Department for Communities and Local Government

Housing Infrastructure Fund

Supporting Document for Forward Funding

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

Department for Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 030 3444 0000

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Housing Infrastructure Fund and Forward Funding

Our ambitious policies in our **Housing White Paper** will mean more and better homes, welcomed by existing communities because they add to, rather than subtract from, what is already there.

The **Housing Infrastructure Fund** is a government capital grant programme of up to **£2.3 billion**, for new physical infrastructure which will unlock sites in the areas of greatest housing demand and help to deliver up to 100,000 new homes in England. Funding will be awarded to local authorities on a highly competitive basis.

This Fund will help to make new land available and get homes built.

The Housing Infrastructure Fund will:

- Deliver new physical infrastructure to support new and existing communities;
- Make more land available for housing in high demand areas, resulting in new additional homes, that otherwise would not have been built;
- Support ambitious local authorities who want to step up their plans for growth and make a meaningful difference to overall housing supply; and
- Enable local authorities to recycle the funding for other infrastructure schemes, achieving more and delivering new homes in the future.

We recognise that different types of intervention are needed to put the right infrastructure in place and so there are two separate funding streams:

- **Marginal Viability Funding:** This will be used to provide the final, or missing, piece of infrastructure funding in order to get existing sites unblocked quickly or new sites allocated. We expect the infrastructure to be built soon after schemes have been awarded funding, and for the homes to follow at pace.

- **Forward Funding:** This funding will be used for a small number of strategic and high-impact infrastructure schemes. We may put in the first amount of funding, which then gives the market confidence to provide further investment and make more land available for development and future homes.

This supporting document provides detailed information on the **Forward Funding** element of the Fund, how it works and how we will select which proposals to fund. It is to be read alongside the Introduction to the Housing Infrastructure Fund booklet.

There is a separate supporting document for **Marginal Viability Funding** which can also be found on the webpage:

www.gov.uk/government/publications/housing-infrastructure-fund

What types of proposals do we wish to fund?

The Forward Funding stream is designed to help local authorities achieve large scale growth. The funding will be used to forward-fund infrastructure schemes and, in some cases, could represent a significant proportion of the upfront development costs. The intention is not to displace other sources of infrastructure funding, but to create confidence at an early stage in a scheme that will attract other private and public sector money, and bring new land forward for development.

A Forward Funding scheme could support a development as large as a new garden city or town, an urban extension, or the development of a number of brownfield sites that will deliver a significant number of homes.

We want to encourage local authorities to select their best and most ambitious proposals, focusing on those that will unlock new housing at scale and at pace, to deliver the good quality housing that local communities deserve and expect.

Some **examples** are included on page 17 for information.

What does this mean?

For **local authorities** this is an opportunity to bid for a new stream of funding to help pay for infrastructure upfront and unlock additional housing in their area. Local authorities can also keep any costs recovered, helping them to achieve more housing delivery in the future. In return, we expect schemes to be ambitious, well managed and to attract much wider economic investment and growth.

For **developers**, this is an opportunity to work with local authorities on the timely provision of infrastructure, making development schemes viable. In return, we expect developers to do their share, make their financial contributions, and build out sites quickly.

For **local communities** this will mean that much needed supporting infrastructure is provided at the same time as any new and additional housing. In return, we ask communities to accept that more housing is needed if future generations are to have the homes they need, at a price they can afford.

For **utility companies and infrastructure providers** this is an opportunity to help fund new infrastructure where and when it is needed, supporting the current position that existing bill payers are not asked to pay for future growth. In return, we expect infrastructure providers to deliver the infrastructure in a timely manner, working in partnership with local authorities and developers so that new homes can be delivered.

What will an eligible bid look like?

To be eligible for Forward Funding, bids must meet the following criteria:

1. Be from the uppermost tier of local government

The **uppermost tier** of local authorities in England are eligible to bid for Forward Funding.

