MILTON KEYNES:

MAKING A GREAT CITY GREATER

Commission Working Paper 9

Infrastructure, Maintenance, Renewal, and Investment for Growth

Shared Intelligence

Milton Keynes Futures 2050 Commission

MILTON KEYNES FUTURES: 2050

SHARED INTELLIGENCE

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INFRASTRUCTURE: MAINTENANCE, RENEWAL AND INVESTMENT FOR GROWTH

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1. The purpose of this Commission Working Paper is to consider how Milton Keynes (MK) is addressing the "legacy challenge" of renewing the City's original infrastructure and how best to ensure that resources are available to accommodate further growth. It draws from various analyses undertaken by MK Council, emerging thinking from the MK Development Partnership, and other sources.

2. This paper comprises four sections:

    - How Milton Keynes was Initially Financed;
    - The Legacy Challenge and Repair, Maintenance and Replacement of Infrastructure;
    - Infrastructure in the Western and Eastern Expansion Areas in the approved Core Strategy;
    - Infrastructure in New Growth Areas in Plan:MK Strategic Development Directions Consultation.

3. The final section raises matters that the Commissioners might wish to consider in building their alternative visions and setting out a preferred vision for the future of the new city.

HOW MK WAS INITIALLY FINANCED

4. In 1962, Buckinghamshire County Council proposed that the "North Bucks New City" should be developed astride the West Coast Mainline railway between Bletchley, Wolverton and Newport Pagnell. The County Council wanted the Government to underwrite the financial risk of developing all the infrastructure for the new city, including a new monorail.

5. Instead, in 1967, the Government formally designated an area comprising some 22,000 acres (88.4 $km^{2)}$ of land using the New Towns Act and established the Milton Keynes Development Corporation (MKDC) to deliver the new town. The designated area included Bletchley (formerly an Expanded Town financed by the Greater London Council), Wolverton, Stony Stratford and a series of smaller villages. The new town was called Milton Keynes, after one of these villages.

6. Accountable to Parliament, MKDC was charged with building a new city for 250,000 people and had the powers to do whatever was necessary to deliver the new town. This included acquiring all agricultural land, and other sites as needed, at existing use value. MKDC developed all the necessary transport infrastructure, some leisure and other community facilities, all of the social housing, advanced factories and offices. Land for private housing was sold to private developers on a "build now pay later," basis and sites were sold or leased to inward investors to create employment on very attractive terms. MKDC was responsible for preparing a comprehensive master plan – the original Plan for Milton Keynes – and then had the powers to grant planning permission for all of the developments on the land that it acquired.

7. To undertake this development, MKDC borrowed funds from HM Treasury at Public Works Loan Board rates which, in the 1980s reached over 15%. All of the capital borrowed was repaid by MKDC to the Government by capturing the increase in land value arising from the creation of the new city – the gap between existing use value and the market value of the land. Overall, the

Government made a very substantial financial profit on the development of the New Towns (including Milton Keynes though no separate accounts were kept for individual towns after absorption into the Commission for the New Towns which for MK happened in 1992).

8. The Secretary of State was responsible for appointing the MKDC Board. The Board included several locally elected councillors but they were a minority. MKDC had a duty to consult with local authorities and had to work very closely with Buckinghamshire County Council as both the highways authority and the local education authority. In practice, the original five urban and rural district councils, and then following local government re-organisation, Milton Keynes Council, only had a limited influence on MKDC decisions.

9. In 1992 MKDC was wound up. All undeveloped land, and many of the commercial assets were transferred to the Commission for New Towns (CNT 1992), then to English Partnerships (EP1999) and then finally the Homes and Communities Agency (HCA 2008). The Parks, and some of the other "strategic green assets" were transferred to the Milton Keynes Parks Trust along with a "dowry" of local revenue producing assets to meet the costs of maintaining these green assets. Generally, forward planning and most development control functions were returned to MK Council. However, development control over land owned by CNT/EP remained with those bodies, although EP voluntarily gave up this power during its term in office. EP/HCA did however have power to create special areas in which they held development control powers, and used these powers in Milton Keynes to gain planning control over areas in the east and west flanks, most of which was privately owned. They exercised these powers in partnership with MKC through a body named Milton Keynes Partnerships from 2006-2012

10. In 2012 the Government sold most of the remaining land owned by the HCA to Milton Keynes Council (MKC) for some £32m. In due course, the Council will sell this land for development; the capital receipts will exceed the price paid to the HCA and any interest charges incurred. MKC established a wholly owned body, the Milton Keynes Development Partnership (MKDP) to dispose of these assets. MKDP has an independent chair and the board is made of up of other independent members and the elected leaders of the main political parties.

