

Economy Committee

10am, Tuesday, 23 June 2015

The Future of the Strategic Investment Fund

Item number	7.6
Report number	
Executive/routine	
Wards	All

Executive summary

The Council's Strategic Investment Fund was approved on 7 February 2013. This new fund acts as "lender or investor of last resort" on projects and programmes with a strong social, economic or wider city benefit. The fund provides investment only where there is little interest from the private sector or other public sector agencies.

As an example, a proposal to create additional industrial units was supported by Economy Committee on 28 April 2015 and approved Council on 28 May 2015.

This report is a discussion paper on the future opportunities for leveraging the fund through co-operation with other city partners. Such an arrangement could have the effect of raising new value and opportunity among partners with similar aspirations.

Links

Coalition pledges	P17
Council outcomes	CO7, CO8, CO19, CO25
Single Outcome Agreement	SO1

The Future of the Strategic Investment Fund

Recommendations

- 1.1 Economy Committee is asked to:
- Instruct the Director of Economic Development to explore in detail the potential for aligning and leveraging the Strategic Investment Fund with the resources of other city partners; and
 - Instruct the Director of Economic Development to return with a detailed conclusion and set of recommendations including partnership working with city partners for the future of the Strategic Investment Fund in two cycles.

Background

- 2.1 The creation of a Strategic Investment Fund was approved on 7 February 2013. The fund is intended to create new social and economic opportunity through “last resort” investment and lending.
- 2.2 A fund of £7.5m is to be established, derived from the sale of Council assets. A first tranche of £3.5m has been made available and a further £4m is will be added to the fund by the end of this financial year.

Main report

- 3.1 Since the launch of the fund, there have been a number of approaches from external partners interested in aligning their own investment resources with those of the Council. Their motivation often stems from a desire to create a double dividend around local financial and community sustainability.
- 3.2 Aligning the evergreen Strategic Investment Fund with other city resource could create economies of scale and opportunities for investments with a greater return. The Council might therefore consider a call to other parties to join in with the fund’s aims and principles.

Potential city partners

- 3.3 This discussion paper explores some of the opportunities which might arise from such an arrangement. There would appear to be a case for close alignment with:
- The third sector, particularly where there are joint employment goals;
 - higher and further education targeted at new spin out companies or the commercial exploitation of knowledge;
 - social enterprises struggling to capitalise on commercial or trading ventures;

- corporate social responsibility co-investment;
- public agencies looking to create new value from the disposal or development of assets and investment;
- environmental groups;
- philanthropic trusts and funds seeking a return on investment; and
- innovative mechanisms such as social bonds, the Growth Accelerator Model and the City Deal.

Potential areas of investment

3.4 There are also a number of potential targets for investment. To adhere to the principle that the fund remain evergreen, projects and programmes would need to provide at least the opportunity for a small return which would generally be beneath the commercial rate of return. Sectors might include:

- industrial space, an area which has not gained much lender interest in recent years because the rate of return and the length of investment is not attractive to private investors;
- small retail space which might be converted for social enterprises or small innovative companies;
- community projects that seek a rate of return through low rents or membership fees;
- energy resilience; and
- innovative ideas and companies which seek development finance.

Measures of success

4.1 The measurement of success would be focused on the creation of new value in the city, mainly the creation of jobs and enterprise for vulnerable or excluded groups. This proposal fits well with the refreshed key performance indicators captured in the *Strategy for Jobs* and aligns itself well with a number of other strands of Council activity aimed at alleviating inequality.

Financial impact

5.1 The proposals in this paper could increase the value and return generated by the Strategic Investment Fund. A doubling or trebling of the fund through leverage with external partners could catalyse further growth in the city, generating new taxes and reducing dependency.

Risk, policy, compliance and governance impact

6.1 Should a detailed exercise conclude that the ideas in this paper are worth pursuing, further recommendations will be developed. An area requiring close

consideration is the development of an appropriate governance mechanism. Specialist legal and financial advice will be sought.

6.2 Risk management around the proper use of the funds would also need careful thought. Risks include:

- a lack of alignment with other partners;
- the difficulty of reconciling the governance and principles of a variety of social investors;
- a return that allows the Strategic Investment Fund to remain evergreen but at the same time does not compete with the private sector;
- state aid risks around the distortion of investment and enterprise markets;
- reputational damage caused by unethical or unsafe investment;
- political sensitivities in calling in loans or cutting off investment where projects become unviable; and
- the effects of inflation on the long term sustainability of a fund designed to accept relatively low levels of return over long periods.

Equalities impact

7.1 The Strategic Investment Fund intervenes where there are barriers to social, community or economic sustainability. A strand of the *Strategy for Jobs*, the fund seeks to bring more of Edinburgh's residents into the economic success of the city through providing capital where there is little other market interest.

Sustainability impact

8.1 There is significant potential in investment in energy resilience. This could take the form of the retrofitting of buildings, district heating or the adoption and development of energy saving innovations. The returns on this type of investment lend themselves well to the principles of the fund because the financial returns can be reliable (albeit at a relatively low level) while at the same time, creating new social value.

Consultation and engagement

9.1 General discussions have been held with a number of third sector and higher education partners on the potential for such an arrangement. If approved, more detailed consultation and engagement will be required.

Background reading/external references

Greg Ward

Director of Economic Development

E-mail: greg.ward@edinburgh.gov.uk | Tel: 0131 529 4298

Links

Coalition pledges	P17- Continue efforts to develop the city's gap sites and encourage regeneration
Council outcomes	CO7 - Edinburgh draws new investment in development and regeneration CO8 - Edinburgh's economy creates and sustains job opportunities CO9 - Edinburgh residents are able to access job opportunities
Single Outcome Agreement	SO1 - Edinburgh's Economy Delivers increased investment, jobs and opportunities for all
Appendices	None