

**THAMES BASIN HEATHS  
JOINT STRATEGIC PARTNERSHIP BOARD**

Date: 12 February 2009

Subject: Strategic Access Management and Monitoring Arrangements - Calculations of Annual Contributions

Report of: Natural England and Hampshire County Council

**Recommendations:**

1. That the Board accepts the calculations and budget amounts set out in this paper.
2. That the Board accepts tariff option 2, that is, a tariff which allows for access management and monitoring measures to be provided in perpetuity, at a cost of £630 per house.
3. That the Board considers if three years is an appropriate period to review the payments or if they would prefer a shorter timescale.
4. That the Board accepts the proposed Governance and control process, and that Board members interested in sitting on the Project Board submit expressions of interest to the Assembly secretariat by the end of February 2009.

**Purpose of the Report:**

To set out the level of contribution from developers needed to provide the delivery of access management and monitoring of the Thames Basin Heaths Special Protection Area, as proposed by Natural England in October 2008. [note: These calculations only consider what is required for access management and not SANGS provision.]

**I. Introduction**

- 1.1 Following presentation of the paper 'Proposal for Access Management and Monitoring on the Thames Basin Heaths SPA' at the 21<sup>st</sup> October JSP Board, Natural England were asked to provide a breakdown of costs for these measures per dwelling and in perpetuity.
- 1.2 The above proposals included Hampshire County Council (HCC) taking on the role of treasurer for this partnership initiative. HCC's financial managers have produced calculations for assessing the level of contributions from developers. The suggestion is for two separate contributions:
  - The **first** ('contribution one') will pay for the set up and maintenance of visitor access during the remaining 17 years (2009 -2026) of the South East Plan.

- The **second** ('contribution two') will build up a capital fund, which will finance – through earned interest – the maintenance of visitor access in perpetuity<sup>1</sup>. Contractually, Natural England can commit to its coordinating role for up to three years. The calculations assume a review will be taken then, but at the Project Board's discretion, reviews can happen more regularly.

1.3 The calculations have been based on the annual costs as outlined in annex I. These include:

- first year 'one-off' monitoring costs and annual monitoring costs, as detailed in the Monitoring strategy tabled previously;
- staff costs for Natural England Project Manager and Education/Monitoring Officer;
- wardening service costs as supplied by Wildlife Trust and Bracknell Forest Borough Council;
- recovery costs for HCC's Treasurer service (governed by a Service Level Agreement in place between HCC and NE), which will collect and manage income from the 11 Local Planning Authorities and provide both financial reports to the Project Board and financial expertise in the reviewing of financial targets and economic circumstances;
- and a standard contingency, to be reviewed annually.

## 2. Assumptions and exclusions

2.1 In order to recommend a tariff and move forward with delivering the service we need to apply some assumptions, which will need to be monitored regularly:

- All JSP Board partners sign up to the contributions and the measures are applied across the SPA.
- The total number of houses still to be built under the South East Plan is 48,000.
- The houses will be built at an even rate of 2,824 per year for the remaining 17 years of the project.
- There is no difference in contributions between a one bedroom flat and a multiple occupancy building.
- The contributions do not earn interest in the year they are collected.

2.2 Section 7 sets out further information about risks.

## 3. Contribution One - The First Seventeen Years

3.1 The one-off set up costs as set out by Natural England (NE) come to £105,000. This will be paid off over the seventeen year life of the project.

3.2 The annual costs as set out by NE are £491,000.

3.3 The total annual cost to be recovered is £497,000 (this takes account of the set up costs (see annex I)).

3.4 Assuming that the 48,000 houses are built at an even rate over the remaining 17 years, a total of 2,824 houses would be built each year.

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<sup>1</sup> In perpetuity here means from year 18 onwards for all time, rather than any discrete period such as 80 year  
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- 3.5 The contribution required from each house will be £176.08 at current prices.
- 3.6 If inflation was running at 3% per annum, this would increase to £192.41 in year 3 and to £204.12 in year 5. It is proposed, therefore, to fix the contribution at **£190** and to review it after two years.

#### **4. Contribution Two – Establishing the Capital Fund**

- 4.1 The value of £491,000 (the annual maintenance costs, excluding the set up costs) in the year 2026 will depend entirely upon the annual rates of inflation over the 17 years. For illustration purposes, if we assume that inflation is 3% in each of the 17 years, £491,000 in Year 1 will be worth £812,000 in Year 17.
- 4.2 The capital sum required in the year 2026 to yield interest of £812,000 is £27,067,000 assuming that the bank interest rate is 3% in 2026.
- 4.3 Assuming that bank interest rates average 3% each year for seventeen years the contribution per house required to finance the capital fund will be **£440**.
- 4.4 This calculation assumes compound interest will be earned on contributions over the next seventeen years.