Upper tier local authorities are responsible for planning infrastructure requirements and delivery at a strategic scale. They are well placed to deliver these schemes and dedicate the resources needed to develop the bids. Uppermost tier authorities include:

- The **Greater London Authority**
- **Combined authorities**
- Outside these areas, **single and upper tier authorities** (county councils, unitary councils and metropolitan boroughs)

Local authorities may also support bids submitted by other local authorities. Further information about **joint bids** is set out in page 11.

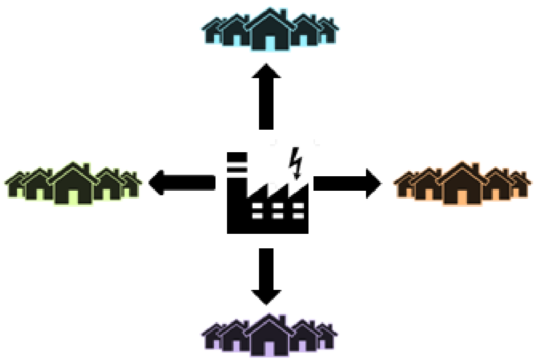
Ranking bids

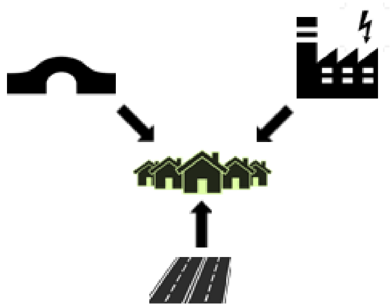
We want local authorities to submit their most ambitious bids so that we can fund the best proposals available. Local authorities are therefore asked to **rank the bids they submit in order of priority**. When ranking bids, local authorities need to consider the degree of ambition in the bid, primarily in terms of the value for money and number of additional homes; the strategic approach; and the deliverability of the infrastructure and homes.

When we assess bids against our criteria, we will look at the highest priority bid first. We may then assess the authority's lower priority bids in ranking order.

We do not expect local authorities to bundle together lots of different proposals into a single bid. Instead, we are looking for proposals that make cohesive and strategic sense, delivering at scale.

For example, a bid could cover a single piece of infrastructure which will unlock multiple housing sites. Or it could cover multiple pieces of infrastructure, which then unlock homes in a specific location, such as for a new garden city or town.





In all cases, we expect bids for Forward Funding to be able to deliver a **step change** in housing supply.

Bids are capped at £250 million

We expect to fund bids up to £250 million. This £250 million cap applies to the Housing Infrastructure Fund bid, and not the size of the overall scheme. We expect this funding contribution will provide the confidence needed to attract other sources of investment.

Higher levels of funding may be awarded **in exceptional cases** to bids that can demonstrate a transformational delivery of new homes. Given the scale of the funding available, this could, for example, be the equivalent of a large new garden city.

2. Requires grant funding

Bidders will need to demonstrate that **the schemes cannot happen without the financial support of this Fund** but would still offer a net benefit to society. It could be, for example, that this funding is needed because the infrastructure provision is at such a scale that it requires upfront public sector commitment.

We will require evidence of a demonstrable market failure and that developers, or others, are not able to pay for the infrastructure themselves. This also applies if the land is publicly owned. Bids will need to set out who would benefit from the infrastructure, who will be paying towards it, and why those benefiting cannot pay the full costs upfront.

The amount of any funding award will take into account financial information. If a local authority is able to recover funding from developers and delivery partners in subsequent years, or make efficiency savings, then this money can be retained and recycled in order to help them to achieve more housing delivery in the future. In return, if there are any cost increases, then the local authority, and their delivery partners, will be expected to find other sources of funding to meet such costs, rather than additional grant being provided through this Fund.

Please see **Annex 2** on page 21 for **technical guidance** on demonstrating market failure.

3. Delivers physical infrastructure

We will fund **physical infrastructure** that a local area needs in order to get homes built. The funding is for capital expenditure and bids will need to explain what physical infrastructure is being delivered. This could, for example, include:

- transport and travel
- utilities
- schools, community, heritage and healthcare facilities
- land assembly
- digital communications
- green infrastructure, such as parks and green corridors
- blue infrastructure, such as flood defences and sustainable drainage systems.

