

Cabinet



Forest Heath
District Council

Title of Report:	Establishing a Mechanism for Investing in our Growth Agenda	
Report No:	CAB/FH/17/018	
Report to and date:	Cabinet	4 April 2017
Portfolio holders:	Councillor Lance Stanbury Portfolio Holder for Growth Tel: 07970 947704 Email: lance.Stanbury@forest-heath.gov.uk Councillor Stephen Edwards Portfolio Holder for Resources & Performance Tel: 07711 457657 Email: stephen.edwards@forest-heath.gov.uk	
Lead officer:	Rachael Mann Assistant Director (Resources and Performance) Tel: 01638 719245 Email: rachael.mann@westsuffolk.gov.uk	
Purpose of report:	<p>In order to promote economic growth that benefits our communities, the Council needs to consider the investment role they can play to:</p> <ul style="list-style-type: none">i) shape local places, while alsoii) ensuring their own financial self-sufficiency, in order to safeguard the provision of support and services for West Suffolk's communities. <p>As part of the February 2017 Budget and Council Tax setting report, a £20m revolving capital investment fund was created as a pending item within Forest Heath District Council's capital programme, funded from external borrowing. This paper considers the governance for that fund and the creation of a £1m revenue reserve budget to facilitate the fund's next steps in delivering growth and investment opportunities within West Suffolk.</p>	

Recommendation:	Cabinet is requested to: <ol style="list-style-type: none"> (1) Support and approve the strategic approach to investment planning (outlined in the paper and at Section 3) and the development of an overarching investment strategy for Council approval in due course; (2) Support and approve the principle of the Cabinet’s role in the leadership and decision-making in relation to the investment fund (outlined in the paper and at Sections 4 and 5); (3) Note the transfer from reserves as detailed in paragraph 5.2 and 5.3 for the creation of a £1m revenue budget to support the capital investment fund. (4) Note that prior to the adoption of the overarching investment strategy, referred at (1) above, that the current constitutional decision mechanisms will continue to operate.
Key Decision: <i>(Check the appropriate box and delete all those that do not apply.)</i>	<i>Is this a Key Decision and, if so, under which definition?</i> Yes, it is a Key Decision - <input type="checkbox"/> No, it is not a Key Decision - <input checked="" type="checkbox"/>
Consultation:	<ul style="list-style-type: none"> • Development of the overarching investment strategy referred to in this paper will include consideration by the Overview and Scrutiny Committee and wider member consultation will take place as part of its development. • Consultation on each proposed investment will be considered as part of the individual business cases.
Alternative option(s):	<ul style="list-style-type: none"> • The Council could choose not to proceed with the proposed approach and to continue ‘as is’. Section 2 sets out some limitations to the current approach. • An alternative is that the Council could choose to hold additional council meetings to consider investment opportunities. • Another alternative is for the Chief Executive to use his urgency powers to ensure opportunities are not lost, however this doesn’t provide the greatest level of democratic process or scrutiny.

Implications:			
<i>Are there any financial implications? If yes, please give details</i>		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> As set out in the main report. Each investment will be considered on its own merits and taking into consideration the approved West Suffolk Investment Framework which sets out the principles behind the financing and funding considerations for each project's business case. 	
<i>Are there any staffing implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> This proposed approach is envisaged to support staff and Councillors with the development and adoption of an overarching strategy. 	
<i>Are there any ICT implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> None as a result of this report 	
<i>Are there any legal and/or policy implications? If yes, please give details</i>		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> As set out in the main report. 	
<i>Are there any equality implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> None as a result of this report 	
Risk/opportunity assessment: <i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>			
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
	Low/Medium/ High*		Low/Medium/ High*
Risk of reactive investments, missed opportunities and for inconsistency	Medium	Development and adoption of an overarching strategy allowing decisions to be taken against a backdrop of agreed principles	Low
Missed opportunities due to time delay within the democratic process	High	Approval of proposed governance arrangements and delegations for the Investment Fund	Low
Members feel that there is a lack of appropriate scrutiny through the new proposed governance arrangements	Medium	Papers for investment items would be available to all Councillors. Briefings would be given on issues of particular interest to certain Ward members.	Low

