

Horizons Legacy Planning

To: **Horizons Board**

Date: **27th June 2011**

From: **Chief Executive**

Purpose: **For Decision (FD)**

To agree the approach to managing rolling funds, investments and loans that will return to the growth partnership in future years.

Recommendation: **That Board members agree the recommended approach as approved by the Audit and Risk Management Committee to:**

- a) maintain Horizons as a legal entity to receive returning investments and loans, with Local Authority Founder Members determining its use in future, in accordance with the aims of the company;**
- b) the County Council to continue to play its current role of monitoring and ensuring the investments and loans are appropriately managed; and**
- c) ask the Director for Development to work with legal advisors and Growth Partnership Board to identify the necessary changes to the company's Memorandum and Articles of Association to achieve this, for final review at the September Board.**

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1. Introduction

- 1.1 In recent years Cambridgeshire Horizons has made equity investments or loans of some £20.5 million to facilitate development on behalf of the Cambridgeshire growth partnership. This funding should return to the partnership over the next 13 years, together with interest on loans and uplift in equity. Horizons will cease to operate as a staffed entity at the end of September this year and the Board needs to decide how the returning monies will be managed. The funding details, how it has been used and the likely return dates are set out in Appendix A.
- 1.2 In March this year Audit and Risk Management Committee (ARM) discussed this matter and reached a view on how best to manage the future returns on the investments, loans and rolling fund that Horizons has used on behalf of the growth partnership.

2. Proposed approach

- 2.1 Both ARM and the Horizons Board have discussed the principle that this returning funding should be used towards its original purpose: delivering sustainable growth in Cambridgeshire. Assuming this principle is accepted by the Board, ARM's proposal is that Cambridgeshire Horizons should be maintained as a legal entity beyond its operational end date - effectively as an unstaffed, 'money box' entity - to receive and hold the returning money; and to enable collective decisions to be made in future about its use.
- 2.2 The benefit of this approach is that it maintains a clear and separate location for the returning money; enables a collective, partnership approach to decisions about how the funding should be used; and 'future-proofs' retention and use of the funding against any subsequent changes were it to be held by a single authority, for example as a result of local government reorganisation.

3. Consequences

- 3.1 If the Board agrees to ARM's recommendation, details will need to be worked up for final agreement at the next Board meeting in September. Necessary changes are likely to include: confirming that only the local authorities constitute the Founder Members for the purposes of deciding on use of the returning funding; the decision-making processes for the future, including regularity of Board meetings; and how the money would be held in practice, probably through a bank account physically held by the county council as now. These changes need be made through amendments to the company's Memorandum and Articles of Association and Founder Members' consent will be sought shortly to do this. These amendments would be supplemented by way of a Memorandum of Understanding outlining that the county council has first call on returns to pay back the £1m prudential borrowing it undertook to deal with the over-profiling in the HGF Capital Budget.

3.2 Going forward the 'legal entity' company will need arrangements to hold an Annual General meeting, have its accounts audited, and appoint a company secretary. Legal advice will be sought on these matters which will be brought to September Board meeting for final decision.

4. Recommendation

4.1 As cover page.

Appendix A – HGF investments, loans and ‘rolling fund’

Cambridgeshire Horizons has invested £20.5 million in the Cambridge Southern Fringe that will be returned for re-use. This comprises £8 million of Rolling Fund invested in the Addenbrooke's Access Road (AAR), and £12.5 million of Flexible Fund (£4.5 million capital loaned to Trumpington Meadows Land Company and an £8 million as an equity investment in Clay Farm to be used to secure enabling infrastructure).

Rolling Fund: The Rolling Fund investment will be paid back via the S106 process for Southern Fringe development sites. The S106 agreements relating to the developments across the Southern Fringe have been completed such that all contributions towards the AAR are paid to the County Council. The County Council has borrowed (through prudential borrowing) £4.8 million for the AAR and, broadly, will recover this sum from the first S106 contributions made. Subsequent contributions towards the AAR will replenish the Rolling Fund. S106 contributions are expected to be made at the rate of around £700,000 per year from 2011 across the Southern Fringe, which means that the County will recover the £4.8 million by around 2017. Rolling Fund will be repaid after this.

Trumpington Meadows loan capital: Assuming that developers meet the key trigger dates for delivery (i.e. that 100 homes are built by Sept 2012, another 100 by Sept 2013 and another 100 by Sept 2014), repayments (plus interest) will begin in October 2017 with £500k being repaid, followed by £1 million each year for four years, paid in October. We can therefore expect the final repayment in October 2021. The loan and any interest accrued will be repaid in full by 24 July 2024.

Clay Farm Equity Investment: Horizons used £8 million of Housing Growth Fund to facilitate the Clay Farm development on behalf of the growth partnership. The partnership will receive an agreed internal rate of return (“IRR”) on the investment provided that Countryside makes “surplus profits” on the development. Equity payments are made from ‘surplus profits’, defined as money that Countryside accrues from the development over and above the defined project costs, including the normal profit on gross development value on house and land sales, and on affordable housing build costs. The return period and level of payment of equity returns are not certain as they are linked to the timing of build and profit made by the developer. Assuming a build-rate of around 200 new homes per year, we would not expect to see a return on the investment until around 2017, although it is possible that Countryside could seek to buy out the Cambridgeshire Horizons equity stake at an earlier point, based on an agreed valuation of the equity at that point.