

Alex Plant's Speech

Cambridgeshire Horizons Conference 2009

Robinson College, Cambridge

Good morning everyone

Those of you who attended last year's conference may recall that I borrowed from Elvis and suggested that we needed "A little less conversation, a little more action". That sentiment was, I believe, the right one, and we must maintain our focus on delivery.

But none of us could have predicted the speed and sharpness of the economic downturn that has unravelled over the last 12 months, with the construction industry being particularly hard hit, and land values reducing dramatically.

And so, the other picture up there is Mick Hucknall from Simply Red who had a hit with "Money's Too Tight to Mention", which perhaps is more appropriate this year!

But all of this has meant that, rather than seeing many of our major sites really beginning to motor, we have instead been confronted with the less welcome situation of existing sites slowing down, and developers coming back to try to renegotiate reduced deals on their contribution to community facilities and affordable housing.

THE NEED REMAINS

But, despite the recession, the demand for new homes remains as strong as ever. Indeed, demand for affordable homes has probably increased as repossessions have gone up. And the slowdown in activity - particularly for new development sites - will inevitably mean that supply of new homes will reduce over the coming years and so the gap between supply and demand will widen.

So, what should our response be - faced with these circumstances? As David has already said, it is critical that we do not depart from our rightly ambitious aspirations to deliver the highest quality new communities for the people of Cambridgeshire. And we will certainly not lower the bar for the sake of achieving numbers.

Our goals remain the same – and delivering against the four key areas of the Cambridgeshire Quality Charter for Growth is as important now as it was when times were better.

So – when it comes to Character we must still ensure that strong masterplans are created that include well considered open spaces, good landscaping, effective provision for car and cycle storage, as well as a full range of house types that are well designed, flexible and adaptable to meet residents' needs both now and in the future. This isn't even that much more expensive.

And for Climate....it is absolutely essential that we do not stint on rising to the challenges of mitigating the future impacts of climate change, and adapting to those consequences which are already unavoidable. It is all too easy to focus only on the immediate financial difficulties, but we know that our environmental objectives are just as pressing, and the consequences even more disastrous if we do not meet them.

And for Connectivity...excellent links to public transport, as well as provision for walking and cycling, are essential and must be integrated into the overall vision for the community to enable easy movement in and around places by travel modes other than the private car. We must not put new communities in areas with no alternative to the car.

And for Community--- we must create places that are active, inclusive, safe and fair to everyone – places where people choose to live and work.

We know that getting these things right can lay the groundwork for communities that work – where people enjoy living and are proud to call their place “home”. It may be tempting, when faced with very real problems of commercial viability, to reduce the level of cash going in at the beginning of new developments, just to allow some progress to be made

But this would be a false economy – we must not respond to what is a cyclical downturn by “dumbing down” those new communities that will be with us for

many decades – not least as the consequences of doing so would be to create unsustainable communities with worse health, education and employment outcomes for their residents, which in the end will simply put more burden on (a probably very stretched) public purse in the next ten to fifteen years.

Far better surely to avoid this by ensuring that we build high quality places from the outset? And to continue to invest in their ongoing development.

FUNDING SOLUTIONS

But....it's easy to restate the objectives. It is much harder to find ways of maintaining quality when we are suddenly faced with a major reduction in traditional sources of funding.

We are faced with a very tricky set of circumstances.

- We cannot and will not reduce quality to reduce the costs.
- Private sector profits have been squeezed, as has the ability to borrow.
- The appetite for risk, and for taking on long-term funding commitments has also reduced, even among institutional investors.

And in addition to these, there are two further important points to make, which don't make things any easier. Whilst recessions are cyclical, and we will move

out of this one and into an upturn as we have throughout history, there are at least two recent changes that seem to be more structural, rather than cyclical, in nature, or at least will have longer lasting effects.

The first is around mortgage availability. Whilst lenders are beginning to be more willing to lend again, the days of easy-to-get 95% or 97% mortgages are gone, for a long time, and lenders are looking for much less risk in their loan-to-value ratios. This will in turn mean that fewer people who need somewhere to live will be buying their own home, and that can only mean that the rental sector, particularly private rented, will form a larger percentage of the housing market in the future.

