Coventry City Council

Public Report
Coventry Investment Fund Cabinet Committee

A separate report is submitted in the private part of the agenda in respect of this item, as it contains details of financial information required to be kept private in accordance with Schedule 12A of the Local Government Act 1972. The grounds for privacy are that it contains information relating to the financial and business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption under Schedule 12A outweighs the public interest in disclosing the information.

Coventry Investment Fund Cabinet Committee	7th July 2015
Cabinet	7th July 2015

Name of Cabinet Member:
Cabinet Member for Business, Enterprise and Employment – Councillor Maton

Director Approving Submission of the report:
Executive Director, Place

Ward(s) affected:
All

Title:
Coventry Investment Fund – Annual Report

Is this a key decision?
No – although this matter affects all wards, as this is a monitoring report there is no significant impact.

Executive Summary:

The Coventry Investment Fund is a £50 million fund established by Coventry City Council as a revolving investment fund. Funded through prudential borrowing, it provides financial support to organisations looking to undertake major investments in premises that will help to generate economic growth within Coventry, and thereby create/safeguard local jobs. All projects must directly lead to the generation of new Business Rate income within the city. This Business Rate income will play an important role in supporting the delivery of public services within Coventry in the future, as well as re-investing money into continuing the regeneration of Coventry.

In the first year of operation eight investments have been approved totalling a fund investment of £16.6m (33% of the fund) against a target of £10m. The combined total development costs are £130m and the projects will create 845 jobs in the City.

Recommendations:

The Cabinet Committee are requested to:-

(1) Note the progress made on the first year of the Coventry Investment Fund

List of Appendices included:
None

Background papers:
None

Other useful documents:
www.coventry.gov.uk/cif

Has it been or will it be considered by Scrutiny?
No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?
No

Will this report go to Council?
No

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1. Context (or background)

1.1 The Coventry Investment Fund is a £50 million fund established by Coventry City Council as a revolving investment fund. It is a fund of last resort so wherever possible the council will seek to use external funding to advance regeneration projects for example European programmes and the government Growth Deal. Funded through prudential borrowing, it provides financial support to organisations looking to undertake major investments in premises that will help to generate economic growth within Coventry, and thereby create/safeguard local jobs. All projects must directly lead to the generation of new Business Rate income within the city. This Business Rate income will play an important role in supporting the delivery of public services within Coventry in the future, as well as re-investing money into continuing the regeneration of Coventry. All projects are assessed against the criteria established in 2014 report:

- Business Rate Growth – 40%
- Strategic Fit to Council's Vision and Aspirations – 30%
- Deliverability – 20%
- Jobs created – 10%

1.2 Key actions in the first year include -

- The Coventry Investment Fund Board has been established as a cabinet committee and has met five times.
- The Board has developed a formal Investment Strategy explaining why the fund has been created and how the fund is managed. This is publically available with the project scoring mechanism on the council web site http://www.coventry.gov.uk/cif.
- In accordance with the original approval, an independent advisor attends board meetings to act in the role of a critical friend who brings an external business view of projects.
- The Fund was launched at St Mary's Guildhall on 14 February 2014 with more than 80 delegates in attendance. This was followed up by the Assistant Director, City Centre & Development Services presenting to 100 attendees at the Martineau Business Network in Birmingham with an audience of businesses, developers and intermediaries.
- Delegation limits have been temporarily increased for 12 months to enable the council to respond swiftly in a competitive invest market. The Cabinet Committee can now take decisions up to £5m with additional members present and the Cabinet can take decisions up to £10m.
- A communications plan has been developed and briefings have been delivered to the Chamber of Commerce, Federation of Small Businesses, Local Enterprise Partnership and the Growth Hub.

First Year Investments

1.3 To date eight investments have been approved totalling a Fund investment of £16.6m towards projects that have a combined total development cost of £130m. This was against a target of £10 million in year 1 and represents 33% commitment of the funds available. It is estimated this will result in 845 jobs in the City and generate revenue of approximately £3.4m until 2020 comprising increased business rates, interest on loans and rental income. This income has contributed to reducing the revenue shortfall in the

Medium Term Financial Strategy (MTFS). It was always envisaged that momentum would be generated over time, with each new project raising awareness and generating more interest and as such eight investments in the first year is viewed as a positive start.