4. Supports getting an up-to-date plan in place

If we are to build the homes this country needs, we need to make sure that enough land is released in the right places; that the best possible use is made of that land; and that local communities have control over where development goes and what it looks like. The Housing White Paper sets out proposals to make sure every part of the country has an up-to-date, sufficiently ambitious plan so that local communities decide where development should go.

Local authorities need to reflect this in their Housing Infrastructure Fund bids:

- the local authority must have an adopted **up-to-date plan** (either a development plan or spatial development strategy) or a plan that has been submitted for examination; or
- bidders need to demonstrate that the funding will unlock the release of otherwise undeliverable land which will **speed up getting the plan in place**.

5. Has support locally

We are asking communities to accept that more housing is needed if future generations are to have the homes they need at a price they can afford.

For Housing Infrastructure Fund bids, we are also asking local authorities to demonstrate that their infrastructure proposals have **support locally**.

This means we will seek evidence of a strong local commitment to delivery, including between different tiers of local government and with delivery partners and providers; the involvement of local communities and MPs; and engagement with Local Enterprise Partnerships.

6. Meets our spending timetable

This Fund is available up to 31 March 2021. When making funding decisions, we will take into account our funding profile for the £2.3 billion Fund.

When we make individual funding awards, we will announce the full funding amount for the scheme. We will also give an annual profile, which will need to be spent in the year allocated.

With the scale of investment proposed, any bids shortlisted for funding will need to produce fully worked up business cases. These will need time to develop to ensure the best possible scheme designs. We therefore do not expect to announce any funding awards until at least Summer 2018. We also expect that the majority of the Forward Funding will be spent during financial years 2019/20 and 2020/21.

How will we assess bids?

All eligible bids will be assessed using three main criteria.

1. Value for money

We want to maximise the benefits from public money by funding the best value for money schemes that we can. We also want to ensure that all schemes funded provide a greater total net benefit than cost. When submitting bids, there will be a series of questions that follow the principles set out in the Green Book and the DCLG Appraisal Guide. These will allow us to assess whether a scheme represents good **value for money.**

To do this, bids will need to provide a **Benefit Cost Ratio** (BCR) which quantifies the benefits from homes being built, and compares these to the costs to Government. All benefits and costs will be discounted at the standard rate of 3.5% per annum. Discounting is a technique used to compare costs and benefits that occur in different time periods. It is based on the principle that, generally, people prefer to receive goods and services now rather than later.

Calculating the benefits

We will use **land value uplift** in quantifying the net benefits of a proposal. This measures the difference of value from the land's current use to when it is used for housing and captures all private sector costs of development. For example, derelict ex-industrial land has a much lower land value than a thriving housing development.

We encourage local authorities to provide site level information of valuations as part of their bids. If these are not available, or not sufficiently robust, then we will instead use the Department's published estimates.[1]

The next step is then to work out what proportion of the housing is likely to be **additional**. This will be based on an assessment of what would have happened anyway. This includes on the site without Government intervention (the 'deadweight') and in the wider area (so how many homes may be displaced from other developments).

Calculating the costs

In calculating the BCR, we will take into account **the total amount of funding being provided by central Government**. This is to make sure we capture all of the costs to government, and do not double count the benefits where these may have already been captured elsewhere. This includes the amount sought from the Housing Infrastructure Fund and also any other central Government funding going into the same scheme. This

[1] www.gov.uk/government/publications/land-value-estimates-for-policy-appraisal

does not include any funding put in by local government or by Local Enterprise Partnerships.

We have created a '**Ready Reckoner**' to give local authorities an indication of how proposals will look from a value for money perspective. This is available on our website at www.gov.uk/government/publications/housing-infrastructure-fund.

Local authorities can look to put together a package of complementary central Government funding for schemes.

Please see **Annex 3** on page 22 for further technical guidance on our approach to value for money.

2. Strategic approach to delivering housing growth

We want to fund those schemes that take a strategic approach, with strong local leadership and joint working to achieve higher levels of housing growth in the local area, in line with price signals, and supported by clear evidence.