The second is around the public finances. The eye-watering levels of public sector debt set out in the Budget (a mere £175 billion of borrowing in this year alone) mean we are about to enter a decade of severe spending cuts. So turning to increased central government funding as a way out of the problem is not going to be possible.

So, at Horizons, my excellent colleagues and I have spent a lot of time in recent months analyzing this, and trying to find practical options that we could put in place. There is an irony that we have probably been even more stretched over the last 9 months in a falling market than we were in a rising market, as more of the problems rebound on us as we look to find alternative solutions. And I should pay tribute to the help we have had from the wider

growth partnership, colleagues in all the local authorities, in other public bodies and in the private sector, as we have sought to tackle these.

The broad options seem to be fourfold:

- 1) We can look at ways of stretching the cash resources we already have to hand
- 2) We can try to draw in other sources of private finance to replace the loss of “traditional” developer contributions
- 3) We can try to develop entirely new sources of funding
- 4) We can partner more effectively across the public sector (and, more ambitiously, between private and public sector) to pool funds and/or assets so that we are better able to deliver shared goals

And these options are of course combinable....

1: OK – first point - stretching what we have – what have we done?

a) Innovative use of Housing Growth Fund as loan/equity.

Our Board agreed to a proposal last year that we use some £13.5m of our Growth Fund allocation as a flexible fund, to be invested as loan or equity for the very large sites in the Growth Programme, which can deliver fairly quickly and which have been affected by the changed commercial and economic environment. We sought expressions of interest from developers earlier this year, and have since been working with a range of

stakeholders to try to craft a way forward for the major developments to the south of Cambridge.

For the proposed Trumpington Meadows development on the southern edge of Cambridge, we have been working with Cambridge City Council, South Cambridgeshire District Council and Cambridgeshire County Council, together with other key partners including in particular the Homes and Communities Agency and Cambridgeshire Partnerships Ltd on a possible loan agreement with the owners / developers of the site (Grosvenor and USS) to help ensure early delivery of homes, including 40 per cent of these being for affordable housing.

I am delighted to be able to announce that we have this week reached agreement in principle with Grosvenor and USS on this deal. This means, subject to finalising the loan details and completion of the section 106 agreement, that the prospects for early delivery of much needed housing and community facilities to the south of Cambridge will be enhanced.

This is great news, particularly as this development is so well-located in relation to the major employment centres around Addenbrookes Hospital and to key public transport routes, and demonstrates what can be achieved if we can draw the resources and skills of the public, private and voluntary sectors together in the pursuit of common goals. I want to pay tribute to all who have contributed to this outcome, but in particular to John Onslow, our Director for Development, and to Peter Studdert, Director of

Joint Planning, who have been instrumental in bringing this forward. I hope that we can make similar progress on other sites soon.

- b) Efficiencies – we have been working with local authorities, schools, the NHS and emergency services providers at how we can maximise the benefits of co-location and common procurement – so that the same quality outcomes can be achieved but less expensively. I suspect this will be a theme for us in the year ahead as we look at projects such as Northstowe and the major market towns projects across the county.
- c) Rolling Fund - we pioneered the use of a Rolling Fund approach last year, when we secured £8m additional growth funding to help secure the delivery of the Addenbrooke's Access Road, but with that money being recouped from developers at a later date and used to help with developments elsewhere in the county. The Trumpington Meadows scheme referred to just now is a variant on this same approach and we will look to use funds in this way wherever possible.
- d) We've been in discussion with senior colleagues in the County Council to explore the option of using some of our HGF cash to support the cost and reduce the risk of borrowing undertaken by the County Council to fund infrastructure projects. In essence this would mean that HGF revenue (or interest on capital) could be used to cover the costs of debt incurred by the County on key growth capital projects.