		Decisions notices would be published after the meetings, and would be subject to Call-In procedures.	
Ward(s) affected:		All	
Background papers: <i>(all background papers are to be published on the website and a link included)</i>		Budget and Council Tax setting: 2017/18 and MTFs 2017-2021 - Report No: CAB/FH/17/005 West Suffolk Investment Framework - Report No: CAB/FH/15/028	
Documents attached:		Appendix A - Development of an Overarching Strategy	

1. Background and context

- 1.1 The West Suffolk Medium Term Financial Strategy for 2017-20 sets out Forest Heath and St Edmundsbury Councils' intention to facilitate sustainable growth that benefits our communities, including through investment, over the period of the strategy. This is in order to deliver our growth objectives as well as to move towards the Councils' goal of financial self-sufficiency.
- 1.2 As part of the February 2017 main Budget and Council Tax setting reports, each Council created a £20m revolving capital investment fund, as pending items within their capital programmes, funded from external borrowing. This paper proposes the governance arrangements for St Edmundsbury for that fund and the creation of a £1m revenue budget to facilitate the fund's next steps.
- 1.3 Moving forward with our ambitious agenda the Councils are committed to exploring how economic growth can be continually promoted, while ensuring it benefits our communities. These principles will be developed through the forthcoming work on a West Suffolk Strategic Plan (SP) for 2017-2020.
- 1.4 In order to promote economic growth, the Councils need to consider the investment role they can play to i) shape local places and support our communities, while also ii) ensuring financial self-sufficiency (through revenues and business rates income – through the business rates retention scheme), in order to safeguard the provision of support and services for West Suffolk's communities.
- 1.5 Taking forward this dual role is likely to involve a mix of:
 - asset management;
 - regeneration activity, including delivery of town centre masterplans; and
 - commercial ventures.
- 1.6 In practice this might mean:
 - making loans, securing the return of the Councils' funds for further investment
 - operating through council-owned special purpose vehicles i.e. Barley Homes (Group) Ltd
 - investing in and diversifying our commercial asset portfolio
 - facilitating growth on key strategic sites, securing housing and employment growth
 - purchasing assets, in order to generate an income or reduce costs. As well as public sector assets, these could be industrial, energy, leisure, retail or other assets.
 - entering into joint ventures, sharing the investment and expertise required
 - considering commercial opportunities within West Suffolk and beyond our boundaries
 - borrowing, introducing new funds into both councils

- 1.7 Some of these activities have already begun in the Councils, but in driving the agenda forward with greater pace, compared to traditional local government processes, and increasing our impact, we need to create:
- an **overarching strategy**, to ensure individual decisions are taken in the context of a wider plan and in line with our strategic objectives;
 - a **focus for leadership around growth and investment decisions**; and
 - the **ability to respond quickly to investment opportunities**.
- 1.8 This paper sets out how Forest Heath and St Edmundsbury Councils, working as West Suffolk can take a more strategic approach to their asset management and investment activities, and some of the principles and practices that need to apply. This report assumes that a similar approach is taken across West Suffolk – agreed by both Forest Heath and St Edmundsbury. St Edmundsbury is considering a similar proposal in parallel to this report. It would be possible for just one council to take forward this approach without the other, but there would be an obvious loss in economies of scale and the size of the collective asset base from which to invest.
- 1.9 The focus of this paper is on the actions West Suffolk takes to facilitate growth where the councils have a specific financial interest. It is recognised that the councils are involved in a much wider range of projects that do not involve any of the activities in paragraph 1.6 above, but that may still result in growth in the surrounding economy, and therefore an increase in business rates income. However, these projects are not within the scope of this paper.

