Executive Decision Report

Enterprising Leicester Investment Fund

Decision to be taken by: City Mayor

Decision to be taken on: 4 January 2016

Lead director: Andrew L Smith

City Mayor

Useful information

- Ward(s) affected: All
- Report author: Andrew Smith / Mark Noble
- Author contact details:
- Report version number: 1

1. Summary

1.1 The purpose of this report is to approve principles which will govern the use of an "Enterprising Leicester" Investment Fund. The Council's treasury strategy permits the use of investment balances for a Local Investment fund. This is intended to achieve better returns than those available from financial institutions, and use our money to support the local economy. The "Enterprising Leicester" fund is the first proposed use of such a fund. It is noted that investment balances can only be used for restricted purposes – they are not reserves.

1.2 The total Enterprising Leicester Fund recommended is £20m, however £10m will be the maximum amount outstanding (in aggregate) at any one time. Up to £5m will be allocated in the 1st Tranche. Loans will be available between £0.5m - £4m to individual companies.

2. Recommendation

2.1 To approve the principles by which use of the £20m Enterprising Leicester Investment Fund will be operated as set out in the report.

2.2 To delegate authority to the Strategic Director – City Development & Neighbourhoods – to approve investments by the Local Investment Fund in consultation with the City Mayor and Section151 Officer.

2.3 To provide up to £200k for legal and financial support to the management of the fund, and approve the use of funds set aside for the EAP for this purpose.

3. Supporting information including options considered:

General

3.1 The Council approved the treasury strategy for 2015/16 on 22nd January 2015. As described in the strategy, the Council has significant investment balances due to the fact that we do not need to borrow money, but must continue to set aside money for debt repayment in the revenue budget each year.

3.2 Due to changes in Government rules, the cost of repaying debt means that this is usually uneconomic. Consequently, we retain a high level of balances earning 0.5% interest or less.

3.3 The treasury strategy enables the Council to create an investment fund, which is designed to achieve better returns than those available from financial institutions, whilst at the same time adding to the tools at our disposal to support the local economy.

3.4 This report seeks to develop this proposal, by establishing an “Enterprising Leicester” Local Investment Fund.

Principles of the Enterprising Leicester Fund

3.5 The Investment Fund will support the following type of activities for businesses / developers:-

- Infrastructure provision at key development sites;
- Acquisition of land or commercial / industrial property;
- Construction or development of commercial / industrial / Housing property, including extensions to premises
- Other proposals related to Inward Investment

3.6 Investments will be in the city of Leicester or moving into the city with a clear demonstration of benefits being demonstrated to the city.

3.7 We would expect eligible projects to have a demonstrable positive economic impact on the City and its environs. This will be measured in terms of new jobs created, growth and expansion of existing or investing organisations, a significant investment in the regeneration or development of strategic sites or infrastructure which will enable further investment or unlock further development.

3.9 To minimise the Council’s exposure, it is proposed that no more than £10m be outstanding at any one time, in aggregate. This ensure that the fund is part of a wider approach to treasury management which spreads risk across different classes of asset.

3.10 An investment loan will normally support between £0.5 - £4m per investment. This may vary dependent upon security e.g. the underwriting of 3rd party, charge over property etc~~.~~

3.11 A loan will normally be capable of being repaid within seven years. The rate of interest is expected to be at least 3%, with more charged for riskier propositions.

3.12 All investments will be assessed in terms of their economic benefits, risks, rate of return, state aid, security, deliverability, planning, outputs etc prior to any approvals being sought. State aid will be a key consideration, and may affect the interest rates we can charge.

3.13 All investments will be reviewed by an Investment Panel prior to formal delegated authority to Strategic Director, City Developments & Neighbourhoods in consultation with Section 151 officer and the City Mayor. To minimise risk, all business cases must be signed off by the Section 151 officer.

4. Details of Scrutiny

Principles considered at EDTT Scrutiny on 17th December 2015

5. Financial, legal and other implications

5.1 Financial implications

5.1.1 This report envisages using our investment balances to make capital loans to third parties. It is envisaged that the money will be fully repaid, but there is risk when compared to investing balances in financial institutions. Security of capital needs to be seen as paramount, and the investment appraisal will reflect this. In practice, it is expected that the fund will support loans to fairly substantial companies

5.1.2 The revenue account will incur interest charges (currently around 0.5% per year, being the amount we would otherwise earn on our investments). The cost is, however, likely to increase in the medium term but our treasury advisors believe that 3% to 3.5% is likely to be the "new normal" in due course. The interest will be covered by the interest charged to borrowers.

5.1.3 Normally, when capital expenditure is incurred funded from balances, there is a charge made to revenue in respect of principal. However, this charge will not be required, as the money will be recouped by the repayments from the borrower. A change to our policy for minimum revenue provision will be recommended to the Council, so that this treatment can be applied to loans which are not repaid in instalments (i.e. repaid at the end of the loan period).

5.1.4 When the loan is repaid, the money is returned to the Council's investment balances. If the loan cannot be repaid, in full or part, there will be a cost to the Council

Mark Noble, Financial Strategy, 37 4041

5.2 Legal implications

5.2.1 Approval of projects using the fund will result in additions to the capital programme. The City Mayor can approve such additions up to the limit of his authority under his Scheme of Delegation, currently a maximum of £10m. All investments will be reviewed by an Investment Panel prior to formal delegated authority to Strategic Director, City Developments & Neighbourhoods in consultation with Section 151 officer and the City Mayor.

5.2.2 Legal powers exist for local authorities to encourage local regeneration and economic growth. In addition, the general power of competence under section 1 of the Localism Act 2011 enables the Council to undertake the type of investments as outlined in this report. The Council has general powers to acquire land and property for the purpose of the carrying out of its functions including the ability to take leases of land/property as well as acquiring properties subject to leases for investment. The Council will also need to ensure that its investment is protected by requiring a first Legal Charge over the property or development in question.

5.2.3 Although it is not clear from the body of the report, the ability for the Council to invest in non-HRA housing projects is subject to the restrictions contained under s.4 of the Localism Act 2011, due to the limits on commercial activities in respect of activities that the Council would normally undertake.

5.2.4 The Council will need to undertake a state aid analysis for individual investments to ensure this is state aid compliant. This could be by ensuring that any aid given by the Council is on acceptable commercial terms or falls within the European Commission's de minimis thresholds or the General Block Exemption Regulations.

5.2.5 Any investment or loan should be made under robust terms and conditions. Early legal advice should be taken on a case by case basis on the appropriate form of contract.

5.2.6 This report outlines broad principles and it is agreed, given this is a new approach, that it would be prudent to review the principles and outcomes as recommended.

John McIvor, ext. 37-1409 / Nilesh Tanna, ext. 37-1434, Legal Services

5.3 Climate Change and Carbon Reduction implications

There are no climate change implications resulting from the recommendations in this specific report. Activities using the fund may have climate change implications however these will be provided on a case by case basis for individual decision reports.

Louise Buckley, Senior Environmental Consultant, 37 2293

5.4 Equalities Implications

Not applicable

5.5 Other Implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

Not applicable

6. Background information and other papers:

None

7. Summary of appendices:

None

8. Is this a private report (If so, please indicated the reasons and state why it is not in the public interest to be dealt with publicly)?

No

9. Is this a “key decision”?

Yes

10. If a key decision please explain reason

A first tranche allocation of £5m to be set aside for the Enterprising Leicester Investment Fund