



Invest to Grow Business Plan – 2019/20

Cllr Izett, Portfolio Holder for Property and Development

Report to	Cabinet
Ward(s):	All
Key Decision:	No

Papers relied on: **Property and Alternative Investment Strategy – Invest to Grow Fund**

Foreword - Cllr Izett, Cabinet Member for Property and Development

“This report outlines the progress made to date in realising the objectives of the council’s Invest to Grow Fund and sets out a new business plan for the year ahead. Priorities for officers and our advisers are to finalise, following legal completion of the pre-let and obtaining of planning permission, the committed funding to finance the building of the new HQ offices for Eli Lilly, our long established and important business partner. Also they are to secure suitable additional projects, in the borough especially, involving commercial property, housing and renewables funding. The business plan aims to deliver further positive outcomes from the many ongoing discussions with various private and public sector parties currently taking place, not least where the council is an existing landowner.

This fund is an important initiative designed to create jobs, homes, green infrastructure and new commercial premises and this business plan has my full support”.

Recommendation to Cabinet:

It is recommended that Cabinet agrees:

- i) the Invest to Grow Fund business plan for 2019/20 as set out in this report.**

1. Background, corporate objectives and priorities

- 1.1 This report accords with the Invest to Grow Fund scheme of delegation which included a requirement for Cabinet approval of an annual business plan to support the delivery of the Invest to Grow Fund Strategy. This strategy supports the Council's priority of improving economic vitality in addition to supporting the development of an effective and efficient Council.

2. Glossary of terms

Term	Definition

3. Executive Summary

- 3.1 The Basingstoke Invest to Grow Fund (the Fund) was formally launched in October 2016 following Council approval in July 2016.
- 3.2 The Fund was established with the vision of providing capital to stimulate local development activity and leverage private sector investment in support of local socio-economic growth. The Fund is a key strand in the Council's strategy for supporting socio-economic growth and Basingstoke as 'Built for Business'.
- 3.3 Focussed on commercial, housing and regeneration assets, projects must contribute to the Council's economic priorities in the Basingstoke and Deane area as a priority. The Council can look to invest into projects that meet the criteria by way of debt or equity on commercial terms.
- 3.4 The Fund is divided into the following categories (aligning with the Property and Alternative Strategy approved by Council);
- a) Commercial Property
 - b) Housing
 - c) Infrastructure and Renewables
- 3.5 Since its launch the Fund has been progressing a series of potential investment opportunities and the first investment in forward funding a new office building for Eli Lilly on Basing View was conditionally agreed in March 2018 subject to planning.
- 3.6 The current pipeline of short to longer term projects consist of a total of 25 schemes across the above-mentioned sectors. It is anticipated the Fund's first housing investment will be committed in 2019.
- 3.7 The governance procedures and Investment Strategy outline the requirement for the Council and Fund Advisor to review the Investment Strategy annually (or such time deemed reasonably necessary by the Cabinet) and to put in place a business plan for the year.

- 3.8 The paper outlines the Fund objectives and targets, progress made over the last calendar year and to present a business plan for 2019/20.. Following a review by the Fund Advisors and officers, there are no proposed changes to the Fund Investment Strategy at this stage.
- 3.9 Progress with achieving the business plan objectives of securing new investments will continue to be closely monitored and a review will be undertaken after 6 months to determine whether a change in approach is required.

4. Fund Objectives and Targets

4.1 The agreed targets for the Fund are as follows:

- Target of 5% return per annum on new investments net of fees.
- £8 million of the Fund committed by March 2018, a further £8m by March 2019 and the Fund fully committed by 31/3/20. This is consistent with experience of other Funds taking three years to be fully committed.
- Private sector investment into Basingstoke based on the private sector capital matching the Invest to Grow commitment.
- Economic benefit of job creation, business rates uplift and retention.
- Support delivery of new homes.

4.2 The Fund is projected to meet the target return on its first investment and has met the target of committing £8 million by March 2018 (£10 million in total committed to date).