11. This change in the governance has been mirrored by changes in the funding arrangements to develop and maintain the infrastructure of the City. The current position is similar to that of other Councils. The Council has their own capital programme, bids for funding from Government for major infrastructure through the South East Midlands Local Enterprise Partnership (SEMLEP), and earns the New Homes Bonus. The Council is responsible for securing contributions for infrastructure provision from developers through the development process – now using an innovative Milton Keynes Tariff arrangement created by English Partnerships for land over which it had taken development control powers. (In due course, it is expected that infrastructure funding will be delivered by Community Infrastructure Levy (CIL) arrangements or another option.) The MK Tariff monies received are used to pay for transport and community infrastructure much of which has been provided in advance through a bridging loan from the Treasury, or the developers make "in-kind" investments in lieu of tariff payments.

THE LEGACY CHALLENGE: THE REPAIR, MAINTENANCE AND REPLACEMENT OF INFRASTRUCTURE

12. The Council is also responsible for the upkeep of the highways infrastructure, social housing and some schools. The Council is starting to face a major challenge because a significant proportion of the assets were built between 1970 and 1985 and will need significant investment as they start to deteriorate.

13. This is a common problem facing all new towns; most were built over a relatively short period of time. This was recognised as a major challenge as early as 2002. A report by the Transport, Local Government and Regions Committee: The New Towns, Their Problems, and Future highlighted the common problem of uniformly aging infrastructures. The Government's response, published in November 2002, envisaged the resolution of these issues as part of a wider approach to sustainable communities.

14. A subsequent review in 2007/08 by the Communities and Local Government Committee – New Towns Follow-up[1] concluded that little had been done to resolve issues nationally and there were still major problems, particularly where new and innovative design had not stood the test of time. Both of these reviews noted that Milton Keynes's unique design features – the network of grid roads and 'Redways', Central Milton Keynes (CMK)'s exceptional infrastructure and the non-standard construction of low density housing -- presented particular challenges.

15. MKC's Financial Procedure Rules contain a set of 12 underlying key principles formulated in 2009, one of which is that "Future liabilities are anticipated". The Council has since 2011/12 been setting aside £1m of revenue funding each year to contribute towards financing the necessary investment to address future liabilities and has sustained this strategy notwithstanding the severe reductions in grant support from Government leading to the need to realise massive saving in its revenue budgets. The budget proposals agreed by Council in February 2016 address the need to realise £21.7 million savings in 2016/17 and further sums of this magnitude in subsequent years. This is matched by increasing pressure on capital spending. The current capital programme is being reprioritised to meet the need to provide additional school places as current funds are not sufficient to do this.

16. It should be noted that there are two further sets of changes to funding arrangements currently being discussed. The first is the transition to full business rates funding for Local Authorities which is envisaged to take place in 2020. Whilst Milton Keynes generates a very high level of business rates the key issue is how much of that funding can be retained to cover both legacy and future expansion pressures

17. The Government is also currently negotiating deals with groups of Councils to devolve powers and funding in return for commitments on growth in housing and employment, although progress in agreeing these is variable. In the longer term MKC may wish to consider this or other options available to have a further conversation with Government about a new deal for the City. It should also be noted that the Infrastructure Commission and HM Treasury have launched a call for evidence[2] for Cambridge-Milton Keynes-Oxford growth corridor and this is a major investment opportunity.

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[1] CLG Committee New Towns follow up 2008/9

[2] https://www.gov.uk/government/consultations/cambridge-milton-keynes-oxford-growth-corridor-call-for-evidence

THE HIGHWAYS INFRASTRUCTURE

18. By value, the Council's largest asset is the city's highways infrastructure. This comprises: 56,000 street lighting columns, 14,000 illuminated signs and electrical units, 1,170 km of carriageway, 1,800 km of footways, 791 bridges, 300 km of Redways, and 115 other structures (mainly retaining walls). In addition, these assets include street nameplates; unilluminated traffic signs, traffic signal junctions, bus shelters and highways drainage systems.