1.4 The Fund has also been instrumental in the development of other projects even though no CIF investment will take place. An example of this is Lyons Park where funding was approved to bridge the affordability gap in a commercial development. This generated the confidence for the developer to take the project forward to contract. However, the financial position of project improved and the CIF contribution was reviewed by the developer as no longer required. The development is presently on site with the construction of 214,000 ft² comprising six units.

Case Study – Cathedral Lanes

1.5 Cathedrals Lane is a 60,000 sq. ft. retail premises built over two floors around a glass atrium situated in a prime location in Coventry City Centre between the shopping core and the Cultural and Heritage Quarter. It was built in the 1980s and the owners had been seeking a sale for some time.

1.6 The Shearer Property Group (SPG) was seeking to acquire the premises with a view to reposition it into a leisure orientated scheme at a total project cost of £9.13 million. The developers demonstrated a funding gap in their development appraisal and a CIF loan of up to £2m was approved to enable the project to take place. External advice was sought in relation to State Aid to make sure the proposed loan was compliant.

1.7 SPG has now acquired the property and work is underway. Three occupiers are already secured – Wagamama, Las Iguanas and The Cosy Club. In deciding to invest, SPG made clear the importance it attached to the improvements to the public realm that the council is implementing: "The Council's foresight to invest in the major regeneration and improvement of Broadgate Square was a major factor in being able to persuade these popular quality restaurants to come to Coventry"

Demand for CIF

1.8 To date 52 enquiries have been received. As a fund of last resort projects are referred to alternative support where available. For example, 12 of the enquiries were business start-ups which were referred to the Chamber of Commerce. There are presently 7 projects listed in the pipeline at various stages of development including industrial, commercial and leisure projects.

1.9 The British Business Bank is wholly owned by the government and has been established to change the structure of finance markets, so these markets work more effectively and dynamically. In its recent research paper (published in March) which looked at the business growth loans market, it states that the recent improvement in the availability of debt finance has not yet filtered down with the private sector, with focus being given at loans of £5m and above. There remains a gap in the market below that figure, particularly less than £2m. The national gap could be as much as £870m. The report also notes that demand is presently low which is likely to be due to a combination of lack of product and also lack of awareness of what does exist.

Review and learning

1.10 The Fund has been reviewed against national best practice including the Homes and Communities guide on the development of revolving investment funds and also against other similar funds e.g. Cheshire and Warrington LEP Growing Places Fund. This resulted in the development of a clearer scoring mechanism which rates applications out of 100 against the four assessment criteria detailed in paragraph 1.1. It also led to the development of a clear set of operational procedures. The Fund has been considered by the Finance and Corporate Scrutiny Board (1) and has also been the subject of an internal audit. The key recommendation of the latter is that project scoring should be reported against each of the assessment criteria rather than just as an overall project score and this is now in place.

1.11 From experience gained on projects that have already applied, it is clear that CIF needs to be able to respond quickly and remain flexible. This is particularly important when developing funding packages that involve developer equity, third party investor finance and council contributions.

1.12 CIF has played an important role in providing matched funding to secure European money. One example involved providing a commercial loan to a local developer who could then secure ERDF gap funding. The use of CIF as matched funding in the creation of larger funding packages is likely to feature in the future.

Next Steps 2015/16 and beyond

1.12 In terms of the strategic application of CIF, the focus remains on bringing forward major development sites and employment projects, for example on Friargate. This may well involve bringing together CIF with government Growth Deal resources in assembling funding packages. The target for 2015/16 is to commit at least £10m.

1.13 As part of the communications plan a new set of marketing material has been produced and a marketing campaign is underway focussing on local developers and agents. Experience of similar programmes demonstrates the need to regularly raise awareness of the Fund and it is important to convey to smaller businesses that the Fund is not just for the big developers. The target list has been developed with help from the Growth Hub, the Chamber of Commerce and council officers. The FSB will be running a campaign through its e-newsletter. The CIF pages on the council website are being refreshed to include a project progress section so people can see the latest updates. It is also being given a greater focus on the outputs that are being achieved in terms of jobs created and investment generated.