#### **5. Recommended tariff amounts**

- 5.1 There are, in effect, two tariff options:
- 5.2 Option 1 comprises ‘contribution one’ as set out above but does not include payments to allow for measures to be provided in perpetuity. Under this option the annual maintenance contribution would be fixed at **£190** for the first two years. This figure includes a small allowance for inflation for those two years. It could be reviewed towards the end of Year Two with a view to fixing the contributions for a further fixed period.
- 5.3 Option 2 comprises ‘contribution one’ plus ‘contribution two’ to allow the project to be financed in perpetuity (ie £190+£440). The annual contribution to the capital fund, which will finance the project in perpetuity from Year Eighteen onwards, should be fixed at **£440**. This figure includes an allowance for inflation for those seventeen years and based on our current understanding and calculations should be sufficient. However, a financial review will be needed annually to ensure the financial targets are on track to be met and to take account of changing economic circumstances. The combined annual contribution for the first two years of the project per dwelling under option 2 will, therefore, total **£630**.
- 5.5 It is considered that Option 1, taken on its own, may not be legally robust as it does not provide for in-perpetuity provision of measures. It would therefore result in uncertainty for councils about how to fund measures in the medium/long term, and uncertainty for developers as to the tariff payment that may be required in the future.

- 5.6 For these reasons, Option 2 is recommended to members, ie a payment of £630 per new house that allows the project to be financed in perpetuity.

## **6. Impact of variations in interest and inflation rates**

- 6.1 The above tariffs assume an interest rate and inflation rate of 3% to be reviewed. However, recent experiences demonstrates that interest rates and inflation may fluctuate. We obviously do not know what future years' rates will be and potential year-on-year variations produce complex calculations. For demonstration purposes Hampshire County Council have provided some simplistic examples of differing variations (annex 3) and how these would influence contributions, in response to a request from the member steering group.
- 6.2 These demonstrate the need for periodic review and reflect that this is a long-term approach. They should to be considered along side the other assumptions listed above.

## **7. Risks and Issues**

### Risks

- 7.1 Natural England is committed to moving this project forward and as such is willing to commence recruitment of a Project Manager (on a one-year FTA with a view to extending this to three years) before Memorandums of Agreement are signed, on the proviso that agreement in principle to the above approach is reached and that we look to recoup these costs in future years (not necessarily in year one but over the first three years). The Project Board will agree the Project Manager's job description, one of the first responsibilities being to negotiate the partnership contracts (Memorandums of Agreement and Service Level Arrangements).
- 7.2 Recruitment of the education/communications officer and implementation of the monitoring strategy and wardening service cannot commence until the legal contracts have been agreed and signed and funding secured.
- 7.3 Maintained growth in house building is an uncertainty. In order to cover annual costs there is a critical level of 800 dwellings per annum. If figures fall below this there are a number of options at the project board's discretion to apply. Depending on the degree of reduction, the number of seasonal wardens can be reduced. Alternatively, the contingency and capital fund can be used, as long as the latter is replaced along with interest. Resolution of 7.4 is needed to inform these decisions.

### Issues needing resolution

- 7.4 A mechanism for ensuring regular monitoring of permissions granted across the SPA zone of influence, and if possible of future permissions likely to come forward.
- 7.5 Clarity over the date when Local Authorities avoidance strategies ('mini' plans) will be amended to include the Access Management and Monitoring Tariff, in order to establish when the first income will be received.

- 7.6 In addition, whether any up-front contributions for access management already exist in Local Authorities which could be transferred to HCC to help with initial set up costs.
- 7.7 In order to move forward with recruitment of the Project Manager, establishment (Membership and Terms of Reference) of the Project Board is needed to steer this (see annex 2 for NE's previous proposals). It is suggested that organisations interested in sitting on the Project Board submit expressions of interest to the Assembly secretariat, highlighting clearly for which of the 5 roles identified in annex 2 they feel they have competencies to offer by the end of February. The member steering group can then agree the Project Board membership, allowing the Project Board to hold its first meeting in March - in order for recruitment to take place in April with the aim of completing the contractual side of project set-up by the Autumn JSP Board. If representation is oversubscribed, we could consider an annual rotation.
- 7.8 If the 'option 2' tariff is accepted and in future years there before a need to cease the capital fund, repayments would be made pro-rata to LPAs. Further details about this process will be specified in the memorandum of agreement.

**Report of:**

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## Annex I. Indicative annual spend to provide full service

### Basic annual costs

#### One-off set up costs:

Capital	£55,000	
Establishing a baseline	£40,000	
subtotal	£95,000	
contingency @ 10%*	£10,000	
Total set up costs		<u>£105,000</u>
Average Annual Cost		<u>£6,176</u>

#### Annual cost:

Natural England	£80,000	
Wardening	£310,000	
Monitoring	£36,000	
Hampshire CC finance	£20,000	
Subtotal	£446,000	
Contingency @ 10%*	£45,000	
		<u>£491,000</u>
Total Annual Costs		<u>£497,000</u>

