

## TELFORD & WREKIN COUNCIL

CABINET 13 JULY 2017

£50m GROWTH FUND UPDATE

REPORT OF ASSISTANT DIRECTOR: BUSINESS, DEVELOPMENT & EMPLOYMENT

REPORT OF LEAD CABINET MEMBER - CLLR LEE CARTER

### PART A) – SUMMARY REPORT

#### 1. SUMMARY OF MAIN PROPOSALS

- 1.1 In May 2016, the Council launched its strategy for economic development; 'Enterprise Telford: Driving Growth and Prosperity'. The strategy sets out how we will support existing businesses to grow and how we will compete nationally and internationally to attract inward investment delivering jobs, supporting local communities and generating income for the Council to invest into frontline services. The Strategy's success underpins the Council's commitment to 'creating a better Borough' delivering new jobs, homes and infrastructure across our communities, providing opportunities for local supply chain and construction companies and creating a revenue return to invest into front line services.
- 1.2 As part of Enterprise Telford the Council has established a £50 million Growth Fund which is being used to invest directly into land, property and strategic infrastructure enabling local businesses to expand and drawing in new investors and delivering a revenue return to the Authority to invest into front line services. To date over **£29m has been invested which is supporting the generation of c.1000 new jobs and set to safeguard a further 400.** The investment will also deliver an **ongoing net return after borrowing of £1m of which some £750k is linked to long term lettings of between 8 and 15 years.** This report provides an update on some of the investments made to date.
- 1.3 The report also seeks approval to offer asset management services to other organisations looking to invest capital into property providing an additional income stream to the Authority and further supporting the delivery of new jobs in the Borough.

#### 2. RECOMMENDATIONS

That Members: -

- a) **Note the outcomes of the Growth Fund investments to date and approve the amended scope of investments to be made through the Growth Fund as set out in this report.**

- b) Delegate authority to the Assistant Director: Business, Development & Employment, to negotiate and enter into all necessary agreements with other organisations looking to invest in property.
- c) Delegate authority to the Assistant Director: Governance, Procurement & Commissioning to seal or sign any documents required to give effect to the recommendations contained in this report.

### 3. SUMMARY IMPACT ASSESSMENT

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|--|---|--|
| <b>COMMUNITY IMPACT</b>                  | Do these proposals contribute to specific Priority Plan objective(s)? |  |
|  | YES   | Protect and create jobs as part of a business winning and business supporting Council.   |
|  | Will the proposals impact on specific groups of people?               |  |
|  | YES   | The proposals will support existing businesses and potential investors to invest and expand in Telford, creating growth and jobs across the Borough.   |
| <b>TARGET COMPLETION /DELIVERY DATE</b>  | The Enterprise Telford campaign is on-going.                          |  |
| <b>FINANCIAL/ VALUE FOR MONEY IMPACT</b> | YES   | Full Council approved the establishment of a £20m Growth Fund and the associated prudential borrowing in November 2015 before Full Council approved the increase in the Growth Fund to £50m in November 2016. The Property Investment Portfolio (PIP) generates revenue income of in excess of £5m for the Council which supports a range of Council services. Currently investments totalling £29.4m have been approved against the approved fund of £50m. The investments approved deliver on-going income from rental streams and retained business rates which supports the Council's budget and contributes to the delivery of savings.<br>The asset management of commercial properties on behalf of other public and charitable organisations will generate further income through fee generation. Any services provided to a third party must not constitute financial advice. However, the Council, through the PIP, may make a separate decision to invest in a property that a third party has also decided to invest in. Financial advice will be given as appropriate to this decision.<br>DR 17/5/17 |
| <b>LEGAL ISSUES</b>                      | Yes   | The Council will operate a strategy which will be compliant with Council Constitutional standards of decision- making. It will ensure that all legal mechanisms implemented and used will do so in a manner which takes due regard of the financial framework of the strategy with particular regard to  |

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|---|-----|---|
|   |     | <p>financial probity, stringent financial planning and financial risk management. In addition, where necessary the appropriate regulatory requirements will be observed particularly with regard to the Equalities Act (consultations and impact assessments where appropriate) and the requirements of the Public Contracts Regulations 2015.</p> <p>In view of the State Aid Rules and their potential impact on public sector projects the Council will be vigilant in relation to the grant of aid to commercial entities which may impact its pledges, support package coordination and delivery to third parties. In respect of the asset management of commercial properties on behalf of other public and charitable organisations, these activities must be limited to asset management activities and must not constitute financial services.</p> <p>JH 17/5/17</p> |
| <b>OTHER IMPACTS, RISKS &amp; OPPORTUNITIES</b> | Yes | <p>The risks associated with each individual investment are considered as part of the business case approved as part of the delegated decision making. Where speculative industrial unit development is proposed the level of risk associated with void periods increases even where you have a strong market. To minimise exposure a cap on revenue liability from speculative new build investments has been included as set out in section 4.8 below.</p> <p>The development of additional units for the market and an ability to support those wishing to invest in commercial property individually or alongside the Council supports growth in new premises and jobs.</p>   |
| <b>IMPACT ON SPECIFIC WARDS</b>                 | NO  | <p>The benefits of the projects will be Borough wide with the Growth Fund alongside the Enterprise Telford approach and Pledge encouraging business growth and investment across the Borough.</p>   |

## **PART B) – ADDITIONAL INFORMATION**

### **4. INFORMATION**

#### **BACKGROUND**

##### **Growth Fund**

- 4.1 The Council is committed to creating new investment and opportunities across all our communities and the success of Enterprise Telford and the £50m Growth Fund is delivering new jobs, homes, utility infrastructure, supporting the growth of existing companies supplying new investors and in construction and providing a revenue return to the Council to invest into front line services.