5 Update on the Fund activity over the 2018 calendar year

- 5.1 Over the calendar year to date the Fund has committed to its first investment, projected to be up to £10 million in total to support the development of 45,750 sq ft of Grade A office accommodation pre-let to Eli Lilly and Company.
- 5.2 The investment will be for a period of 2 years (estimated the building will reach practical completion in July 2020) and generate a financial return in excess of the target of 5%.
- 5.3 Delivery of the project will retain an estimated 400 high value jobs in Basingstoke.
- 5.4 The development will be overseen by the Council's pre-procured partner (Muse Developments Ltd) at Basing View. With the involvement of a number of Basingstoke Council officers.
- 5.5 The Council's Property and Investment Fund will be committing to own the development on completion, benefiting from a lease to the occupier for a period of 15 years.

- 5.6 Muse are working with the Council to procure the main and enabling works contract for the construction of the property. Subject to satisfactory completion of the viability test and the completion of planning, the committed investment will become unconditional.
- 5.7 The following sections provide an update on each of the key sectors of focus for the Fund and update on activity over the 2018/2019 calendar year.

6 Commercial

- 6.1 The Fund has continued detailed discussions with a new investor to Basingstoke. The opportunity represents 160,000 sq ft of new accommodation, £15 million of private sector investment into Basingstoke and a £8 to £10 million investment for the Fund. As with many of the development opportunities in the Fund pipeline, the Council will also play a role as land owner.
- 6.2 There are two further opportunities (in addition to the above) in advanced discussions as to the level of support that can be provided by the Invest to Grow Fund. The projects total an estimated 200,000 sq ft in end usable space and potential private sector investment in excess of £12 million across both projects.
- 6.3 In addition to the above, the Fund has had conversations with 3 smaller developer/investors with the intention of delivering new commercial accommodation in Basingstoke.
- 6.4 In terms of sourcing opportunities, given the Council's position as a major land owner in Basingstoke, a number of opportunities arise from discussions and interaction between the officer team and private sector investment community in Basingstoke.
- 6.5 In addition, CBRE has used contacts in the investment community to source additional opportunities, making contact with a total of over 11 new investors.

7 Housing

- 7.1 The overarching aim of the Fund is to play a significant role in supporting the Council's delivery of all types of housing, where projects meet the Fund's investment criteria. The primary focus in this area is to provide infrastructure funding (to support cashflow and enable delivery), and/or development construction finance targeted at small/medium sized housebuilders, focussed on projects of 12 homes or greater.
- 7.2 The pipeline of housing opportunities is being sourced through a number of routes:

- The Council's Housing Delivery Board – working with the officers to identify potential projects and investors.
- CBRE's relationships and knowledge of housebuilders operating across South East through review of planning permissions and relationships with agents operating within the local market.

7.3 The Fund has been in detailed discussions in relation to the Fund's first housing investment. The fund would provide loan finance of £1.5 - £2 million of capital in addition to £1 million from the private sector. The investment would be in support of a small (between 12 and 20 units) housing development in Basingstoke to be completed in the next two years.

7.4 The Fund is also in detailed negotiations for two further housing investments within the Borough. These further opportunities (scheduled to start on site in early 2019) require a total investment commitment of £15 million delivering a total of 140 new homes.

7.5 The focus during the 2019/20 Reporting Period will be to progress these opportunities and to continue monitor the short to medium pipeline, as well as consider opportunities for Council's role in the provision of development finance in the context of Manydown.

8 Infrastructure and Renewables

8.1 The Fund, in conjunction with the Council officer team has continued to progress a pipeline of renewables projects. These include heat networks, PV projects, battery storage facilities and bio-mass facilities.

8.2 The Renewables pipeline of opportunities has also involved meetings with key energy and utilities providers in the borough and the Fund has a longer-term pipeline of such projects currently being explored.

8.3 The most likely project to be brought forward as part of the Fund's renewable strategy will be the opportunity surrounding Heat Networks at the NHS estate in Basingstoke, although longer term. The Fund has been working closely with the Council officer team to explore the delivery of a Heat Network system at the Basingstoke Hospital.