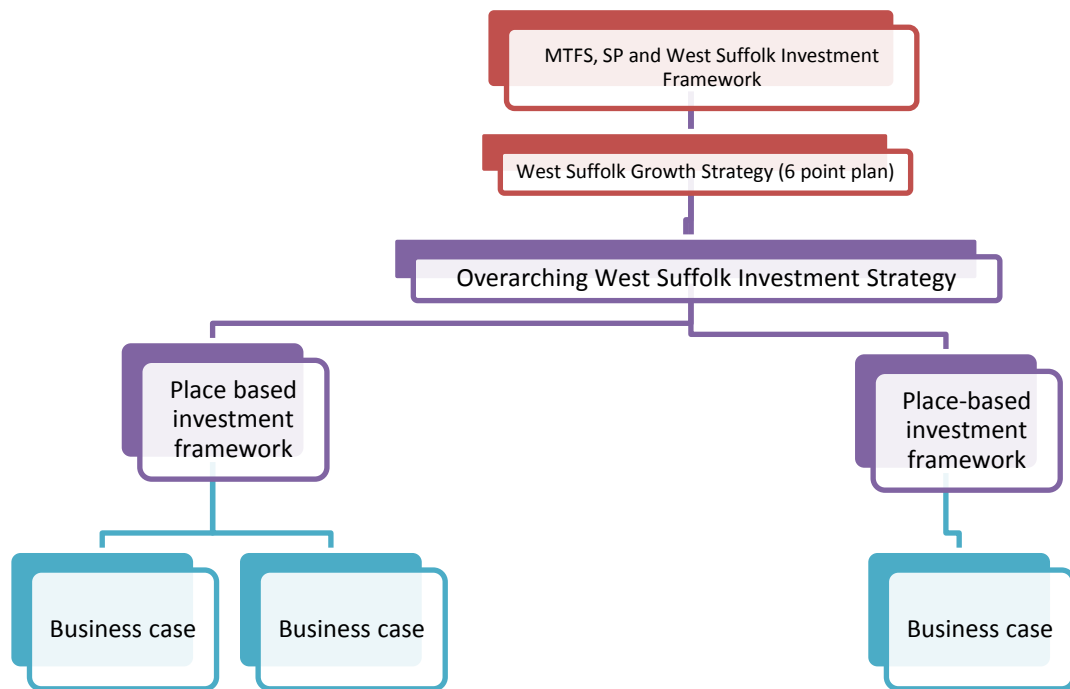
2. Limitations of current approach

- 2.1 Under the current arrangements, investment decisions are often taken in isolation, without being able to refer to a set of pre-agreed investment principles. West Suffolk councils therefore need to create an **overarching investment strategy** for the councils' assets and investments that allows decisions to be taken against a backdrop of agreed investment principles. Without this, there is the potential for reactive investments, missed opportunities and for inconsistency, rather than a proactive, strategic approach.
- 2.2

The Councils need to create a **focus for leadership of growth and investment decisions**, moving from decisions made by a wide group (Council), to a smaller group with specific focus or training. By concentrating decision-making about investment and growth within the Cabinet structure, there will be an opportunity for a body of knowledge and expertise to be built up and for skills development around horizon scanning, economic insight, strategic property investment and risk management. Any new governance arrangements would be subject to the existing Councils' checks and balance functions, including the role performed by the Councils' two scrutiny functions.

3. Proposal: Taking a more strategic approach to investment planning

- 3.1 West Suffolk's new focus on investment and growth in order to achieve its growth ambitions and self-sufficiency demands a much more strategic approach that allows the councils to be proactive, rather than simply reacting to new opportunities in an *ad hoc* way.
- 3.2 It is proposed that an overarching strategy is developed, which sets out an overall direction for types of investment and appetite for risk. It is anticipated that the approach to investment will be wider than simply those that generate a financial return, but rather those that contribute to the "double bottom line" of investing in our communities and businesses. This could at times include investing in assets in the public interest – i.e. ensuring their future is secured until such time as the councils, or others, can further develop them appropriately. The councils have a unique dual role in this regard and will attract criticism if they are not seen to act when key investment opportunities arise, making our strategy somewhat different from more straightforwardly commercial investment funds.
- 3.3 This overarching strategy is expected to be approved by Council during this calendar year. It is proposed that engagement with the Overview and Scrutiny Committee will take place on the overarching strategy as it is developed and will seek to address the key questions/areas as detailed in appendix A.
- 3.4 It is proposed that the Councils then develop investment plans for the main places in West Suffolk, covering potential investment opportunities that may arise and considering their "fit" with West Suffolk's Investment Framework. Once individual investment opportunities arise, they will be supported by business cases, as follows:



- 3.5 In order to develop the plans and business cases, appraisal will be needed assessing:
- the links to the councils’ strategic priorities
 - the likely community benefit (including contribution to the prevention agenda)
 - the investment required and associated borrowing costs
 - the likely return on investment including business rates, New Homes Bonus and council tax
 - any ongoing costs and/or savings, including impact on demand management considerations
 - the likely business rates yield
 - how the councils’ investment role could support the relevant masterplans for each place
 - special considerations – legal, taxation, State Aid, appropriate delivery vehicle, use of existing company structures etc
 - the risks associated with each investment

- 3.6 The plans will also address the:
- links to the One Public Estate Programme and the West Suffolk Property Board
 - links to local government transformation (public service reform) and Suffolk-wide working (Transformation Challenge Award)
 - links to West Suffolk’s masterplans
 - the most appropriate delivery vehicle for the councils’ investment
 - where LEP or Business Rates Pool funding could support the councils’ investment role.
 - Other external funding opportunities

- 3.7 The plans will need to be based on significant data, intelligence and insight work, coupled with horizon scanning, options appraisal and financial modelling. Given the workload involved, it is expected that the plans will require external support.
- 3.8 The overarching strategy and place-based plans will be approved by the respective Councils. The business cases for each investment will be approved in line with the relevant level of financial delegation for the capital fund, proposed below.

4. Proposal: Focusing leadership and decision-making in relation to investment

- 4.1 It is proposed that responsibility for owning and then implementing the councils' investment plans should sit with both Cabinets, supported by an Investment Fund (see section 5 below). This will allow investment decisions to be made more quickly and in a more structured way. Having a mechanism in place which can quickly approve investment proposals will widen the scope for growth/investment opportunities, optimise the councils' negotiation position and will seek to mitigate the need for emergency powers to be used so as not to 'miss' emerging opportunities, thereby increasing democratic accountability where this would have been the case.
- 4.2 Another key role for both Cabinets will be to advise on the appropriate delivery vehicle for each investment. For example, they will need to consider whether outcomes can be achieved using existing council mechanisms, or whether special purpose vehicles should be established. Different vehicles may be suitable for different projects, or in time it might be decided that an umbrella vehicle would be more appropriate.
- 4.3 Putting information about specific investment decisions into the public domain could compromise the Council's negotiating position. Whilst the Council will seek to be as open and transparent as it can in its activities, in order for Cabinet to be able to take commercially confidential investment decisions, the decisions plan will show that meetings are 'considering items relating to the delivery of growth and investment in West Suffolk' and the circulation of the papers for investment items will be restricted to all Councillors (and key officers) only. Briefings will be given on issues of particular interest to certain Ward members.
- 4.4 Decisions notices for Cabinet level decisions will be published after the meetings, and will also be subject to Call-In procedures.
- 4.5 Where issues were particularly sensitive, these could be taken by Council, even where the Cabinets have the necessary delegations.

5. Proposal: Revolving capital investment Fund and associated revenue funding

- 5.1 A revolving capital Investment Fund of approximately £40m (£20m from St Edmundsbury BC and £20m from Forest Heath DC) has been created by both councils. Once the overarching strategy is approved, these funds can be drawn on to invest in emerging opportunities in West Suffolk, whether for

Forest Heath, St Edmundsbury or joint West Suffolk investment opportunities.