Proposals should:

- demonstrate **strong local leadership** in:
  - making more land available for housing development by delivering ambitious plans that address housing pressures as reflected in price signals. Where areas go beyond this it will further strengthen their bid;
  - effective joint working between authorities;
  - the delivery of new homes;
- provide a clear **evidence-base** that the infrastructure would unlock significant numbers of new and better homes, taking into account local housing markets, areas of opportunity for growth, constraints holding back new housing supply, and making the most of all available funding streams;
- **diversify** the housebuilding market, for example by encouraging new market entrants and SME builders to deliver housing.

Effective joint working between local authorities includes **working collaboratively across boundaries** to deliver new infrastructure and housing at scale and at pace. One example of joint working may be where an infrastructure proposal connects an authority which has high housing need but lacks suitable housing sites, with an authority which could unlock housing sites and would benefit from connection with an area of greater economic growth.

Joint bids

We encourage local authorities to set out their approach to joint working and to submit **joint bids** where their housing or infrastructure needs align. All joint bids require a single local authority to be identified as the lead bidder. The lead bidder will then include the joint bid as part of their ranking.

Joint bids need to demonstrate that both, or all, local authorities are taking a strong and active role in delivering the scheme, including committing their own resources and being part of the scheme's governance and project management.

This reflects proposals in the Housing White Paper to see more and better joint working where planning issues go beyond individual authorities, building on the existing duty to co-operate.

3. The scheme and homes can be delivered

In their bids, local authorities will be asked to set out their **delivery plans** for both the infrastructure and the subsequent housing. We wish to see evidence that:

- there is a clear plan to deliver the infrastructure;
- there is a clear link between the provision of the infrastructure and the delivery of the homes; and
- all the key delivery partners are working together effectively.

As part of this, we will need to understand the local authority's project plan, key milestones, mechanisms for delivery over the longer term, and any levers or contractual arrangements with key delivery partners or those operating in the local housing market. For example, where scheme involves a new road, we would expect the Local Highways Authority to support the bid.

Bids will be assessed on the relative deliverability of the proposed scheme – both for the infrastructure and the subsequent housing. This will, for example, include:

- the strength of the overall development strategy;
- the progress made to date;
- the position around land ownerships and control;
- the planning status;
- the strength of active commitment from key partners and delivery bodies;
- the project management and governance approach;
- the understanding of key delivery risks and their mitigations;
- the number of critical dependencies, especially those outside of the local authority's direct control; and
- the nature of the local housing market and why the proposed delivery approach suits that market.

We will also work across Government to ensure the proposed infrastructure scheme aligns with Government approaches, we take a co-ordinated approach to investment, and decisions are informed by knowledge from relevant Government bodies, such as the Homes and Communities Agency, the Environment Agency, and Highways England.

Successful local authorities will need to agree a named lead and senior officer, who will be responsible and accountable for delivery of the infrastructure.

There could be circumstances where the infrastructure would be delivered by a different local government body than that submitting the funding bid. We would look for clear delivery commitment and engagement from all the relevant organisations and for a mutual agreement on which organisation would be best placed to be the accountable body for the funding.

Other considerations

We will prioritise schemes based on their impact against these main criteria, with an emphasis on value for money. We may also take into account our funding profile, the geographical capacity of an area to deliver the infrastructure development, and wider economic considerations.

Next steps and submitting a bid

Forward Funding bids involve a significant amount of investment and will therefore need fully worked up business cases, underpinned by detailed and technical work. To minimise the burden on local authorities, we have developed a **two stage** process.

Stage one: Expressions of interest

Eligible local authorities are invited to submit **expressions of interest online** by 28 September 2017. The **online bidding form** will be made available during July. All expressions of interest need to be signed off by the **S151 officer**, who will provide assurance that the bid meets the requirements set out in this document and the relevant terms and conditions.

Expressions of interest will then be assessed and the best proposals will be shortlisted to go through to stage two.