9 Business Plan for 2019/20

9.1 During the first quarter of 2018 the first commercial investment was committed by the Fund. A key focus moving into 2019/20 is to ensure that this commitment is successfully transacted and monitored throughout the development phase.

9.2 It is expected that the 2019/20 business plan period will see further investments for the Fund, notably into new housing developments as mentioned above, which will be critical to setting the precedence and market perception of the Fund in this sector.

- 9.3 The business plan for 2019/20 will continue to see the Fund Advisor engaging in discussions with existing investors and developers operating or seeking to operate in Basingstoke. The current pipeline includes commercial and housing with a good number of potential investment opportunities available to the Fund over the coming year.
- 9.4 In addition to commercial development opportunities across the Council's existing estate, The Fund Advisor will continue to drive engagement with housing developers and to push the Council's housing agenda and support housing delivery targets. This will continue in 2019/20 with approaches being made to developers of key sites with planning permission, in addition to developers and landowners of smaller rural sites.
- 9.5 The officer team and Fund Advisor will also continue to pursue investment opportunities in the renewables sector. Facilitating workshops will be held with relevant stakeholders and key specialists from within CBRE to identify appropriate risk assessed projects.
- 9.6 The plan for 2019/20 will also continue to see the Fund engage with private investors, from both inside and outside Basingstoke to ensure the coherent and consistent message is conveyed to the market. The Fund is a key strand in the Council's strategy for supporting socio-economic growth and Basingstoke as 'Built for Business'.
- 9.7 In accordance with the governance arrangements agreed by Cabinet in June 2016, regular monitoring reports will be provided to Cabinet and the Audit Accounts Committee during 2019/20. These will include information on any new investments made and a review of progress with the pipeline.
- 9.8 In accordance with the investment strategy, the investment criteria that will be followed in 2019/20 for investments by the Fund are unchanged as follows:
- Investments are to be made either directly, in partnership with the private sector as equity, or project based loans.
 - Investments are to be made in line the Council's Property & Alternative Investment Strategy.
 - Investments are to be within the Borough as a priority although the Fund will consider investment options within Hampshire and wider South East where 'additive' to the Borough.
 - The underlying principles are: project is viable; carries appropriate balance of risk vs return; and the terms are equal to or above the Council's risk adjusted opportunity cost of capital (at the time of each individual investment).
 - Investments will be able to compete with private market finance however the focus will be to provide finance where there is limited appetite from private finance. Investments must be State Aid compliant with an appropriate risk adjusted return.

- Limited appetite for risk exposure. However, a variety of risk positions may be considered but will be subject to risk mitigation measures being put in place by the Fund manager on a case by case basis.
- Risk criteria for debt investments is not to exceed 70% loan to cost and 60% loan to value at portfolio level, with no individual investment to exceed 80% loan to cost. Investments outside of these risk covenants will be assessed on a case by case basis.
- No more than 40% of the Fund to be lent to any one borrower, group of borrowers or project at any one time e.g. based on a Fund size of £25m, the maximum loan size would be £10m.
- Investment minimum size to be £1m.
- Target maximum 3 year finance period for debt investments.

9.9 Financial Targets for the Fund are as follows:

- Target of 5% financial return per annum on new investments net of fees.
- £8 million of the Fund committed by March 2018, a further £8m by March 2019 and the Fund fully committed by 31/3/20. This is consistent with experience of other funds taking 3 years to be fully committed.

9.10 Linked to the above investment targets in accordance with the agreed Investment Strategy, the socio-economic targets for the Fund in 2019/20 will include economic benefit of job creation, business rates uplift and retention as well as supporting the delivery of new homes.

9.11 Progress with achieving the business plan objectives of securing new investments will continue to be monitored and a review will be undertaken after 6 months to determine whether a change in approach is required.

10 Corporate implications

10.1 Legal Implications

10.2 Vires Considerations - the Council has the ability to establish and participate in an 'Invest to Grow' fund under the following powers:

- Section 1 of the Localism Act 2011 – general power of competence
- Section 12 of the Local Government Act 2003 – power to invest
- Section 111 of the Local Government Act 1972 ("Incidental Power") – provides that a local authority shall have power to do anything (whether or not involving the expenditure, borrowing or lending of money) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions.

