

CAMBRIDGESHIRE HORIZONS

Agenda Item No: 17 (Closed session)

Responding to the Proposed Government Cut in HGF Capital

To: **Cambridgeshire Horizons Board**

Date: **9th December 2009**

From: **Director for Development**

Purpose: **To consider the implications of the Government's proposed £6m cut in grant Housing Growth Fund (HGF).**

Recommendation: **The Board is invited to comment on the issues raised in the report; in particular the proposed next steps set out in Section 6.**

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1 Background

- 1.1 Government announced in July 2009 proposals to reduce the HGF capital allocation for 2010/11 for all growth points by 43%. The effect of such a cut would be to reduce Cambridgeshire's award for 2010/11 from £13,772,524 to £7,794,623. Consultation on the cut was expected to take place over summer and therefore expenditure on most projects (exceptions were made in certain cases where contractual commitments had been made) was held pending determination of the level of cut that Cambridgeshire would suffer. However, the consultation process was delayed until October and, at the time of writing, a decision has yet to be announced. This means that some prioritisation of schemes has been necessary to allow progress with the programme.
- 1.2 At the last meeting, the Board noted that as well as delivering housing numbers, sustainability and quality initiatives are important and the Quality Charter, promoting growth through sustainable communities, was to be upheld.

2 HGF Capital Current Position

- 2.1 To date (end of November 2009), £2,355,186 HGF has been claimed for 2009/10 and a further £5,487,190 has been committed to projects this year through funding agreements.
- 2.2 Appendix A shows the capital programme schemes, identified as "priority projects" and "reserve projects". If the cut is confirmed, it is suggested that Appendix A forms the basis of a review of the programme.

3 Priority Schemes (Appendix A)

- 3.1 **Cambridge Fringes Flexible Fund** - The HGF loan agreement for Trumpington Meadows has now been put in place. This is a major breakthrough and ensures delivery of homes, including 40% affordable homes during the economic downturn. Furthermore, the funds will be returned for reinvestment in the growth programme over the longer term.
- 3.2 However, despite concerted efforts, it has not been possible so far to agree terms for an equity or loan investment package for Clay Farm. The developer decided to go to appeal, which was heard in October. The Inspector's report is expected within the next few weeks, followed by the Secretary of State's decision in March. The funds were kept available through the appeal. However, a decision on future funding for this scheme would need to be reconsidered following the outcome of the appeal and any cut in HGF.
- 3.3 **Uttons Drove** - Priority is being given to the provision of a loan facility to bring forward the Uttons Drove drainage scheme, which is critical to Northstowe and further expansion of Cambourne, and to the renewable energy project (Low Carbon Development Initiative), which is linked to substantial third party funding. The scheme is shown as zero funding because the loan is expected to be returned in the short-term.

- 3.4 Renewable Energy Northstowe / LCDI** – A business plan has been drawn up and ERDF match funding is expected in December. A Community Interest Company has been set up and market testing of commercial prospects has commenced. Discussions are taking place with HCA on the LCDI.
- 3.5 Northstowe Cycle Routes** – Priority will be given to routes linked to Cycle Demonstration Town funding. Given the delays in Northstowe, non CDT route would take lower priority in the event of a cut in funding.
- 3.6** Feasibility work has commenced on the **Wisbech Nene Waterfront** scheme and the project is now ready to progress to implementation. The scheme is also the subject of a Kickstart 2 application. It is anticipated that HGF funded infrastructure works will be commissioned in 2009/10. This will provide improved vehicular and pedestrian access to the site and service the site ready for seeking a development partner.
- 3.7 The Hive** – Agreement in principle has been reached on a funding package for the project that includes up to £2.0m of HGF capital, which was reduced from the original bid of £3.6m. A further £300,000 contingency has been identified (as part of a £600,000 joint provision with Cambridge Regional College) which would only be used if other funding streams are not available. Horizons is now represented (through John Onslow) on the Project Board for this scheme, which is driving implementation with expected start on site by September 2010 and completion by July 2011.
- 3.8 Huntingdon Town Centre Regeneration** - It is anticipated that progress will be made with the link road project, although, in the event of a funding cut, at a reduced cost of £3.0m compared with £4.0m in the original programme.
- 3.9 Ely Country Park and Growth Feasibility** – The project is linked to future sustainable growth through the emerging Ely Masterplan. The Country Park scheme proposals have been drawn up for a Funding Agreement to be signed. Other schemes in Ely have been deferred pending further development of the masterplan.
- 3.10 Cambridge Gateway** – Funding of up to £1.5m has been agreed for this project to support CIF2 funding and developer investment. It is anticipated that development will start early in 2010, following completion of the section 106 and other agreements.
- 3.11 Cambridge Green Necklace** – Priority is given to a scheme linked to Cycle Demonstration Town (Wandlebury). However, it has been confirmed that the Wicken Fen cycle project is linked to wider funding (including Sustrans, EU, Landfill Tax) and a modest investment in HGF (£89,000 in addition to £28,000 already committed) would help secure about £1m of infrastructure and should therefore be included in the priority list. In addition, the Wildlife Trust has proposed a 50% reduction in funding for East Pit to secure the site as a public space and it would be appropriate to reconsider this as a priority.