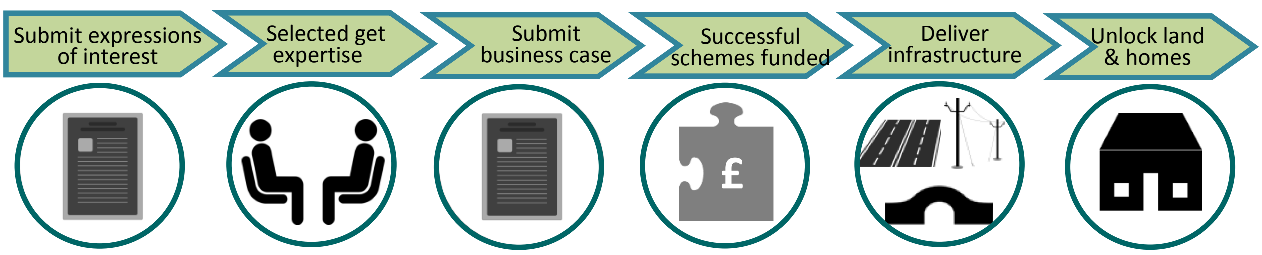
Stage two: co-development

In stage two, local authorities who submit the best proposals will be provided with proportionate access to experts and constructive challenge to help develop their business cases. This is to ensure schemes are of the highest quality and create the best opportunities for transformational delivery, and not about simply choosing those authorities that are the best at writing bids.

A small amount of capacity funding may also be made available to local authorities to help them develop their proposals.

Following a six month co-development process, local authorities will then submit their fully worked up **business cases** online in Spring 2018.

These will be assessed against the criteria set out on pages 4 and 5 of this guidance. Only the very best business cases for Forward Funding schemes will be awarded funding. Successful bids will be announced from Summer 2018.



Help is available

Please go to www.gov.uk/government/publications/housing-infrastructure-fund to **access more support** and for contact details.

Our **Ready Reckoner** is also available online to give local authorities an indication of how proposals will look from a value for money perspective.

If you are interested in the **Marginal Viability Funding**, please see the separate supporting document.

Terms and conditions

Grant payments

Over recent years, Government policy has been to free local authorities from some of the previous Governments' accounting and reporting requirements, and to devolve greater powers and accountability. There is also a statutory framework of legal duties and financial controls on local authorities, to ensure proper democratic accountability, transparency, public scrutiny and audit.

In line with that, funding will be awarded for individual schemes covering **the full duration** of the Housing Infrastructure Fund programme.

Payments will be made six monthly under **section 31** of the Local Government Act 2003 and will be based on progress reports from the local authority. These will need to confirm that that delivery is on track and that there is a reasonable expectation that they will be able to spend the allocated funding on the infrastructure scheme that year. If the local authority cannot provide adequate assurance, then Government retains the right to withhold the grant in that period and will work with the local authority to re-profile expenditure to match the anticipated spend profile. A small number of grant conditions will apply, covering:

1. The money is to be spent on capital;
2. The scheme will deliver by an agreed date. Otherwise, the Department can recover any unspent funding;
3. Any costs saved or recovered are retained by the local authority and to be used for further housing delivery; and
4. The Local Authority will assure Government on delivery through open governance structures, transparent decision making, and proportionate regular reporting on progress.

Individual timings and assurance approaches will be developed in discussions with local authorities ahead of any grant determination being issued.

Engagement and monitoring

We need to ensure that we are making the best funding decisions and getting the best outcomes for taxpayers. We therefore ask successful local authorities to help us to review how well the funding is working and **achieving results**.

We will work with successful local authorities to agree a proportionate approach to providing information on key achievements, such as:

- Spend

- Delivery of infrastructure
- Delivery of new homes.

Legal requirements and procurement of third parties

Local authorities are responsible for ensuring that any funding they are awarded will be spent in accordance with **all applicable legal requirements**. This includes state aid, public procurement law, wider public law (including the Public Sector Equality Duty), and planning law.