19. In 2012, the Council put in place a Transport Infrastructure Investment Strategy[3] to address the backlog of transport infrastructure repairs and move the network onto a sustainable maintenance programme. Using technical assessments of the state of each element, the programme has two stages: managing the backlog of repairs or replacement required to bring the assets up to a reasonable standard generally by 2018/19; and then adopting an ongoing maintenance programme. This will run until 2026 and includes the additional infrastructure serving the new areas.

20. This programme is funded with existing Council capital resources and prudential borrowing of some £50m. The completion of the programme does depend on further annual contributions of £250k per annum. The planned outcome is to extend the life of highways assets, significantly, with a longer term ongoing maintenance regime. This should lead to savings in maintenance costs in due course. This regime is designed to support the current infrastructure and known new additions. Clearly any significant structural improvements to the network to alleviate congestion or change usage of elements of it will impact on the planned maintenance regime. Equally this regime is not designed to fund such changes. Overall, the Council has a programme to 2028 to sustain the city's existing highways including necessary works to bridges, carriageways and the replacement of most of the street lighting infrastructure.

GREEN SPACE AND THE PARKS TRUST

21. The responsibility for the maintenance of all of the strategic 'green assets' in Milton Keynes was transferred to The Parks Trust on a 999-year lease in 1992, along with an endowment of approximately £18m which the Trust has since nurtured to become £86.7m. This is widely regarded as having been a successful model and new parks and open spaces are being added to the Trust, along with additional endowments.

22. The Parks Trust's current Strategic Plan[4] sets out the approach it has agreed with the Council and English Nature for the management of the estate. It also set outs their strategy to develop the value of its endowment, through judicious investments, until it reaches a point where the endowment can support the full annual maintenance cost of their estate from purely low risk long term(gilt) investments, thus vastly reducing its exposure to short term financial shock. They envisage that they will reach this position in 15-18 years.

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[3] Transport Infrastructure Investment Strategy MKC Cabinet meeting July 2012

[4] http://www.theparkstrust.com/

23. The city's "non-strategic" green assets: its local parks and open spaces and the trees, hedges, verges and horticultural features of estates, including play sites - are the responsibility of the Council. Although the Council received funding for maintenance of green assets this was consolidated into general funds rather than being ring fenced for maintenance. The design of MK includes a generous amount of green space and the maintenance costs and the replacement of infrastructure represent a considerable financial burden for the Council. The legacy pressures include the condition of the tree stock, other horticultural features, and the hard infrastructure and play areas.

SOCIAL HOUSING AND REGENERATION

24. A large variety of innovative construction methods were tested during the building of the new estates in Milton Keynes; some have not stood the test of time, giving rise to a large backlog of poor quality housing in urgent need of repair or replacement. Of the Council's 11,289 properties and 1,565 shared ownership properties, around 25% are in seven grid squares: Netherfield, Coffee Hall, Tinkers Bridge, North Bradville, Fullers Slade, The Lakes Estate and Beanhill. In light of the high levels of multiple deprivation faced by the residents of these areas, MKC has prepared community led regeneration strategies[5], to create sustainable communities in these areas.

25. MKC cannot raise sufficient finance to address this legacy. To do so, it has therefore procured a partner, Mears[6], and will establish MK Regeneration to bring forward regeneration proposals for the seven estates and to improve other Council owned properties. This new partnership will work closely with the communities on each of these estates over the next decade. MKC is committed to both maintaining the current size of the social housing stock on these estates along with providing more shared ownership and full market homes.

SCHOOLS

26. Today, there are 110 schools in the city providing education for 44,500 children. The funding, management, and upkeep of schools is a complex issue, involving the Department of Education, the Education Funding Agency, the Council, and depending on the nature of the school, schools themselves. In very simple terms the Council is responsible for ensuring there are enough school places available, either through building new schools or extensions to existing schools, and for the upkeep and maintenance of major infrastructure for community schools (but not for academies or free schools).

