



**Name of meeting:** Cabinet  
**Date:** 31st July 2017  
**Title of report:** Property Investment Fund

### Purpose of report

To consider a proposal to create a Property Investment Fund (PIF) which would allow the Council to support major development projects which produce wider economic benefits to the Council and the wider Kirklees economy

<b>Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?</b>	<b>Yes</b>  <b>Expenditure of more than £250k</b>
<b>Key Decision - Is it in the <a href="#">Council's Forward Plan (key decisions and private reports?)</a></b>	<b>Yes</b>  <b>Registered: 16<sup>th</sup> June 2017</b>
<b>The Decision - Is it eligible for call in by Scrutiny?</b>	<b>Yes</b>
<b>Date signed off by <u>Director</u> &amp; name</b>	<b>Naz Parkar - 17.07.17</b>
<b>Is it also signed off by the Service Director - Finance, IT and Transactional Services?</b>	<b>Debbie Hogg - 21.07.17</b>
<b>Is it also signed off by the Service Director - Legal, Governance &amp; Commissioning?</b>	<b>Julie Muscroft - 14.07.17</b>
<b>Cabinet member <a href="#">portfolios</a></b>	<b>Cllr Naheed Mather:</b> Economy (Strategic Housing, Regeneration and Enforcement) <b>Cllr Peter McBride:</b> Economy (Strategic Planning, Regeneration and Transport) <b>Cllr Graham Turner:</b> Corporate (Place, Environment and Customer Contact Services)

**Electoral wards affected:** All

**Ward councillors consulted:** N/A

**Public or private:** Public

## 1. Summary

This report considers a proposal to create a Property Investment Fund (PIF) with an initial allocation of £25m from the Capital Plan. The PIF will allow the Council to offer loans to development projects which offer significant economic benefits to the Council and the wider Kirklees district. Any funding offers made will be on the basis that the loan repayments made by the recipient will cover the Council's financing costs and allow for an appropriate margin on cost of funds reflecting the level of risk involved and consistent with State Aid principles. All funding offers made will be subject to appropriate due diligence and security arrangements and each individual loan offer will be the subject of a further Cabinet report.

## 2. Information required to take a decision

**2.1** A significant number of local authorities nationally have created similar arrangements to the proposed PIF to allow them to make returnable investments in development projects. For most authorities who have adopted such schemes the key focus has been:

- to stimulate their Economic Strategy and
- promoting development to sustain and develop a robust local economy
- growth in the Business Rate base
- allowing land and property owned by the authority to be transferred to a different ownership model reducing revenue budget exposure.

In short capital investment can be used on an 'invest to save basis' to improve local economic growth, increase income flows or remove revenue costs.

**2.2** Some Councils have gone further down this route and have adopted schemes which acquire commercial property or invest in funding vehicles, both within the local authority's boundary or outside of it, on a purely commercial basis as a means of using the revenue flows generated by such schemes to fund local services.

**2.3** The proposal discussed in this report does not fall into this category being a proposal to fund schemes in Kirklees only that fulfil the broad objectives set out in 2.1.

**2.4** Within Kirklees there are a number of potential schemes which would meet the broad objectives of a PIF and allow the council to intervene to stimulate the local economy and increase revenue flows or reduce liabilities.

**2.5** The two most advanced proposals in terms of discussions with the scheme promoters are:

- the Kingsgate Huddersfield extension where Council investment would allow the scheme to be delivered more quickly than via mainstream market funding mechanisms allowing the benefits of increased Business Rate yields and a positive impact on town centre footfall and vibrancy to be delivered earlier and;
- 103 New Street, Huddersfield (the Council owned extension to the former Co-op building) where a proposal being developed would allow the building to be brought back into use removing a significant liability to

the Council and improving the appearance of a significant and prominent gateway to Huddersfield town centre.

