



Ministry of Housing,
Communities &
Local Government

OFFICIAL SENSITIVE

HOUSING INFRASTRUCTURE FUND Forward Funding Investment Panel

25 February 2019

Investment Panel Briefing

Role of the Investment Panel

The role of the Investment Panel is to consider the details of the submitted bids, and decide which should be recommend to Ministers for funding. In making their recommendation, the Panel should consider and balance:

- The value for money the project offers;
- The strategic fit of the project with the Fund's ambition;
- The deliverability of the scheme and the homes;
- Approach to financial risk; and
- Portfolio-level position, including the spend profile, pipeline of future bids to be received, and geographic spread of the bids.

In making recommendations, Panel members will be asked to ensure that bids submitted in earlier submission windows are not advantaged. At later Panels, schemes will be compared to those submitted at earlier windows to offer assurance that we are funding the best possible projects.

Investment Panel recommendations will be put to MHCLG Ministers to make final funding decisions. These will be submitted for approval by HMT Ministers and No.10 alongside any recommended conditions.

Update on the Programme

The Housing Infrastructure Fund is a £5.5bn grant programme for local authorities to deliver infrastructure to unlock up to 650,000 homes. Local authorities submitted expressions of interest in September 2017, and 71 projects were shortlisted to go through to co-development. Successful areas were announced in March 2018.

Through co-development, MHCLG, Homes England and other government departments have acted as a critical friend to support local authorities to develop their business cases. Business cases can be submitted by one of three deadlines; in September 2018, December 2018 and March 2019.

[REDACTED]

[REDACTED]

[REDACTED]

Assessment Process

Bid Assessment

All bids will be assessed on their value for money, deliverability and strategic approach, as set out in the assessment framework agreed with HMT. Assessment has been informed by the expertise of other government departments. Full information about the assessment is in Annex E.

The outcome of this assessment, alongside the interests of MHCLG and other government departments in the bid, is included in the following pages.

Due Diligence

Due diligence has been undertaken to inform the assessment of deliverability. This has been carried out using in-house technical staff in Homes England, supported by advisers drawn from its multi-disciplinary and Property Panels, and has involved direct engagement with the bidders. However, given the time available and the scale and complex nature of the schemes, it is expected that further detailed due diligence will be necessary for those schemes that are allocated funding. The outcome of the detailed due diligence could result in additional conditions.

Funding Conditions

It will be necessary to make a recommendation which includes funding conditions, so the allocation of funding is linked to appropriate milestones and trigger events. The series of funding conditions agreed by the Investment Panel will be used to give funding certainty to bidders, whilst ensuring that schemes are delivered in accordance with the programme.

Conditions are set to ensure that funding is spent in line with the expectations of HIF. Conditions may include, but are not limited to: the securing of planning permissions; ensuring final costs are within a certain variance; or physical delivery against pre-agreed milestones.

If some, or all, conditions can no longer be met this will be escalated through the HIF governance structure. This will consider any appropriate interventions to take, and may result in funding being withdrawn or clawed-back.

Cambridgeshire and Peterborough – CNFE - Bid Summary

Scheme Description

The bid seeks £227m to unlock 8,625 homes in North East Cambridge. HIF funding will be used to relocate the Cambridge Waste Water Treatment Facility. Relocating the CWRC will release the CNFE Core Site, a major brownfield area for 4,600 homes. It will also remove the 'odour zone' enabling a further circa 4,000 homes to be built on adjacent land.

Funding will support:

- [Redacted] on construction including the transferral of infrastructure to the new site, a sludge treatment centre and tunnels.
- [Redacted] on fees, overhead and land.

Assessment

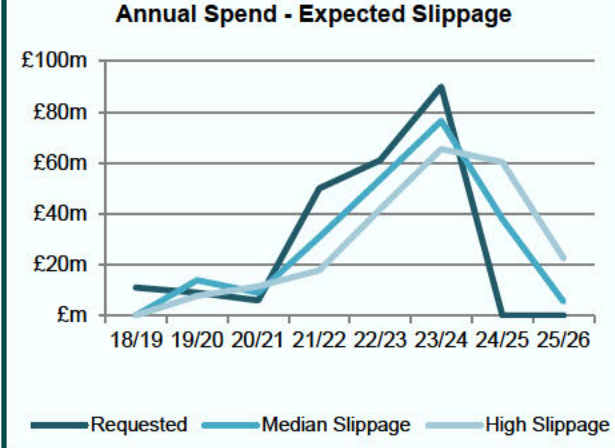
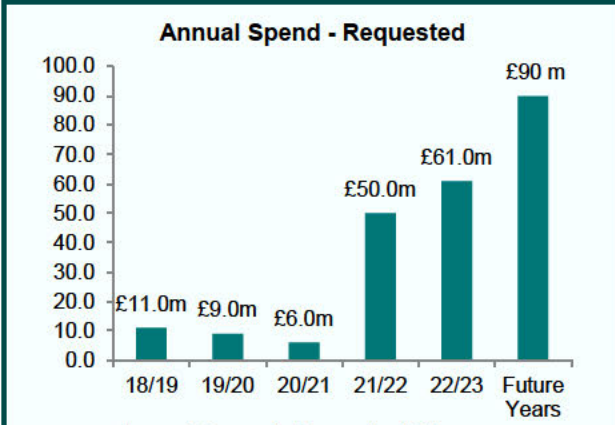
Housing BCR	Delivery	Strategic
■	High	High