- 4.2 The Council's property investment portfolio (PIP) makes an important contribution to the Council's revenue budget, generating a consistent income stream in excess of £5m per annum to support front line services.
- 4.3 In November 2015 the Council launched a £20m Growth Fund to capitalise on investment demand enabling the Council to acquire land and property, build bespoke premises, invest in strategic infrastructure, and strengthen and diversify the Council's Property Investment Portfolio. Given the strength of demand and return on initial investment The Fund was increased to £50m in November 2016.
- 4.4 The Growth Fund enables the Council's Estates and Investment team to react quickly to investment opportunities that come to the market and supports the growth of the property portfolio bringing additional essential income into the Council to support service delivery and providing a major attraction to investors looking for leasehold property. This unique Council approach and willingness to invest in acquiring land, property or infrastructure is enhanced by our ability to deliver design, build, and ongoing building management and business support.
- 4.5 In less than 18 months £29.3m has been committed into a range of investments which are anticipated to help deliver 1000 new jobs and safeguard a further 400 jobs. These initial investments are forecast to generate an average ongoing gross return on investment, including additional retained business rates income of 7.7%, (3.7% net of borrowing costs, at an assumed rate of 4%). Through the investment of the full £50m the Council is set to generate over £3m in additional gross income, assuming a 6% return on the unallocated capital, (£1m net of borrowing). The investment is also delivering growth in business rates income.
- 4.6 The Growth Fund alongside the Telford Land Deal and wider Enterprise Telford offer has been instrumental in the delivery of a number of major investments and is continuing to attract interest locally and regionally. High profile investments include Magna International's multi million pound investment into T54 (featured in the Telford Land Deal Report to Cabinet), which has put Telford on the investment map for major automotive investors and is set to act as a major stimulus to the local supply chain. The Council has also acquired the Audley Avenue Industrial Park in Newport – which will safeguard the future of 13 businesses and more than 160 jobs. Other investments set to deliver a significant return include Travelodge in the Town Centre and we have recently completed the acquisition of an existing property investment at Halesfield 25



Unit at Halesfield 25

- 4.7 In addition to the revenue return from investment a number of the developments have delivered further revenue through fee income to biT and planning, reflecting the attraction to companies of the Authority being able to provide turnkey solutions tailored to investors needs supported by a streamlined planning service.
- 4.8 The demand for investment remains strong and a number of opportunities are currently being explored anticipated to include providing start up and incubation units for which there is high demand in the borough.

#### **Asset Management of commercial assets for third parties**

- 4.9 The Councils Estates & Investments team currently manage a number of commercial assets for Seven Gorge Countryside Trust (SGCT). This is an historic agreement between the parties and Commission for New Towns (now HCA) under which the Council hold in trust assets and manage them on behalf of the SGCT. The income generated after the deduction of a management fee is used by SGCT to support the ongoing management of the land for which they are responsible.
- 4.10 As part of developing the Council's commercial activity the service is looking at opportunities to manage third parties commercial premises, undertaking all day to day activities including management, lease renewal, rent reviews, rent collection etc. Such operations could also provide opportunities for further Council services to be 'sold in' e.g. in facilities management.
- 4.11 Aware of the Council's proactive and successful approach to property investment another large regional charity has approached the Council to support them to invest a proportion of their capital reserves into commercial property. This offers the opportunity for co-investment, with income split on a pro rate basis based on level of

investment, spreading risk, or investment made specifically for the charity with income generated for the Authority through a management fee. In both instances where investment is made in the Borough this extends the opportunity for supporting further business expansion or new investors to land and new job creation. Delegated authority is sought to enable this activity which could include supporting a range of organisations including Town and Parish Councils.

### **Scope of Investments to be made through Growth Fund**

4.12 There is a significant shortage of industrial units across the Borough and as such requirements cannot be met and there is a risk that investments will therefore be lost. It is therefore proposed that the scope of investment of the Growth Fund is widened to bring forward speculative industrial development to meet this current significant shortfall. Specific examples of such developments include proposals for starter/incubation units which are currently being investigated at Hortonwood West and Newport (as part of the proposed new Innovation Park).



Proposed starter/incubation scheme at Hortonwood West



Proposed Starter/incubation scheme at Newport

In order to minimise risk in the construction of speculative industrial units a cap on the level of revenue liability from new build investments is set at £250,000 per annum. Therefore before a new development can be taken forward units that have already been built out would need to be let to a level that the cumulative impact did not go above this cap.

- 4.13 As part of the drive to continue to support the Borough Towns there are also opportunities to utilise the Growth fund to support the acquisition and/or re-development of mixed use buildings. Such investment could include improvements to ground floor commercial units and redevelopment of upper floors to create new/improved commercial or residential units. Approval is sought to extend the application of the Growth Fund to enable mixed use investments to be considered.
- 4.14 As with all Growth Fund projects the individual investment will be subject to a business case and approval by the Assistant Director for Business, Development and Employment, Assistant Director in consultation with the Assistant Director for Finance and Human Resources and the Lead Cabinet Member for Council Finance, Commercial Services and Economic Development.

**5. IMPACT ASSESSMENT – ADDITIONAL INFORMATION**

None

**6 PREVIOUS MINUTES**

Cabinet 27 March 2014 – The Telford Deal for Business

Council 26 November 2015 – Property Investment Portfolio – Investing in Telford's Growth

Council 24 November 2016 – Driving Growth and Prosperity

**Report prepared by James Dunn, Estates & Investments Service Delivery Manager.  
Telephone Numbers 01952 384331**