27. The Council funds new requirements through contributions from the Milton Keynes Tariff, Section 106 planning obligations, and Government grants. Over the three years to 2018, the Council will be providing an additional 10,000 school places, through 12 school expansions and the construction of 7 new schools. Whilst this is an exceptionally large programme – and is one of the largest in England – if Milton Keynes continues to grow through to 2050, there will be a steady demand for more school places.

[5] https://www.milton-keynes.gov.uk/housing/regenerationmk
[6] www.milton-keynes.gov.uk/housing/Cabinet-Meeting-December-21

28. The Government's new schools funding formula does not recognise the additional costs of providing schools on greenfield sites by comparison with those in built up areas. Some of these additional costs, like additional roads to link the school with the existing road network, are incurred when building on greenfield sites anywhere in the country. Others, such as the land required for staff and pupil drop off and parking, are Milton Keynes policy requirements and need to be funded locally.

29. The costs of keeping the older schools in Milton Keynes (including those built through the 1990s) are not being met in full from central Government either directly to those schools with academy status or with the Council or through the Council. The replacement of the "Building Schools for the Future" programme with less generous funding streams means that investments in school renewal will not be sufficient.

NEW INFRASTRUCTURE IN THE EXPANSION AREAS ALREADY ALLOCATED IN THE CORE STRATEGY

THE LOCAL INVESTMENT PLAN

30. In addition to these legacy challenges, MKC must plan for the provision of new infrastructure required to realise the scale of growth set out in the approved Core Strategy: 28,000 homes and over 40,000 new jobs to 2026 with the expectation that some 9,000 more homes will be built to 2031. MKC's Local Investment Plan (LIP) outlines the investment requirements and funding mechanisms to support the delivery of growth.

31. The Local Investment Plan does not set new policy, it brings together the consequences of existing policies and strategies which impact on growth, including the Council's Corporate Plan, Core Strategy and other key strategies, to ensure that these policies are implemented effectively. (Future versions of the LIP will reflect proposals envisaged in Plan:MK). The LIP includes infrastructure provided by all bodies (e.g. the utility companies and the NHS) not just that provided by MK Council

32. The Local Investment Plan identifies a requirement to fund around £1,055m of infrastructure to deliver the planned growth of Milton Keynes to 2031, this cost estimate is likely to increase over time as additional needs are identified. Funding identified to date stands at around £634m leaving a significant funding gap. An important area of focus is the £72m shortfall in funding for those items which are identified as critical infrastructure items to support the delivery of growth, and a further £145m shortfall in other necessary infrastructure.

THE MK TARIFF AND COMMUNITY INFRASTRUCTURE LEVY

33. Over a decade ago, it was clearly established that the future growth of MK needed to go back to being "infrastructure led" to provide real improvements to the quality of life for those already living in the city, to meet the Government's aspirations for more sustainable development, and to provide greater certainty for developers. The then current mechanisms for infrastructure funding were not adequate to enable rapid rates of growth.

34. In due course, the Milton Keynes Prospectus set out the scale of the growth opportunity in the Eastern and Western Expansion Areas, the required infrastructure to realise this growth, and a proposed approach to funding. This included the MK Tariff, a binding commitment by developers to pay £18,500 per dwelling in the Expansion Areas (in cash or in kind). It also included a commitment by the HCA to provide the interim finance necessary to provide the essential

infrastructure in advance of requirements. When the agreements were signed, it was envisaged at the time that the Eastern and Western Expansion areas would be built out by 2016.It is now likely that they will be completed by 2028 and the Tariff obligations have been extended until then. Although the 'Tariff' was innovative and better than any other current practice it did not provide the degree of infrastructure funding that had been possible in the early days of the Development Corporation

35. In the industry, the Milton Keynes Tariff approach is widely recognised as being an innovative way to simplify the provision of advanced infrastructure. Government is encouraging MK Council to move towards the use of the Community Infrastructure Levy for the remainder of the development in the Expansion Areas. MKC wishes to continue with the current arrangements even though at the current level, it does not cover the full costs of all required infrastructure.

