

Executive Decision Report

Enterprising Leicester Investment Fund

Decision to be taken by: City Mayor

Decision to be taken on: 17 February 2017

Lead director: Andrew L Smith



City Mayor

Useful information

- Ward(s) affected: All
- Report author: Colin Sharpe
- Author contact details:
- Report version number: 02-02-2017

1. Summary

- 1.1 This report seeks approval for a £5m second tranche of funds for the Enterprising Leicester Investment Fund, to continue to encourage business and investment in the city, supporting economic growth and job creation.

2. Recommendations

- 2.1 To approve a second tranche of £5m for the Enterprising Leicester Investment Fund, and to increase the capital programme accordingly.
- 2.2 To delegate authority to the Strategic Director, City Development and Neighbourhoods, to approve investments by the Fund, in consultation with the City Mayor and Director of Finance.

3. Supporting information including options considered:

Background to creating a Fund

- 3.1 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 (and rates are currently falling).
- 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. The strategy approved in January 2016 advised Council that proposals were being developed to invest up to £10m in the Enterprising Leicester Investment Fund.
- 3.4 Creation of the Enterprising Leicester Investment Fund was approved by the City Mayor on 4th January 2016, with a first tranche of £5m allocated. This report now brings the available amount up to the maximum level indicated in the current treasury strategy.

Principles of the Enterprising Leicester Fund

- 3.5 The Investment Fund supports 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; and
 - Other proposals related to Inward Investment.
- 3.6 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.
- 3.7 To minimise the Council's exposure, no more than £10m can be outstanding at any one time, in aggregate. This ensures that the fund is part of a wider approach to treasury management which spreads risk across different classes of asset.
- 3.8 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. 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, or where required for State Aid purposes.
- 3.9 All investments are assessed in terms of their economic benefits, risks, rate of return, state aid, security, deliverability, planning, outputs, etc. prior to any formal approvals being sought.

Progress of the Fund and Request for a Second Tranche of Funding

- 3.10 A number of expressions of interest and subsequent applications were received during the first year of the Fund in 2016. A £4 million loan was approved for Infrastructure Investments Ltd to revamp further parts of St George's Tower, to enable Hastings Direct to expand its Leicester operations and workforce. Discussions are on-going with other businesses, which are expected to lead to loan approvals in due course.
- 3.11 As £4m of the initial £5m has been loaned out, and given the potential further loans under discussion, approval is now sought to make available a second £5m tranche. This would take the total available funds to £10m, of which £6m would be available for new loans. As loans are repaid, the amount available for new loans will increase.

4. Details of Scrutiny

- 4.1 The principles were considered by the EDTT Scrutiny Commission on 17th December 2015.

5. Financial, legal and other implications

5.1 Financial implications

- 5.1.1 The Fund uses 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. Current indications are that rates will remain at record lows for some years yet. 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. This is consistent with the Council’s policy for “minimum revenue provision” which has been designed to facilitate such schemes.
- 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.

Colin Sharpe, Head of Finance, ext. 37 4081

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 Development & 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.

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. Consideration should also be given to securing the Council's investment in accordance with current prudent practice, including potential legal charge or restriction against the title to the land or property being the subject of the investment/loan.

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:

Local Investment Fund, City Mayor individual decision, 4th January 2016.

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