2: What about drawing in other sources of private cash? We've looked at a number of possible options, but there are two that I want to discuss today.

a) The Variable Rate Tariff Proposals

We have done a lot of work over the last year to work up proposals for a tariff to apply to all new development in Cambridgeshire, at variable rates to take account of the different facets of the housing market in different parts of the county. Whereas our current approaches mean that around one third of all homes built in the county contribute nothing to the infrastructure needs we have, a tariff would mean that all new homes will contribute, so spreading the burden more widely and more fairly and increasing the overall level of contributions. It would also provide greater certainty, for local authorities and for developers, as the tariff rate would be set and known in advance of a development coming forward, and increase transparency and accountability. The tariff would provide a more certain flow of contribution that could be used to leverage other funding sources. There should also be significant time savings, as, once set, the tariff approach would reduce the need for individual negotiations around the appropriate level of contribution for each site, which is both time consuming and costly for developers and local authorities (but possibly quite profitable for lawyers!). Whilst there is still much work to do, both local authority colleagues and developers can see the benefit in a tariff approach. Tariff levels would of course need to be frequently reviewed in order to follow the movements of the housing market. The evidence base for the tariff will

come from detailed local investment frameworks, such as that already completed by Huntingdonshire District Council, and through working up our draft Integrated Development Programme that looks at the key sub-regional and strategic infrastructure we need to bring forward. We are hopeful that we will be able to consult later this year on the tariff approach, with Huntingdonshire being the pilot area for this new approach. The tariff could be based on existing legislation (as is the case with Milton Keynes) but it could also be tweaked so as to be compliant with the Government's proposed Community Infrastructure Levy should the regulations for that be taken forward..

b) Joint Public / Private Ventures.

We've also explored whether we could pool some of our publicly-controlled assets with matched funding from institutional investors such as pension funds to create a wide-ranging Growth Fund to invest in housing and infrastructure projects across Cambridgeshire. Similar approaches have been used in other parts of the UK. We did some helpful preparatory analysis on this kind of approach earlier this year, and it could yet be developed further if needed, but we are currently focussing on other priorities such as the tariff and the Housing Growth Fund investments.

3. So those ideas are about building on existing funding sources - what about trying to develop entirely new sources of funding?

a) Tax Increment Financing. Not the sexiest sounding subject I know, but I think this is potentially one of the most exciting developments over the past year. And yes, I should get out more.

Put simply, Tax Increment Financing is a system where the expected uplift in future taxes is used to fund infrastructure projects that will themselves create or contribute to those tax uplifts. The logic is simple, if a new public transport project or similar scheme is delivered, then the value of business and domestic premises close to that project will also increase. The increased value generates increased tax revenues - this is the "tax increment" bit. And where such schemes are in place, the tax increments within a certain defined area on a map are used to finance the debt that is issued by a public body to pay for the project in the first place. It is used widely by local government and development corporations in the US for decades. But it has never been able to be used here, partly because local government has such limited control over revenues, and as any tax increment around tends to be snaffled by the Treasury. But it's something I've been pushing ever since I visited the US in 2007, and saw how successful this method had been in regenerating and growing cities such as Portland Oregon. I also had the chance to argue the merits of this with former Local Government Minister, now Housing Minister, John Healey on a couple of occasions last year and have written to him on the subject and received a very helpful reply. Which is why the announcement in the Budget that Government were willing

to look at a number of pilots for a tax increment financing scheme was so exciting for me. Whilst everyone else was looking at the £175 billion borrowing figure, I was looking at paragraph 4.49! I am now working with senior colleagues in the local authorities to put forward some possible pilot schemes for Cambridgeshire in response to Government's invitation - which we hope to submit within the next few weeks.

- b) User charging - a sensitive subject of course but I suspect we are probably going to see a greater emphasis on "user pays" principles across a wide range of activities, not just around road pricing, and this could, if appropriately deployed, provide another means of funding some important elements of new developments

4. Partnering more effectively

- a) One of our most important partnerships is with the Homes and Communities Agency (and I would say this even if Kate were not here!). The new agency brings together the key areas of affordable housing, growth and regeneration into a single entity, whose aim is to create thriving communities. If only it had the funding flexibility it needs. As part of our response to the creation of the HCA, Cambridgeshire Horizons has developed, in conjunction with our partners, the Prospectus for Investing in Cambridgeshire. This sets out the local ambitions for Cambridgeshire, and suggests areas where we feel the HCA can most helpfully join forces with us to deliver our shared goals. And my second

announcement of the day is that Terry Fuller has written to me earlier this week to state that the HCA wants to pilot its "Single Conversation" business model in Cambridgeshire, working with Horizons as a co-ordinating body for all six local authorities (recognising that there are links to adjoining authorities in particular through the sub-regional housing board), and with a view to making early progress towards a shared investment agreement to deliver agreed outcomes for growth, infrastructure, regeneration and housing across Cambridgeshire. This is great news, and a testament to the hard work of colleagues in Horizons and across all the local authorities, and I hope it marks a further step in what I believe can be a great example of local and central government delivering through real partnership.