36. The Community Infrastructure Levy (CIL) is a planning charge, introduced within the Planning Act 2008 as a tool for local authorities in England and Wales to help deliver infrastructure to support the development of their area. It came into force in April 2010. CIL differs considerably from the Tariff. In particular, it does not apply to social housing, new restrictions, introduced in the CIL Regulations, mean pooling s106 contributions for multiple developments (as in the Tariff) is no longer permitted, and it does not address any strategic infrastructure needs. Borrowing against future CIL receipts is a power that rests with the Secretary of State. MKC believes the current inability of councils to borrow against future CIL receipts is one of the most significant deficiencies in the current CIL framework. The provision of 'infrastructure before expansion' is a long standing ambition of MKC and plays a significant role in maintaining wider public support for the growth agenda. The ability to forward fund is a key plank of the current MK Tariff and the loss of this ability would significantly hinder the allocation of future strategic expansion sites in the new Local Plan and the acceptance of such sites by the public.

INFRASTRUCTURE IN THE NEW GROWTH AREAS, AS FLAGGED IN PLAN:MK STRATEGIC DEVELOPMENT DIRECTIONS CONSULTATION

37. In building their alternative visions and selecting a preferred vision, Commissioners may wish to reflect on MK's experience to date. The Commissioners might then also wish consider what a future model for capturing land value to securing sustainable infrastructure might look like for the new growth areas as flagged in Plan:MK Strategic Development Directions Consultation[7]. The main reason why the Commissioners might wish to do this is that some new models would entail reaching an agreement with Government to apply existing legislation or introduce secondary legislation. Also, this might entail discussing collaboration agreements with landowners / developers in advance of the decision to allocate their land for development in order to ensure delivery.

38. If the Commissioners decide to consider land value capture arrangements in their visions, they might also wish to consider whether they should take account of the cumulative impact of MK's legacy obligations. The scale and rate of growth being considered in Plan:MK is, in all respects, the next stage in the development of the new city. From this perspective, it could be argued that there should be no arbitrary distinction between the costs of making the initial infrastructure fit for the 21st century and the costs of new infrastructure.

[7] www.milton- Keynes.gov.uk/planning and building/Planning Policy /Plan:MK

39. Thus, in the event that the Commissioners conclude that there is considerable merit in promoting the continued growth of Milton Keynes through to 2050 to create a powerful regional city, then the Commissioners may also wish to consider how this could be best be achieved. Any approach must include how best to: **a)** set out the scale and locations for growth in the local statutory plan (Plan MK); **b)** finance infrastructure and community facilities by capturing the increase in land value arising from the city's expansion; and **c)** drive implementation.

40. Any approach must also ensure that it accords priority to the needs of the existing residents of MK alongside the national interest.

41. Moving forward, there are at least five different approaches to planning and delivery, and possibly more. The five different approaches are as follows:

<u>Approach 1:</u> MK Council sets out growth ambitions in Plan:MK, aligns Plan MK with local plans for Aylesbury Vale District and Central Beds District, and captures land value via an updated MK Tariff – or (unhelpfully) reverts to CIL.

42. In most respects this is a "business as usual" model. It would not require any legislation but would require extensive cooperation with adjacent local authorities for many years. Most of the land value increase would still accrue to the private owners/developers. The Tariff contributions and rateable income would accrue to the authority where the allocated land was located and there is a danger that Infrastructure will lag behind development somewhat.

<u>Approach 2:</u> MK Council sets out growth ambitions in <u>Plan:MK</u> as do adjacent authorities. However, MK Council (and adjacent authorities) enter into delivery agreements with landowners/developers in potential growth locations <u>before</u> land is allocated for development. MK Council (and adjacent authorities) make a commitment to establish a Local Delivery Vehicle (LDV) to act as the "master developer" in partnership with the landowners/developers in the areas allocated for development.

43. The main advantage of this option is that it provides absolute confidence that delivery will be achieved as landowners/developers effectively hand over control of development including all infrastructure, to the local authority through its LDV and enter into formal agreements which give the council an additional share in the eventual uplift in land value after the full costs of the infrastructure have been repaid. However, it does require the council's LDV to be a pro- active "'master developer" taking responsibility for the initial funding and delivery of all infrastructure followed by control of a programme of land sales to developers to development briefs written by its LDV. The process of conducting initial negotiations with landowners/developers must be conducted in an absolutely even-handed and transparent manner and cannot be guaranteed to succeed since it is entirely voluntary and cannot be enforced without consent from all parties. The LDV could be based on the Milton Keynes Development Partnership. This approach is currently being trialled by a group of local authorities in North Essex with support from Garden City Developments. It would not require any legislation but require very extensive cooperation with adjacent authorities.

