate to the size of housing developments.

9.4 UNLOCKING BARRIERS TO DELIVERY

Unlocking the barriers to enable the timely delivery of housing growth is essential to ensure that Kent and Medway's critical role in the national economy can continue. These barriers will be overcome through either a more efficient approach to the way infrastructure is delivered, and/or improving the way that infrastructure is funded.

Below are several recommendations as to how the barriers to providing the infrastructure required to support growth as outlined in this framework can be overcome.

VALUE CAPTURE

- Opportunities to develop more effective land value capture, where land owners are able to sell land for development at a high price once planning permission is granted.
- Exploring ways of fairly and effectively claiming back value to support the provision of infrastructure for the development.
- Requirement for a more effective approach to developer contributions and effective application of user charges based on robust strategic spatial planning with a direct link to infrastructure funding.

MORE INTEGRATED SYSTEMS

- New ways of working across infrastructure providers are emerging, enabling a more holistic and ultimately more efficient approach to delivering infrastructure at a time when resources are stretched.
- Providing services through collaborative working and taking a multi-functional, integrated infrastructure approach will help reduce the amount of infrastructure required as well as its cost.

Kent and Medway examples of where service provision systems are being integrated include; the Health & Social Care Sustainability and Transformation Plan and the Medway Flood Partnership.

PRIVATE FINANCING

- Opportunities to explore the use of private sector financing to fund major infrastructure that is well constructed, well commissioned and fit for purpose.
- Needs to be targeted at infrastructure in cases where an appropriate return on investment can be found.
- Further work will be needed to provide a more robust understanding of where there is genuine potential for private finance in Kent and Medway.

For example, financing the Lower Thames Crossing could be met through private financing, if explored by Government. This could allow the scheme to be delivered more quickly. In a similar way to the M6 Toll road system, future crossing receipts could be used to pay back the initial investments put forward for the scheme and make it self-funding.

PETER'S VILLAGE

Peter's Village is a major development site in Tonbridge and Malling on the east bank of the River Medway. The plans included building a bridge across the river to provide better transport links for the new development. However, construction of the bridge had significant costs and came at the same time as the recession, putting the development on hold.

In 2014, the developers, Trenport, obtained a repayable loan from the Homes and Communities Agency (HCA) of £19.5m to kick-start the development of the bridge. In September 2016, the £15m bridge was opened, offering easy access to the river's west bank and on to London.

SPREADING THE RISK

- A more appropriate spread of risk between Central Government and local partners throughout the life cycle of developing a business case, through to delivery of projects on the ground.
- Long-term funding streams need to be guaranteed, with simplification of the pots available to bid for local authorities.
- Government to bear more risk of delivering key strategic infrastructure through the introduction of more forward funding for infrastructure and funds for a business case preliminary appraisal system.
- If provided through long-term, low-cost finance arrangements, forward funding would allow necessary infrastructure to be delivered and would be paid back over time from local tax receipts and business rates.

SWIFTER AND SIMPLER SYSTEMS

- Swifter Government evaluation of bids would help speed up delivery. As an example, from an LGF bid submission in July 2016, it took a further seven months (February 2017) for a Government announcement to be made.
- A more streamlined system is needed where the Government is funding and/or delivering infrastructure, to reduce the complexities and bureaucracy which make access to approvals and funding for major strategic development difficult to navigate.
- Faster lead-in times for the identification and funding of key infrastructure are required; otherwise, development may precede the necessary infrastructure required to support it.
- Better follow-through of policy into the policy drivers and more compatibility between the various funding drivers in different sectors.

FUTURE-PROOFING

- Ensuring that planned infrastructure is delivered in such a way that makes it resilient to future advances and avoids the need to reactively retrofit new technology at great expense.
- Maximise opportunities for sourcing funding towards asset maintenance.