- b) Which takes me neatly onto "Joining up the public sector" - both through a strong alliance of all the Cambridgeshire local authorities and agencies working at the local level through the Managing Growth theme of the Local Area Agreement, but also with EEDA, HCA, and with central government more broadly through GO East and through bodies such as the Government Liaison Group for Northstowe, chaired by our Regional Minister Barbara Follett
- c) And finally, adopting a partnering approach where possible with developers and with other private sector players - as long as there is sufficient shared vision - which is where something like the Quality Charter can be particularly useful.

IN CONCLUSION

It's been a tough year – for people who have lost jobs (and that includes a number of Ministers and MPs!) – for developers who are facing a very difficult financial situations – for local authorities who have lost planning fee income and are facing reduced government grants. Its not been a great year for Newcastle United Football Club either....or Luton Town....

But...the general economic climate will undoubtedly improve. And Cambridgeshire's economy has fantastic underlying strengths – particularly in Cambridge and its hi-tech cluster and in our market towns - which means we can be one of the areas that can steer the UK out of recession. Cambridge is one of very few globally recognised brands in the UK, and we must invest in its ongoing success.

And - for the housing market – our Strategic Housing Market Assessment shows that there is enormous pent-up demand for homes in this area, and the quality of life which we enjoy is the envy of many other parts of the UK. All of which means that we are still one of the most attractive locations in the UK, indeed arguably in the world, for any investors looking to put money into development assets.

But we must hold firm on quality standards, and on our ambitions for delivering high numbers of affordable homes, which we know are so desperately needed and the lifeblood of the future economy, and is an area

where all our local authorities and housing association partners are devoting enormous efforts.

If we are to maintain Cambridgeshire's success we must deliver on all the elements of our programme, but in particular on affordable housing, and on enhanced public transport infrastructure – as these are the core underpinning elements of future economic prosperity.

To do this, we need to:

- a) ensure even better partnership working across the Cambridgeshire local authorities and stretching out to our neighbouring authorities.
- b) better align our spatial and economic priorities as the two are so inherently intertwined, and this has not been fully recognised to date.
- c) Turn our aspirations for genuine financial devolution into reality. And here there are three bright spots on the Cambridgeshire horizon:
 - i) Firstly, the Tax Increment Financing proposals in the Budget could prove to be the first step towards real localism and we are hopeful that we will be able to move forward on this for at least one pilot approach in Cambridgeshire
 - ii) Secondly, the creation of the HCA as national agency that works locally, and which has agreed to pilot the new business model with us is also really good news

iii) And thirdly, the adoption of a County-wide Tariff could put us, and developers, in a much better position than today .

But, these bright spots notwithstanding, it is ever more apparent that we must harness knowledge and expertise at the local level so that we make the right interventions with the limited funds we will have available to make a real difference to future economic growth, social cohesion and environmental sustainability. But it is very hard to do that if practically all the control over tax revenues remains with colleagues in Whitehall...

Cambridgeshire is a great place to live. It has fantastic people, wonderful companies, effective public agencies and a highly skilled workforce. But not many hills. And Cambridgeshire has shown over the years that it delivers.

Before I moved to work in Cambridgeshire my wife and I had already made the choice for us and our young family to come and live here, because of the quality of life it offers. We must maintain and enhance that quality of life whilst delivering the homes and infrastructure that we know we need to meet demand, to allow my children the choice of staying in this area when they grow up, and to provide the conditions for future economic prosperity and environmental sustainability.

And as we begin to face the realities of a decade of a significant squeeze on public spending it is ever more important that we move towards

localism so that what limited resources are available can be more effectively deployed – and whichever Government is in power, we need that localism to be accompanied by real financial devolution – not just rhetoric.

Thank you.