<u>Approach 3</u>: MK Council (and possibly adjacent local authorities) invite the Government to designate land for major expansion under the <u>New Towns Act, establish a locally controlled development corporation</u> to lead the expansion, acquire all the land needed for the expansion, and finance all of the necessary infrastructure and community facilities. MK Council and the Government would align the process of preparing <u>Plan:MK</u> with the designation process.

44. The main advantage of this approach is that acquisition of land within the 'Designated Area' would be much easier to achieve (using CPO powers as necessary) and much of the increased land value would accrue to "the scheme," and be available for re-investment in providing infrastructure and any facilities necessary for the successful development of Milton Keynes. No new legislation would be required (although the TCPA is proposing modest modifications to simplify the existing New Towns Act). Using the existing legislation for urban development corporations, Government has recently established a new development corporation for Ebbsfleet Garden City and a Mayoral Development Corporation for Old Oak Common in London. Other Mayoral Development Corporations are being considered.

45. This approach would, however, require that the Government clarifies how existing use values would be calculated when Compulsory Purchase Order powers are used. Case law has changed the practical application of compensation and 'existing use value' has now been effectively replaced by net residual value after full account is taken of all infrastructure needs. It does not therefore, at present, offer the prospect of full infrastructure funding, without the need for voluntary agreements needed in the previous example, but may not provide access to all the uplift in value resulting from the development. Of more importance, it would require the Government to use powers to designate the land for development and establish a development corporation controlled by the local authority(ies). It would be helpful, but not essential, to secure the positive endorsement of adjacent local authorities.

46. In light of current land values in the South East, it is likely that all the capital and revenue costs incurred by the development corporation could be provided by private financial institutions on terms slightly costlier than loans from the Government. It would, however, be necessary for the Government to advance "start-up costs" prior to selecting the institutional partner. (Government is already providing grants to local authorities to contribute to the costs of planning garden cities in Bicester and North Essex.)

Approach 4: MK Council (and adjacent authorities) would invite the Government to designate the expansion of MK as 'Nationally Significant Infrastructure' as part of a response to the Infrastructure Commissions Call for evidence on upgrading the A421 to expressway standards and/or the remainder of the Oxford-Cambridge rail link and establish a <u>locally controlled development corporation</u> as the delivery vehicle.

47. Approach 4 would be a variation on Approach 3 in that it would use different legislation, the Planning Act 2008. Changes to this legislation would be required particularly with reference to what could be included in the Development Consent Orders. It could also embrace the delivery of one or both major infrastructure projects. Essentially, this would entail Government deciding that the expansion of Milton Keynes should be regarded as Nationally Significant Infrastructure and amending the major infrastructure planning regime in the Planning Act 2008 to allow this to

happen. In fact, this is not very different than the original rationale for designating Milton Keynes fifty years ago. If the land is in private ownership, this approach would require adequate controls over quality to be agreed at local level. The current call for evidence on the Cambridge-Milton Keynes-Oxford corridor provides an opportunity for MKC to consider this issue as part of its response.

Approach 5: MK Council and other authorities seek to achieve the above aims as part of a broader 'New Deal' using the current opportunities to seek devolution of powers and investments under the devolution arrangements being put in place by the Department of Communities & Local Government, and Treasury.

48. MK Council might wish to consider pursuing some of the above options within the framework of a 'new deal' with Government as part of a conversation about investment in the region under the auspices of the current round of 'devolution' discussions. This would require a shared agenda across a broader regional partnership.

49. Approach 1 precludes all other options. However, Approach 2 could be pursued immediately in parallel with investigating the possibility of Approaches 3, 4 and 5.

50. Commissioners may wish to gain a better understanding of how best to capture land value arising from the ongoing growth of MK through to 2050 before deciding whether to include one or more of these options in their alternative or preferred vision.

Europoint Centre, 5-11 Lavington Street,
London, SE1 0NZ
020 7756 7600
www.sharedintelligence.net
solutions@sharedintelligence.net

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