- Section 1 of the Local Government Act 2003 – provides local authorities a power to borrow for any purpose relevant to their functions under any enactment or for the purpose of the prudent management of its financial affairs.

10.3 The Fund needs to be a public sector fund with no private sector investment made directly into it. However, parallel private sector funding may be directly invested into individual projects or via a subsidiary public private joint venture.

10.4 It is important to note that the 'primary purpose' of the Fund is for the Council to support its socio-economic duties and objectives and not for the Council to act for a commercial purpose.

11 State Aid

11.1 The investment which the Fund offered would need to be on market terms to ensure state aid compliance.

12 Financial implications

12.1 As agreed by Council as part of the 2017/18 annual budget report, there is budget of £25 million for the Invest to Grow Fund. This will be funded by a transfer of strategic, long term cash balances from the council's Treasury Management Strategy to the Invest to Grow Fund, as new investments are made.

12.2 Based upon current market conditions, strategic cash balances are expected to yield approximately 2.5%. In comparison, the anticipated return from the Invest to Grow Fund is in the region of 5% net of fees.

12.3 Following a tender for the on-going management of the Fund, a 3 year contract was awarded in June 2017. Under this contract the management fees are £125,000 in year 1 reducing to £75,000 in years two and three. The fees are adjusted up or down according to performance against a baseline of securing £8m in new investments each year.

12.4 The higher return from the Fund, compared to long term cash investment, reflects a higher level of risk and reduced liquidity. The Fund's investments will typically be for a period of 2 – 3 years and the fund is expected to operate for a period of 10 years in order to become established and to justify the initial set-up costs.

13 Risk management

13.1 A risk assessment has been carried out in accordance with the Council's risk management policy and reported to Cabinet in June 2016.

13.2 The main risks are reputational concerning the perception of the Fund, financial relating to possible loan default and project exit timing and property based linked to the impact of future market conditions and project based costs and

valuations.

- 13.3 These risks will be managed at a fund level through the criteria and limits included in the Investment Strategy and at a project level by the Fund Advisor including through the loan agreements and via robust loan monitoring.

14 Equalities implications

- 14.1 An Equality Impact Assessment was carried out to consider the impact of establishing an Invest to Grow Fund on the protected characteristics and other groups, in line with the Public Sector Equality Duty and the Equality Act 2010. This assessment has been revisited to consider the progress of the Fund to date and proposed business plan for 2018/19. This review concluded that the Fund continues to be positive for residents and businesses in the borough due to its continued support of socio-economic growth, particularly in relation to housing and employment.

15 Consultation and communication

- 15.1 The communications and marketing plan aims to generate greater awareness of the fund aims to drive traffic to the dedicated website and generate enquiries.
- 15.2 The Fund Advisor will continue to work with the officer team at the council and private sector partners on a programme of continuous market engagement and face-to-face meetings with private investors in and outside of Basingstoke.
- 15.3 This report is also due to be considered by the Audit and Accounts Committee on 28 January 2019.

16 HR implications

- 16.1 There are no HR implications.

17 Conclusion

- 17.1 Cabinet is now recommended to approve the business plan set out this report.
- 17.2 During the last calendar year, the first investment was committed by the Fund. It is anticipated that during 2019/20 we will see further investments by the Fund, notably into new housing developments within the Borough.
- 17.3 The investments will be in line with the Fund Business Plan and Investment Strategy which achieve the Fund's vision of stimulating local development activity and leveraging private sector investment in support of local socio-economic growth.
- 17.4 These investments will be critical in setting the precedence and market perception for the future success of the Fund.
- 17.5 The Fund is forecast to meet its targets. Therefore the options considered and rejected are to close the Fund or to amend the strategy.

Date: 5 February 2019
Decision taken by: Cabinet

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Confidentiality	It is considered that information contained within this report (and appendices) does not contain exempt information under the meaning of Schedule 12A of the Local Government Act 1972, as amended, and therefore can be made public.