

Financing the Melton Distributor Road

Heads of Terms

6th December 2017

Introduction

In support of Melton's Local Plan Leicestershire County Council (LCC) and Melton Borough Council (MBC) have a shared aim to build a new distributor road to the north and east of Melton Mowbray as part of the wider transport strategy for the town (the Melton Transport Strategy). Significant funding for the road will be sought from the DfT.

The scheme is anticipated to cost in the region of £74m (including £4m scheme development costs), based on the work completed to date. The local contribution would need to be c£19m (including scheme development costs) and c£55m will be sought from the DfT. Given the tight finances both organisations are facing the aim is that after development costs, the road will be fully funded from a combination of external contributions, developer contributions and tax increment financing (TIF). The preference would be for the first two sources to fully fund the road.

This funding mechanism will mean that both organisations anticipate that they will end up in a broadly neutral financial position as new NHB, council tax and business rate income generated by the residential and commercial development that the road unlocks will be used to reimburse LCC funds being provided. It is accepted that without the road, the development would be far more challenging, and therefore this income very unlikely to be generated.

The road is integral to the successful delivery of the Melton Local Plan and the associated housing growth.

Principles of a Financial Arrangement

LCC and MBC agree to;

- Actively seek contributions from other sources such as the business rate pool, business rate pilot (if successful) and other government funding streams to fund the new road.
- Ensure developer funding from proposed developments in Melton Borough (in particular the development in the North of Melton Mowbray and CIL) is provided for the road. In addition, take steps, where appropriate, to ensure any additional homes (not in the draft local plan) built as a result of the new

road generate similar levels of developer funding for the Melton Transport Strategy. While it is anticipated that the bulk, if not all, of the required local or “gap” funding could come via developer contributions, it is also accepted that developer contributions will also be required to fund other infrastructure e.g. schools, open space, affordable housing etc.

- Allocate growth in NHB, Business Rates and a proportion of Council Tax arising as a result of the new road. Both authorities will agree a baseline of local tax resources upon which contributions will be based. The baseline will be constructed in such a way so as to reduce the volatility of core funding from these sources and provide a ‘floor’ level of resources as far as is possible.
- Interest will be charged on the loan or any overpayment at a rate that would put LCC or MBC in a no worse off position. At the current time this would equate to interest income that would be earned on cash balances.
- Both authorities will share oversight through appropriate governance mechanisms.

Risk Share

Subject to a successful bid to the DfT Large Local Majors fund LCC will fully fund the scheme costs up front and will only seek repayment once the tax increment financing and developer contributions materialise,

To ensure the scheme is ‘shovel ready’ it is acknowledged that the County Council will need to spend up to £4m (included in the £74m estimate above) in advance of knowing the outcome of the competitive bid process. If the bid is unsuccessful this time around LCC will bear the full risk (subject the Decision Making section below). However, if successful in a later bidding round the scheme outlined above will operate.

The agreement relates to the total cost of the scheme from January 2018. It is noted that although significant work has been undertaken the scheme is at an early stage and costs are likely to change.

Review

The agreement will last until the cost of the distributor road is repaid.

A review of the agreement could be triggered if;

- There is a fundamental change in the cost of the scheme, defined as a change in costs of + or – 15%.
- There are significant changes by government to grant funding, developer contributions, business rates, council tax or NHB regulations/provisions or as a result of significant changes to the viability of the development leading to reduced developer contributions being available.
- The initial bid to the DfT is unsuccessful and a second bid is considered.
- Delays arise in the development providing developer contributions

Decision Making

MBC will positively and proactively deliver the housing requirements of the local Plan by determining planning applications in accordance with the Plan's policies taking account the Highways representations of LCC.. Both MBC and LCC will work proactively with applicants to secure developments and that those developments make an appropriate contribution to the distributor road. Both MBC and LCC acknowledge that failure to meet this requirement would result in both parties sharing the up to £4m at risk investment required to ensure the scheme is shovel ready.