Any development decisions for specific proposals must go through the **normal planning process** and be guided by development plans, taking into account all material considerations. As part of the bidding process we will be seeking assurance of this.

The responsibility for **procuring infrastructure** rests with the local authority. Where a local authority chooses to loan or pay money to developers or contractors to secure infrastructure delivery, it will be for them to construct and agree the terms under which this transfer of money occurs and to ensure they comply with public procurement law and state aid requirements. The local authority will also be responsible for ensuring the recipient delivers on that agreement, and for taking any follow-up enforcement action.



Annex 1: Examples

We anticipate receiving bids for a range of types of infrastructure required to unlock housing. The examples below are of potential Forward Funding proposals that would work well for our assessment criteria. However, the Fund is highly competitive and schemes will be chosen based on those which perform best against the published criteria.

Example 1: Transforming an existing town

Scheme requiring interconnected infrastructure investment to unlock transformational growth to an existing town							
Site type: Brownfield				**Housing market strength:** High			
Infrastructure needed	Highways, sustainable transport and energy, town centre regeneration	**Number of homes**	30,000	**Funding request**	£250 million	**Total scheme cost**	£600 million

This scheme will see the transformation of an existing town, with major housing growth through regeneration and densification in the town centre and high quality development at a number of sites around its periphery.

The scheme has been subject to extensive public consultation and is allocated in the proposed local plan. Delivery planning suggests that of total infrastructure costs of approximately £600 million, £350 million can be secured from developer contributions and other sources of public funding, leaving an upfront infrastructure funding gap of about £250 million which cannot be borne through developer contributions from the identified sites alone.

Key infrastructure requirements relate to the peripheral road network, sustainable transport corridors and creating a development platform on the publicly owned town centre regeneration sites. It is expected that the later phases of the wider scheme will be self-financing as receipts will be recycled through the sale of serviced housing plots.

A work programme is already in place for a link road which will begin in 2019 and early delivery will be supported by development on public sector land. Engagement is already underway with relevant stakeholders to ensure works can start imminently after funding is secured. Private sector funding is expected to be back-ended in later stages to ensure the funding profile can be met.

Housing Infrastructure Fund is required to be able to deliver a step change in the speed, quantity and quality of housing delivery in the town, with 20,000 new homes in this local plan period and another 10,000 after 2033, and a similar number of new jobs. Without this investment, the local authority considers that even the target of 15,000 in the emerging local plan is unlikely to be deliverable.

The scheme is being promoted by an ambitious, pro-growth authority in an area of high housing need and has the strong backing of both the Local Enterprise Partnership and local businesses. A key priority for the authority is to encourage speed of delivery of homes by promoting diversification of tenure and housing types – including use of off-site construction.

This proposal shows good value for money and the additionality of the housing will be medium.

Example 2: An urban extension

Scheme requiring multiple pieces of infrastructure to unlock urban extension							
Site type: Brownfield (ex industrial) and Greenfield				**Housing market strength:** High			
Infrastructure needed	Education & health facilities, highway improvement works and public transport infrastructure	**Number of homes**	3,800	**Funding request**	£75 million	**Total scheme cost**	£250 million

This scheme is an urban extension with the potential to deliver some 3,800 homes alongside significant community infrastructure and 40 hectares of employment space. The scheme will contribute to meeting the housing needs of the direct area as well as meeting a wider district need. The development has significant upfront infrastructure requirements and involvement of multiple landowners. It is of significant local importance and is supported by key stakeholders including the local authority and the Local Enterprise Partnership. There is also strong private sector interest in delivering the site.

The site has a Neighbourhood Plan, reflecting the strong local support for the scheme and will also form 35% of the district's housing need.

The total infrastructure requirements for the scheme are estimated to cost some.£250 million and include education and health provisions, highway improvement works, public transport infrastructure, and sustainable drainage systems.

The local authority has bid for £75 million of funding to help support delivery. A range of options, including equity investment and recoverable investment have been investigated, however funding from these sources could not be agreed. There is strong potential for a cross public and private sector solution, which grant funding from the Housing Infrastructure Fund would support.

