

PROPOSED NORTHSTOWE JOINT VENTURE

To: General Purposes Committee

Meeting Date: 1st July 2014

From: Executive Director: Economy, Transport and Environment

Electoral division(s): All

Forward Plan ref: N/A **Key decision:** No

Purpose: The Committee is asked to consider emerging options for investing in Northstowe through a Joint Venture with the Homes and Communities Agency and South Cambridgeshire District Council.

Recommendation: It is recommended that the Committee:

- a) Note the provision in the business plan for investment in Northstowe
- b) Support the twin objectives for that investment as set out in 2.1
- c) Support in principle investing in a corporate joint venture with the Homes and Communities Agency and South Cambridgeshire District Council to develop Northstowe
- d) Confirm that in principle support to the Homes and Communities Agency, and
- e) Instruct officers to continue to develop detailed proposals and a business case for the proposed joint venture for future consideration.

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1. BACKGROUND

- 1.1 Phase 1 of Northstowe, consisting of 1,500 homes, has been granted planning permission and work is due to start on site shortly. All future phases will be led by the Homes and Communities Agency (HCA) who have acquired the former Defence Estates land and who are in the process of taking over options on the remaining land required from the original developer Gallagher's, who have led phase 1.
- 1.2 The Council Business Plan identifies a total of £15m to be invested in Northstowe in three instalments of £5m from 2016 onwards. This money would be obtained through prudential borrowing. The Business Plan originally identified a potential investment of £25m, but £10m was subsequently allocated to bring forward the planned secondary school to meet existing need.
- 1.3 The Council also owns land to the north west of the B1050 that will be developed as a later phase of Northstowe. The process of transferring the options held by Gallagher on this land to the HCA is currently underway.
- 1.4 South Cambridgeshire District Council also proposes to invest in Northstowe from their Housing Revenue Account. The HCA have proposed a Joint Venture (JV) between SCDC, HCA and the County Council as a means of securing both of these investments.
- 1.5 A planning application for Phase 2 will be submitted shortly by the HCA. This will be for 3,500 homes and will include a substantial part of the town centre of Northstowe. It will also require the construction of significant supporting infrastructure, in particular the new dual carriageway to Bar Hill, which will link to the upgraded A14.
- 1.6 The HCA has prepared a financial appraisal of the outstanding remaining development of Northstowe (8,500 homes). This shows that Northstowe will generate a surplus overall but that a substantial initial investment will be required to bring forward the infrastructure, with a significant negative cashflow for a number of years. The projected long term returns are, however, positive. The investment by the two Councils would significantly assist in bringing forward the remaining phases of Northstowe.
- 1.7 HCA have no funding of their own, other than that required to fund consultants and the technical advice needed to secure the planning permission, and must therefore make a case to Government to secure additional investment. Having the financial support of local authority partners is of considerable benefit to them when making the investment case.
- 1.8 The Department for Communities and Local Government (DCLG) will be reviewing HCA progress in July, at the time the planning application is due to be submitted, and considering whether to continue with the current approach or to take an alternative approach to developing Northstowe. The alternative approaches would be driven purely by commercial considerations, with no opportunity for the councils to influence the shape of the development other than through the regulatory regime. HCA have asked both SCDC and this Council to confirm our support in principle for our investment in a proposed Northstowe JV.

2. MAIN ISSUES

2.1 The County Council has two objectives in investing in Northstowe:

- To facilitate and influence the deliverability and quality of development at Northstowe, illustrated by our investment in the secondary school, at the same time as bringing forward much needed housing.
- To make a return on the money invested.

2.2 Discussions have been taking place with the HCA and SCDC about the form that a Joint Venture could take. This has crystallised into two options:

- *Option 1 A contractual joint venture.* This would not be a true joint venture but would be governed by a Memorandum of Understanding between the partners. Individual contracts would be entered into between partners relating to use of land and buildings in discrete development projects. The councils would have first refusal of investment but would be under no obligation to invest.
- *Option 2 A corporate joint venture(JV).* This would establish a separate legal entity. All three parties would transfer their land and assets into the JV. Each partner would be represented on the JV board with voting rights and profit share proportional to the investment of land and other assets.

2.3 The choice between the two options, or indeed whether to invest at all, depends on the relative weight given to the two objectives set out above and the Council's appetite for risk and reward.

2.4 Option 1 would allow the Council to appraise each investment decision and thus would limit risk and give greater certainty of reward. However as this would not give the HCA or Government any certainty over the level of investment from the Council it would do little to facilitate the development of Northstowe. The Council would have no opportunity to influence the development overall, other than through the planning process.

2.5 Option 2 would probably give a greater return overall than Option 1, although the full return would take longer to be realised and thus the Council would be exposed to a greater level of risk. This up-front commitment to Northstowe by the Councils would support the HCA in seeking investment from Government and thus would facilitate the development. As a full partner in the Northstowe JV the Council would have a say in all investment decisions and in the shaping of Northstowe.

2.6 As Northstowe developed and moved into surplus the Council would have the option to either withdraw its stake for investment elsewhere or retain a share in the completed development in order to receive an ongoing longer term return.

2.7 The Council is not committed to enter into either or any JV option. If the Council chose not to do so then the Council has further options in respect of its land holding at Northstowe. For convenience these are identified as Options 3 and 4.

- *Option 3 sell the land.* This is the current course of action with options being transferred to the HCA.
 - *Option 4 develop the land ourselves.*
- 2.8 Option 3 is clearly a very low risk option, with the rewards being equally limited.
- 2.9 Option 4 would require an investment to develop the land but would result in a greater share of the profit falling to the Council. The Council could also choose between a capital receipt and ongoing revenue. This option needs to consider the approach being pursued at sites this Council owns at Burwell and south Cambridge where the Council is seeking to maximise returns over the longer term rather than take a short term capital receipt.
- 2.10 If the Council pursued either of these options the Council would be allowing others to take the risk and rewards of developing Phase 2, and would have no influence over the overall development of Northstowe.
- 2.11 It is too early in the process for any meaningful financial evaluation of the options set out above. However officers consider that there are significant benefits to continuing to pursue and develop the corporate joint venture model (Option 2) as the other options will not secure the Council's twin objectives for Northstowe.
- 2.12 It is therefore proposed to continue with the business plan commitment to invest in Northstowe, to reconfirm that commitment to the HCA, and to continue to work with our partners to develop a detailed proposal and a business case for future consideration by the General Purposes Committee.
- 2.13 A decision to give in principle support to a corporate joint venture will allow that further work to proceed

3. ALIGNMENT WITH CORPORATE PRIORITIES

3.1 Developing the local economy for the benefit of all

The development of Northstowe will provide significant benefits to the local economy.

3.2 Helping people live healthy and independent lives

By making an investment in Northstowe the Council will be able to influence the development and shape of Northstowe in support of this priority.

3.3 Supporting and protecting vulnerable people

By making an investment in Northstowe the Council will be able to influence the development and shape of Northstowe in support of this priority.

4. SIGNIFICANT IMPLICATIONS

4.1 Resource Implications

This investment has been identified in the Business Plan.

4.2 Statutory, Risk and Legal Implications

Authority is sought to proceed to develop detailed proposals and a business case that will fully explore these implications

4.3 Equality and Diversity Implications

There are no significant implications for this priority

4.4 Engagement and Consultation Implications

There are no significant implications for this priority

4.5 Localism and Local Member Involvement

There are no significant implications for this priority

4.6 Public Health Implications

There are no significant implications for this priority

Source Documents	Location
2014/2015 Business Plan	Room B306