5.2 The capital fund, which is included within both councils capital programme as a pending item, will be made up from external borrowing. It is proposed that this capital fund is also supported by a £2m (£1m each authority) revenue investment budget, representing 5% of the capital investment fund value, which can be used in support of delivery of the capital fund on such items as the following. There would also be the possibility of additional revenue funding being requested in the future if necessary:

- feasibility work;
- development of the overarching strategy referred to in this paper
- external borrowing costs, where there may be a timing gap between incomes/savings being crystallised
- technical officers' appointments or commissioning of professional and / or specialist skills such as legal, financial (including financial modelling tools), commercial, property, planning, highways

5.3 The revenue fund (created as an earmarked revenue reserve) is proposed to be funded through a reserve transfers from the Strategic Priorities and Medium Term Financial Strategy Reserve, the balance of the risk and recession reserve and invest to save reserve. These transfers are within existing delegations to the Assistant Director for Resources and Performance, in consultation with the Portfolio Holder for Resources and Performance. As such, no decision is formally required from Cabinet to create this fund but Cabinet is asked to note this development. It is proposed that the invest to save reserve is then replenished with any additional returns generated from the capital fund and its level then reviewed annually as part of the reserve and balances review by the S151 Officer for consideration by Council (as part of the main Budget and Council Tax Setting reports).

5.4 Money from the capital fund could be used to fund schemes in whole or in part. For example, the funding could be used alongside LEP funding, or funding from other council budgets. However, where other council budgets are used (with the exception of the revenue Investment Fund referred to above) approval will be needed through the usual council arrangements rather than through the governance arrangements for the Fund, which could potentially cause delay.

5.5 Under the proposals, the Cabinets will have newly delegated authority to authorise funding from the capital Investment Fund on suitable projects. The delegations are expected to be significant, however the exact delegation values are to be determined following the development of the overarching investment strategy and are subject to Council approval. Officers will propose the following in due course:

- S151 Officer, Monitoring Officer and Chief Executive, in consultation with the Portfolio Holder for Resources and Performance = up to £TBC*m
 - Cabinet – up to £TBC*m
 - Council beyond a single project being over £TBC*m
- *Amounts to be confirmed following the development of the overarching

investment strategy and are subject to Council approval.

- 5.6 It is proposed that once these delegations (paragraph 5.5) are in place that they only run for the remaining period of the current Strategic Plan, therefore up to April 2020. This will prompt a proactive review (in advance of that end date) of the appropriateness and effectiveness of these delegations for investment decisions post April 2020.

6. Creating a return from the Fund.

- 6.1 In order to establish a £40m fund across West Suffolk without creating an on-going cost to the councils, each business case will need to be considered on the basis of borrowing, in line with the principles set out in the Medium Term Financial Strategy (MTFS) and investment framework.
- 6.2 As a minimum an overall rate of 6% (our MTFS refers to a target 10%), equivalent to £2.4m per annum, from the Fund's investment will need to be achieved to ensure a cost neutral position (based on current 40 year borrowing costs and repayment).
- 6.3 This would provide a net benefit to each council of £200k per annum, which is currently assumed within the MTFS period from January 2018. In reality some of the Fund will be used for loans which will allow for re-investment.

7. Loans

- 7.1 Forest Heath already has in place a Loans policy which allows loans to organisations to be made. Those under £50k require Cabinet approval and those over £50k require Council approval.
- 7.2 The loans policy is explicitly not part of the council's investment or treasury management strategy (see para 1.3 of Loans Policy 2013). "Decisions regarding the granting of loans are based on a wider concept of the strategic benefit of each proposal, rather than the narrower treasury management investment criteria which is driven by consideration of the security and liquidity of funds as well as financial yield".
- 7.3 As the fund will be considering investment opportunities that could involve loans, it is proposed that the Loans Policy is updated to allow for the Cabinet to approve loans, taking into consideration the loans policy, in line with its overall financial delegations outlined in section 5.5 above - once the financial delegations values are established.

8. Experience of other councils

- 8.1 There are limited examples of councils establishing similar arrangements; however Babergh and Mid-Suffolk have recently established a £50m investment fund, utilised wholly through an external vehicle. Ipswich Borough Council has established a company - [Ipswich Borough Assets Limited](#) - to manage its investments.