£75 million from the Housing Infrastructure Fund is needed to provide increased certainty of overall delivery by addressing the main constraints, encouraging SMEs and meeting other White Paper policy priorities across the scheme.

A clear infrastructure package has already been identified with three separate phases. The wider infrastructure delivery is expected to take eight years with this funding providing the upfront investment for the first phase (a three year programme) to allow housing delivery to begin – including a link road, primary school and recreational facilities.

This proposal shows acceptable value for money and the additionality of the housing will be high.

Example 3: Highways, bridge and junction

Scheme requiring a single piece of infrastructure to unlock multiple housing sites							
Site type: Greenfield and Brownfield				**Housing market strength:** High			
Infrastructure needed	Highways, bridge and junction improvements	**Number of homes**	25,000	**Funding requested**	£150 million	**Total scheme cost**	£335 million

This scheme will provide a significant step-change in housing delivery for the area and comprises a number of residential sites, in both private and public sector ownership. Strategic infrastructure funding, predominantly for new highways, a bridge, and junction improvements, is needed in order to build new homes. This new connectivity scores well as it will raises the current land values by linking them to a key high value area with limited capacity for housing.

As there is no equalisation agreement in place between the current landowners there is no ability to provide the upfront funding required for the infrastructure works. There may be an opportunity to capture some land value in return for the provision of grant funding.

The scheme is strongly supported by the Local Enterprise Partnership and the local authority has the ambition to capitalise on this with the delivery of up to 25,000 homes and 50,000 jobs by 2040. The emerging local plan has identified the key areas for housing and employment development and the key infrastructure needed to unlock them, which the Housing Infrastructure Fund would support.

The £150 million Housing Infrastructure Fund bid would support the transport network requirements, including new highways and a bridge across a motorway to provide access to the development sites. Without the provision of upfront infrastructure the development of these sites could not commence due to current network constraints and access issues.

Funding will be used from 2018/19 until 20/21 with initial funding spent on improvements to existing networks followed by upfront funding of new highways and a bridge.

The total infrastructure cost is estimated at about £335 million, and in addition to the Housing Infrastructure Fund, would be expected to be funded through private sector contributions and phased development opportunities via the Community Infrastructure Levy.

This proposal shows good value for money and the additionality of the housing will be medium.

Example 4: Electricity capacity

Region requires additional electricity capacity before any homes can be built – holding back small and large sites							
Site type: Brownfield and Greenfield				**Housing market strength:** Medium			
Infrastructure needed	Upfront investment in electricity capacity	**Number of homes**	18,500	**Specific funding amount**	£38 million	**Total scheme cost**	£5 million

Following a recent housing development, a large area has run out of electricity capacity – meaning no more homes can be built until the electricity substation is expanded. The Distribution Network Operator (DNO) is not allowed to pass on costs to existing bill payers, meaning the developers must pay for the expansion works.

The homes cannot come forward without government intervention as the up-front costs in this instance are prohibitive to developers. This is because the developers on the small sites would not be able to cover the costs, and the land owners of the few large sites do not want to collaborate at this stage to pay for these.

Two upper tier authorities (one as lead bidder) and seven lower tier local authorities all covering the area which is out of capacity – have submitted a joint bid for Housing Infrastructure Funding. They recognise that once the initial upfront prohibitive cost is overcome, each developer can pay a fair share towards the costs, and they are keen to recycle as much of the funding locally as possible. In order to do this, the investment will be claimed back through an agreement whereby developers pay for the proportion of the electricity capacity they need through an agreement to connect to the local authority owned substation, which the DNO has agreed to run and maintain.

This agreement is also backed up by electricity market regulations, known as the “second comer” mechanism. Under this mechanism, initial investors are able to recoup their costs as developers connect to this new capacity over a ten year period.

In addition to this, they have also co-ordinated their approach to developer contributions and are working with the current landowners and housing developers. Through this they have assured quick build out of the housing on sites so they complete as the energy capacity is extended. The developers will then provide contributions for all the other infrastructure requirements on site.