\*Based on Natural England's projects model, reviewed annually

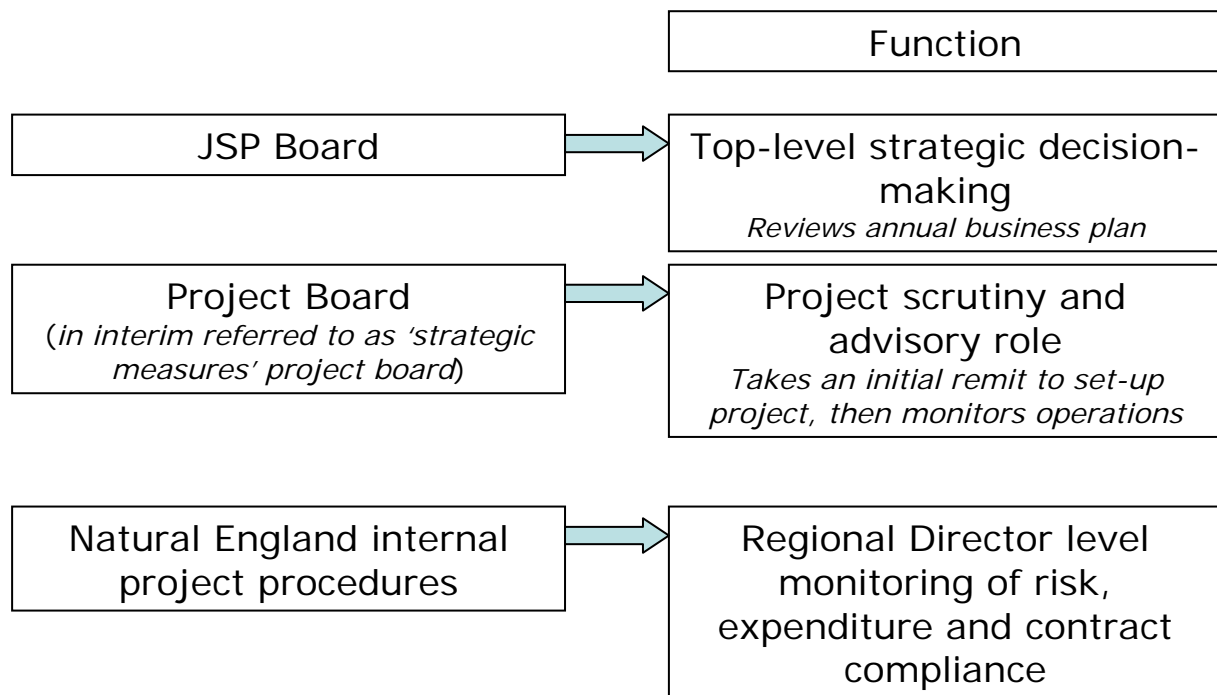
### Comments

Such as people counters  
Surveys and analysis

Staff costs  
4 full time and 10 seasonal wardens  
See monitoring strategy proposal  
Costs associated with Treasurer  
function

## Annex 2. Proposed Governance structure

Natural England proposes a three-tier Governance and control process



The strategic measures Project Board will need to perform a phased function

- **Phase 1** Project set-up (approx. March – December 2009): includes overseeing production of MoA and SLAs; appointing project staff; establishing Terms of Reference; overseeing details of year-one budget and programme.
- **Phase 2** operational delivery: carries out regular review of the proposals and financial targets; monitors progress, value-for-money and realisation of benefits; and solves operational issues. Provides recommendations and advice to the JSPB on matters needing strategic decision. This includes presentation of the annual accounts.

It is proposed that the board will meet every three months during set-up and six months there after.

Based on the functions the strategic measures project board will perform, we propose the need for a membership mix which brings experience and knowledge in five areas:

landownership; land management; visitor management; financial management; and project governance protocols.

These roles may or may not be fulfilled by members of the JSPB. It is anticipated that the Project Board be independently chaired.

In addition to these five roles, there will also be representation from the delivery bodies - Natural England, Hampshire County Council, Bracknell Forest Council and a Wildlife Trust reps, making nine members in total. A board of this size is desirable to focus on completion of deliverables and to provide guidance. As is the regularity of meetings in phase one, because waiting for full JSPB meetings would delay the set-up process.

### Annex 3 - Illustrations of Contributions for the Capital Fund

- Terms:**
- Inflation equals the assumed rate of inflation for each of the 17 years of the build programme
  - Inflated Annual Cost is the cost of maintenance in 2026 after 17 years of inflation
  - Rate of interest earned on the capital sum in 2026
  - Capital Sum required to generate the sufficient interest to cover the inflated annual cost
  - Contribution required from each of the 48,000 houses in the build programme

All figures are at November 2008 prices.

	<b>Inflation</b>	<b>Inflated Annual Cost in 2026</b>	<b>Rate of Interest in 2026</b>	<b>Capital Sum Required</b>	<b>Contribution per House</b>
Current proposal	3%	£812,000	2%	£40,600,000	<b>£718</b>
	3%	£812,000	3%	£27,067,000	<b>£440</b>
	4%	£957,000	3%	£31,900,000	<b>£519</b>
	4%	£957,000	4%	£23,925,000	<b>£358</b>
	5%	£1,126,000	3%	£37,533,000	<b>£611</b>
	5%	£1,126,000	4%	£28,150,000	<b>£421</b>
	5%	£1,126,000	5%	£22,520,000	<b>£309</b>