- 2.6** The above schemes are illustrative only and the PIF would give due consideration to other proposals. However in creating a PIF it would not be the intention for the Council to directly compete with existing providers of investment funding. The Council would only look to invest, at its discretion, when there was a clear and demonstrable added value case to be made in terms of local economic benefits for PIF involvement.
- 2.7** In many instances the Council investment would be short term to cover the construction phase of development which for is the most critical for schemes to locate finance that is timely and on reasonable terms. Once out of the development phase there is sufficient liquidity at an appropriate risk margin in the existing investment markets for schemes to be refinanced at which point the Council investment would be repaid. In terms of the two illustrative schemes referenced at 2.3 above that has been the basis on which discussions have progressed to date.
- 2.8** As stated above any investment from the PIF would be on terms that allowed the Council to fully cover its costs, including the costs of borrowing to fund any advance, and create an appropriate risk contingency.
- 2.9** Any proposals would have to comply with all relevant legislation re public sector support for commercial private sector investment and would involve a reasonable security package to be put in place. The aim of the PIF would allow the Council to invest on a shared risk basis with private sector investors to maximise the benefit to the local economy and realise the ambitions of the Kirklees Economic Strategy and the requirements of the Council's Medium Term Financial Plan to both increase income and reduce revenue expenditure and liabilities.

### **3. Implications for the Council**

#### **3.1 Early Intervention and Prevention (EIP)**

Not directly applicable although a robust and vibrant local economy with the consequent benefits for increased employment and improvements in the quality of the public infrastructure make a contribution to improving individuals resilience to avoid higher cost interventions.

#### **3.2 Economic Resilience (ER)**

Clearly the main benefits will be reflected in this ambition in terms of the difference that the interventions from the PIF can make to maintain and increasing the resilience of the local economy. Direct Council investment would be targeted at those schemes which were felt to produce significant added value in terms of an improvement over and above the outcomes that a purely market focussed solution could produce.

### **3.3 Improving Outcomes for Children**

Not directly applicable.

### **3.4 Reducing demand of services**

It is entirely possible that some of the interventions, e.g. 103 New Street, could reduce the cost of mainstream budgets from the Council by allowing property assets to be redeveloped thus removing existing and future maintenance and rates liabilities.

### **3.5 Legal/ Financial or Human Resources**

No Legal implications to the concept of creating a budget for a PIF but clearly any proposals for specific interventions funded from the PIF would require suitable Legal Agreements to be prepared, these arrangements would be dealt with in subsequent reports on the individual schemes.

In terms of Financial implications it is suggested that a budget of £25m be provided in the Capital Plan for the PIF. This would be phased as follows:

- 2017/18 £5m
- 2018/19 £15m
- 2019/20 £5m

As no provision currently exists in the approved Capital Plan for this purpose this report if approved would need to be referred to Council for a decision to increase the overall Capital Plan to provide for a PIF.

In terms of revenue implications it is intended that the costs associated with providing support via the PIF would be covered by the repayments made by the recipients including any borrowing costs and costs associated with due diligence on the proposals and preparing the required Legal Agreements.

The legal powers for the Council to set up the Fund would be Sections 1&12 of the Local Government Act 2003. In respect of any individual loans from the Fund these would be under Section 1 of the Localism Act 2011.

## **4. Consultees and their opinions**

N/A

## **5. Next steps**

If Cabinet supports this proposal it will be necessary for this report to be referred to Council to allow the necessary increase in the overall size of the Capital Plan to be considered. Subject to that approval being given officers would continue to work with the sponsors of the two most advanced schemes to bring reports setting out proposals for the specifics of PIF support for the individual investments to a future Cabinet meeting for consideration.

## **6. Officer recommendations and reasons**

Officers would recommend that Cabinet agrees to the setting up of a Property Investment Fund (PIF) with £25m of provision being made in the Capital Plan phased as per para 3.5.

## **7. Cabinet portfolio holder's recommendations**

The relevant Portfolio Holders support the officer recommendation to set up a Property Investment Fund (PIF) with £25m of provision being made in the Capital Plan and would ask that Cabinet do the same.

## **8. Contact officer**

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## **9. Background Papers and History of Decisions**

N/A

## **10. Strategic Director responsible**

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