Does the scheme meet the gateway criteria?
Yes

Headline Stats

Bidder	Cambridgeshire and Peterborough CA
Scheme Name	Cambridge Northern Fringe East (CNFE)
Total Funding	£227m
Gross Homes	8,625
Gross Homes by 2030	6,098
Est. Additional Homes	c. 6,900
PV HIF Funding per Add. Home	£27,100

Spend Profile

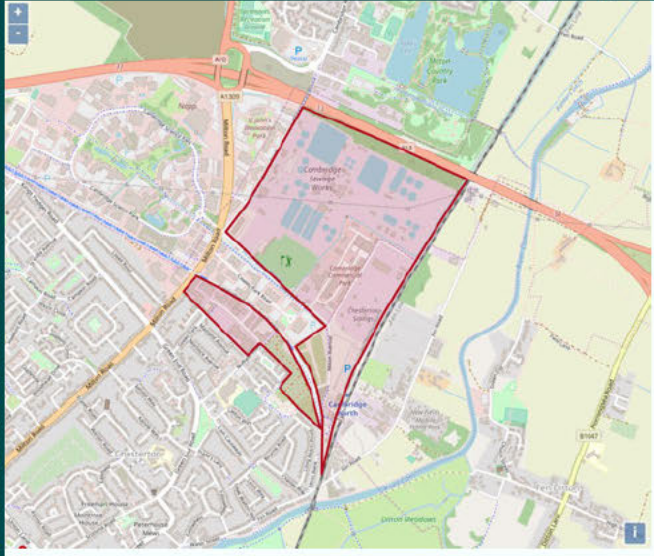


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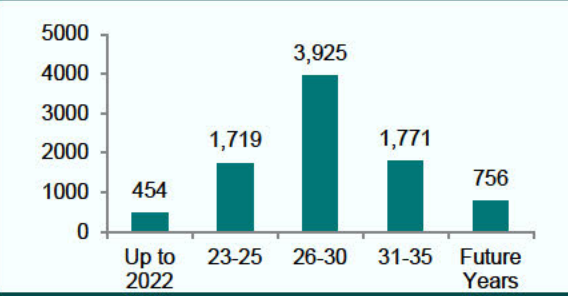
£ in HD	£ in LD	Budget available?
£227m	-	Yes

Wider Government and Policy Interest

- | | |
|---|---|
| MHCLG | OGD |
| <ul style="list-style-type: none"> • Ox-Cam corridor | <ul style="list-style-type: none"> • Defra (inc. NE) • Environment Agency |



Housing Profile - Starts



Panel Considerations

The bid represents good value for money on the housing BCR and acceptable value for money on the wider BCR. This bid scores highly on both the strategic and delivery cases. Strategically, the bid represents a step change in housing delivery and supports an area of high unaffordability, with strong evidence of housing demand.

- **The main risk of this bid is timing.** The requested spend profile is already beyond when we have budget for. In addition, the planning process may take longer than expected, which could again delay when the project can start spending.
- The Panel should consider any presentational risks of supporting a project, which could be delayed for a long period. However, without funding commitment now the project will not be able to move forward.
- Anglian Water has no operational reason to relocate their waste recycling facility, so as a regulated utility, can not fund any design or relocation works. Anglian Water are, however, engaged positively in the regeneration plans, and are one of the parties in the JV with Cambridge City Council, and U&I for the redevelopment of the facility land, and the adjacent golf course.