3.12 St Neots Green Infrastructure – Phase 1 of this project has been agreed and is being implemented. Phase 2, which secures £240,000 of match funding is now being implemented.

4 Reserve Projects (i.e. projects which would not go ahead if the proposed HGF cut is confirmed)

4.1 The **March Housing and Regeneration** scheme remains an important project as part of the development of homes and related community benefits in Fenland. However, the project is lower priority than the Wisbech project, in part due to the withdrawal of LSC funding for the new College of West Anglia (COWA) campus relocation. Consequently, if the proposed cut is confirmed, a reduced scheme of up to £500,000 could proceed, if funding is available, to ensure a roundabout is provided of sufficient capacity to future-proof for longer-term development in the area.

4.2 Further **Green Infrastructure** Projects – i.e. schemes identified in the original programme, but not included above, including Countryside Access schemes, and further work on the Green Necklace.

5 Issues Arising

5.1 The Horizons Board has previously agreed to a 10% over-profiling of funds as a sensible planning mechanism to take account of likely slippage. However, it is worth noting that the situation has changed in a number of ways since this decision was taken, including the proposed funding cut and uncertainty regarding future funding. Consequently, there is less certainty that funding would be available for any future overspends, but if necessary, the County Council, as fund holder, could manage a limited degree of flexibility across the current and future funding periods.

5.2 The above prioritisation still leaves an over-commitment, should a cut go ahead, of £3.47m. Further cuts in projects which are progressing are probably unrealistic without removing key schemes from the programme. Therefore, it is clear that in these circumstances, the residual flexible fund, i.e. effectively the monies available for Clay Farm, would need to be reduced to keep the overall funding situation manageable.

5.3 It is likely that there will be slippage in programmes. This could mean that some schemes will require funding beyond March 2011. This could be dealt with in a number of ways, for example:

- Future HGF or equivalent (although there is now considerable uncertainty over future funding)
- Repayment of rolling funds or loans, although this will be minimal in the short term
- Other funding or borrowing sources to be determined
- HGF can be carried forward beyond 2010/11, subject to below

5.4 The Horizons Board has previously taken a strong line on funds being used as much as possible within the funding period (i.e. to March 2011). It is likely that some schemes will run on beyond this period and with no certainty of later funding, such schemes would be exposed to risk of inadequate funding. Whilst there can be some flexibility over the end of the funding period and efforts would be made to minimise the impacts of delays on projects, it would not be appropriate to plan for large scale carry-forwards at this stage and project promoters are asked to accept a degree of risk should project profiles extend beyond March 2011.

6 Next Steps

6.1 Assuming the proposed Government cut is confirmed, it is proposed to:

- a) move ahead with funding agreements for the priority projects identified in Appendix A, subject to confirmation of timescales and due diligence; funding will be subject to Horizons receiving funds from CLG,
- b) consider a reduction in the Flexible Fund for Cambridge fringe sites, linked to the outcome of the Clay Farm appeal; the actual amount to be finalized at the next Board meeting,
- c) reaffirm to the receiving organizations the importance of projects spending as much as possible of their allocations by March 2011 and to recognize that projects which develop a significant carry-forward beyond this date would have to accept a level of risk that funding may not be available after this date.

The views of the Board are invited.