In setting up the joint bid, they have agreed to hold all the recovered money at the same regional level, as well as adding further developer contributions. They are working with the Local Enterprise Partnership to set up a pan regional fund to overcome future large scale strategic infrastructure barriers.

Annex 2: Technical Guidance on Demonstrating Market Failure

Market failure occurs where the market alone cannot achieve an economically efficient outcome. In the case of schemes that are eligible Forward Funding, this will occur when there is a need to provide infrastructure that no developers would be able or willing to fund, even collectively.

The Treasury's [Green Book] provides further guidance on what constitutes market failure.

We only want to fund schemes that are able to demonstrate that providing this infrastructure will unlock new housing.

Potential bidders should bear in mind that not all factors that prevent development are market failures. For example, if the revenue from a development is too low to justify the costs of construction, or a site is too risky to secure private finance, then developing housing may not be the best outcome for that site or a good use of Government funding.

Annex 3: Technical Guidance on Demonstrating Value for Money

The economic appraisal will be based on the present value economic benefits of a scheme, divided by its present value costs to central government. This will generate a benefit cost ratio. The two elements of this are described below.

Economic benefits

The Housing Infrastructure Fund is targeted at unlocking the economic benefits from new housing. We will quantify these economic benefits using **land value uplift**, which represents the economic benefits of converting land into a more productive use. Land value uplift is calculated by the difference between the value of the land in its new use, minus the value in its previous use.

Where bidders are able to provide alternative site specific land values, these may be used instead, providing government can be assured that the calculation of land value uplift is consistent with DCLG Appraisal Guide.

If site valuations are not available or not sufficiently robust, **the Department's published estimates are to be used.**[2] These are based on Valuation Office Agency data and provide the value of residential land by local authority and industrial and agricultural land by region. These are produced for the specific purpose of economic appraisal and provide a consistent estimate of economic benefits across different areas.

The total land value uplift on a site will provide the gross economic benefit. It will then be necessary to estimate how much of this economic benefit is genuinely **additional**; that is, how much development would have occurred in the absence of the intervention. Two elements of additionality should be considered:

- Firstly, the **deadweight**, which in the context of the Housing Infrastructure Fund will refer to development that would have happened on the site without government intervention. This may, for example, reflect that some portion of a site could be developed without the infrastructure funding. It may also reflect that the infrastructure funding will only accelerate development on a site, in which case the deadweight will be very high. Estimating the proportion of the benefits which are deadweight will be based on the characteristics of the specific site, and will be a judgement that must be made and justified by the local authority that is submitting the bid.

- Secondly, the **displacement** caused by a site must be considered. This reflects two possibilities; firstly, that bringing forward a new site within a local housing market may crowd out other private sector investment; and secondly, that new sites being unlocked by new infrastructure may prevent other new sites coming forward

[2] https://www.gov.uk/government/publications/land-value-estimates-for-policy-appraisal-2015

through the planning system, if a local authority is already meeting its local plan housing requirement. Typically, market displacement will be higher where a local housing market is weak and house prices will be low. Displacement in the planning system will be lower if a local authority is trying to actively increase the amount of land brought forward for housing. The extent of displacement will be judged based on the information provided by the local authority, and data about the local housing market.

Quantifying additionality is not a precise science. Using the factors above, we intend to group bids in approximate additionality categories, based on the values below:

Additionality	% estimate
High	75%
Medium high	50%
Medium low	25%
Low	10%

Calculating costs

In appraising costs, we will only take into account costs on central government. This will reflect both spend from this Fund, and any other funding that has been received from central government. This will not reflect any money spent or recovered by the local authority or by a Local Enterprise Partnership.

All costs and benefits will be discounted at the standard rate of 3.5% per annum. This will tend to favour delivery sooner rather than later.

Further help

More information is available in the HM Treasury Green Book, including the supplementary guidance on Valuing Infrastructure Spend, and in our DCLG Appraisal Guide.

We also encourage local authorities to test the value for money of their Housing Infrastructure Fund proposals using our **Ready Reckoner.**