2. Options considered and recommended proposal

2.1 There is a clear demand from businesses for finance to help fill funding gaps. The demand for CIF has already resulted in commitment of 33% of the total available. The report from the British Business Bank shows nationally that lack of awareness of what is available holds business investment back. Accordingly it is proposed that extensive marketing be delivered to continue the momentum of the programme.

Recommendation

2.2 That the progress of the CIF programme be noted.

3. Comments from Executive Director, Resources

3.1 Financial implications

3.1.1 In February 2013 the Council set aside £50million, funded from Prudential Borrowing, as part of its Medium Term Financial Strategy to provide support for local economic growth.

3.1.2 Of the £50m fund £16.6m has been committed to date with individual investments listed at appendix A. Any new income and business rates generated from these financial interventions are contributing towards existing MTFS savings targets.

3.1.3 In the first year of operation £15.6m of CIF was committed. It is forecast that in 2015/16 £14m - £18m will be spent.

3.2 Legal implications

3.2.1 The Council uses its general power of competence under section 1 of the Localism Act 2011(the Act) as power to make investments.

3.2.2 Any support given through the new fund accords with European State Aid rules that govern the provision of assistance to economic undertakings throughout the European Union and where appropriate external advice is sought on this.

4 Other implications

4.1 How will this contribute to the Council Plan (www.coventry.gov.uk/councilplan/)?

The Fund supports the council plan objectives of supporting business growth and developing jobs for local people

4.2 How is risk being managed?

The original report that considered setting up the Fund identified a number of risks and this is reviewed and updated below.

Risk	Mitigating Action
1. The fund is not taken up by businesses	• Marketing strategy developed and regularly reviewed • Strong engagement with the Chamber of Commerce, Federation of Small Businesses, Growth Hub and CWLEP. • Offering a variety of different financial interventions to suit business need
2. The Council is unable to act quickly enough take advantage of the opportunity	• Governance and due diligence conducted on a timely basis whilst ensuring rigour and appropriateness • Investment Board membership at the right level and frequency of meetings • Ability to call the Board together as needed in order to make responsive decisions

3. The Council makes poor investments leading to loss of money. Acknowledgement that not all investments may prove to be as successful as desired.	• Risk cannot be completely eliminated but can be mitigated through – - Thorough assessment of projects against key criteria - Due diligence and monitoring process are in place - Spreading investments over a range of financial mechanisms
4. Businesses unable to take up full financial investment after it has been allocated	• If the project can be delivered for less than anticipated (whilst still maintaining outcomes and quality) then this is not viewed as a significant issue. • Clear monitoring processes to enable early warning
5. The return on business rates is not delivered	• Linking conditions of intervention to clear deliverable outcomes • Business case would establish the return and how it would be made • The investment would be scrutinised through due diligence to ensure that it would increase floor space and lead to new business rates.
6. Reputational damage as a result of bad investments	• Clear and transparent governance process • Due diligence and monitoring process put in place • Spreading investments over a range of financial mechanisms

Each application to the new fund is assessed for risk including a financial due diligence of the applicant.

4.3 What is the impact on the organisation?

There are no implications on the organisation.

4.4 Equalities / EIA

No equality impact assessment has been carried out as the recommendations do not constitute a change in any Council policy or service delivery.

4.5 Implications for (or impact on) the environment

Allocation of resources to the new fund does not have any implications on the environment.

4.6 Implications for partner organisations?

There are no implications for partner organisations.

Report author(s):
Andy Williams Resources and New Projects Manager
Gary Collins Programme Development Manager

Directorate: Place

Tel and email contact:
02476 833731 andy.williams@coventry.gov.uk
02476 832446 gary.collins@coventry.gov.uk

Enquiries should be directed to the above person.

Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
Contributors:				
David Cockroft	Assistant Director, City Centre & Development Services	Place	16-6-15	
Andy Williams	Resources & New Projects Manager	Place	16-6-15	
Sarfraz Nawaz	Finance Manager	Resources	10-6-15	11-6-15
Lara Knight	Governance Services Team Leader	Resources	16-6-15	18-6-15
Rosalyn Lilley	Solicitor	Resources	10-6-15	11-6-15
Phil Helm	Finance Manager	Resources	16-6-15	
Director: Martin Yardley	Executive Director	Place		
Members: Councillor Kevin Maton	Cabinet Member (Business, Enterprise & Employment)	-		

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