Value for Money

Assessment	Score
Wider BCR*	High
Housing BCR*	High

- The principal benefits of the project are based on the additional land value uplift [redacted] with smaller positive impacts from commercial space unlocked [redacted] and affordable housing provision [redacted].
- The Wider BCR includes a private sector contribution to site remediation and other abnormals of [redacted] and Optimism Bias applied on public sector costs (HIF) at [redacted].
- Displacement aside, most of the housing on these sites are expected to be additional as a result of HIF funding (deadweight) – given the units require the relocation of a Water Recycling Facility in order to use the sites for housing. 6,900 of the 8,625 homes supported are expected to be additional.
- Wider BCR assumes transport condition is applied to prevent the housing causing transport disbenefits.

the analysis has been conducted on the WRC site only (1a)

Delivery

Assessment	Score
Finance	Medium
Commercial	High
Management	High
Overall	High

- HIF will fund [redacted] of the relocation of the Water Recycling Centre (WRC) enabling the existing site to be developed and the adjacent land where development is currently restricted due to the 'odour zone'. This could not be funded by Anglian Water, the WRC owners, as they are not permitted to fund relocation without a statutory need to do so.
- Alternative site search is already underway and costs have been derived from a nr of indicative sites. The bid is for the highest likely cost, and therefore the scheme is considered fully funded.
- Anglian Water has established capability in delivering new facilities, and U&I have already been appointed as the master developer to develop the existing site.
- The funding timeframe goes beyond 2024 and so if HIF is awarded, either an extension to this timeframe will be required, or alternative approaches to funding could be taken to allow spend to fall within the HIF period.
- If a DCO is not possible, then there may be further extensions to the funding timescale required.

Strategic

Assessment	Score
Overall	High

- The bid releases the Water Recycling Centre site and the surrounding sites currently in the 'odour zone' for development. This allows 4,600 homes to be delivered on the WRC site, plus a further 4,000 homes within the 'odour zone'. Some development will take place on brownfield land, all within the Ox-Cam Corridor.
- The bid exceeds the current local plan housing targets.
- There is strong evidence of need across the area. This scheme will provide housing in an area with high unaffordability with 40% affordable housing. However, evidence is lacking on other housing types.
- This is a joint bid with Anglian Water and the LEP. The local MP and council are supportive. Three stakeholder forums have taken place, however there is no further evidence of support from other stakeholders or the wider local community.
- The bid has good links to wider policy objectives through the use of brownfield sites, public sector land and unlocking homes in the Ox-Cam corridor.

*The wider BCR is intended to rule out projects which we judge offer poor VfM. It includes all monetised benefits and costs in the economic case. The 'housing' BCR is for relative prioritisation to ensure the fund is allocated to maximise housing value.

Panel Considerations

This section sets out the key risks to funding the bid, and recommended funding conditions for funding certainty to be given.

Risks	Mitigations	Funding Conditions
<p>Relocation of the CWRC by way of a Development Consent Order (DCO) as opposed to a planning application to the County Council. If a DCO route is not possible, time lines will slip significantly. A DCO decision is estimated by October 2021, whereas confirmation of a planning permission could extend to May 2022, and confirmation of the CPO process to July 2025.</p>	<p>HIF investment is conditional on the applicant gaining confirmation at the earliest opportunity on whether the DCO route is possible, and if not, the HIF investment would then become conditional on the applicant providing a robust alternative planning strategy, and subsequently a planning permission. In the event that a DCO is not possible, then they should also be required to provide a CPO strategy.</p>	<p>Planning: HIF investment is conditional on the Special Purpose Vehicle (SPV) being able to deliver the relocation of the CWRC either through the DCO route or conditional on obtaining a planning consent.</p> <p>Exchange and completion of the SPV which forms the contractual body for the CWRC relocation project and the Core Site development project.</p> <p>The Applicant is to provide evidence to illustrate how the proposed site densities meet the aspirations of the emerging AAP.</p> <p>Master Development Agreement: Satisfaction with the final version of the Master Developer Agreement.</p> <p>Homes England to approve the Master Development Agreement business plan to ensure that appropriate mechanisms are in place to maximise the pace of delivery across the Core Site.</p> <p>Delivery Milestones: A set of milestones to be set for the timing of HIF drawdown in the scenario where the DCO route for the WRC is not sanctioned and a standard planning application approach is required.</p>
<p>Delivering the HIF spend by 31st March 2024, which according to the current programme presented by the Applicant is not achievable within the necessary timescales.</p> <p>Spend profile received on 11/02/19: £227m scenario: c.£90m after March 2024 £167m scenario: c.£15m after March 2024</p>	<p>Once the site of the HIF new WRC is confirmed, the project costs are to be finalised and the delivery programme updated.</p> <p>If relocation works are likely to overrun the 31st March 2024 HIF spend deadline, alternative options include: HIF spend deadline extension; Applicant funds spend beyond March 2024 through alternative funding mechanism, e.g. from Public Works Loan Board; or HIF funding conditional on securing a site at the lower cost range</p>	<p>Reporting: A requirement for quarterly reporting on progress against key milestones and spend, with updated risk register and Programme to be issued by the Applicant.</p>

Cambridgeshire and Peterborough - CNFE - Risk Summary and Funding Conditions (2)

Panel Considerations

Risks	Mitigations	Funding Conditions
<p>Privatisation of the benefit of public sector intervention through excessive landowner returns on the Core and Adjacent sites (which necessitates that a much higher level of recycling is enforced compared with the Applicant's proposal).</p>	<p>The input land value for the appraisal of the Core Site should be reduced from the Applicant's assumed [REDACTED] to reflect its existing use value [REDACTED] as opposed to Cambridge residential land value. (In a 'no HIF world', no development of any sort can come forward on the CWRC site given that HIF funding is the only way to make the scheme deliverable. In addition, if the site was acquired by CPO, it would be for the equivalent re-instatement value and not factor in a land value payment.)</p> <p>For the Adjacent Sites, an AAP or site-specific planning obligation Supplementary Planning Document is required to enforce developer contributions at a level which reflects the land value uplift that is being enabled by public sector investment.</p> <p>(The above will feed through to a much higher level of funding being recycled from the scheme, but will not affect the HIF amount requested as the WRC must be fully relocated before any land value can be captured.).</p>	<p>Recycling funding: Funding recycling is required. To determine the amount of funding to be recycled, EUV will be used as the basis of land value calculation.</p> <p>Finance Strategy: The delivery of the scheme on the Core Site as outlined in the applicant's appraisal is reliant on various sources of funding totalling [REDACTED]. Circa [REDACTED] of this is to come from U+I and this needs to be evidenced, alongside a clear and credible funding and financing strategy for the remainder</p>
<p>Delivery of the proposed scheme(s) on the Adjacent Site (the housing site released by the removal of the odour zone).</p>	<p>Infrastructure cost estimates and plans for the Adjacent Site should be provided.</p> <p>Confirmation that the AAP, which is currently being developed, promotes (as a minimum) the residential units and affordable housing ratio set out within this application for the Adjacent Site.</p>	<p>Planning: An adopted AAP or site specific planning obligation Supplementary Planning Document to calculate and enforce developer contributions from the Adjacent Sites.</p> <p>Confirmation that the AAP, which is currently being developed, promotes (as a minimum) the residential units and affordable housing ratio set out within this application for the Adjacent Site.</p> <p>Funding Clarifications: The decontamination cost estimate for the CWRC to be provided when available.</p> <p>Infrastructure cost estimates and plans for the Adjacent Site provided.</p> <p>Delivery Plans: An agreement/ auditable delivery plan to be implemented [REDACTED]</p>

Cambridgeshire and Peterborough - CNFE - Risk Summary and Funding Conditions (3)

Panel Considerations

Risks	Mitigations	Funding Conditions
<p>Lack of detail on WRC relocation site. Homes England has only been provided with 'notional' locations and not specific site details of these options, as a longlisting has yet to be formally conducted.</p>	<p>Ongoing due diligence of the planning process for the replacement WRC to ensure that site selection is reasonable and accounts for factors such as environmental concerns and cost.</p>	<p>Funding: Agreement and evidence of this agreement from Anglia Water to fund the cost of the land for the new WRC site from their own sources.</p> <p>A mechanism to be in place which incentivises Anglian Water and @One Alliance to minimise the cost of the new WRC.</p> <p>Justification to be provided to support the reasonableness of the 'on costs' placed on the new WRC (on costs include design and project management fees).</p> <p>The parties within the SPV will be required to commit to funding any additional cost, if the project runs over budget.</p> <p>Procurement: The provision of details to illustrate that the procurement process which led to Anglian Water's framework agreement with @One Alliance was robust and market tested.</p> <p>Delivery Milestones: Once the site of the new WRC is confirmed, further due diligence will be undertaken to ensure the new site for the WRC is deliverable. In terms of costs, these need to be confirmed and the delivery programme needs to be updated. The applicant should provide detailed and audited costs at RIBA Stage 2 and an associated layout plan.</p>

Additional Funding Conditions

Spend Profile: As relocation works are likely to overrun the 31st March 2024 HIF deadline, if Ministers do not agree to a HIF spend deadline extension, then further conditions will need to be levied to ensure that the infrastructure is fully funded.

Transport Impacts: There will need to be a condition that the transport impacts of the housing are minimal by reducing trip rates. Without this mitigation transport disbenefits are likely to push the wider BCR below 1. Further information can be provided in the Panel.