

Housing and Economy Committee

10.00am, Thursday, 7 June 2018

City Strategic Investment Fund: project repayment terms

Item number	7.3
Report number	
Executive/routine	Routine
Wards	n/a
Council Commitments	Create the conditions for businesses to thrive. Invest in supporting businesses, social enterprise, training in hi-tech, creative and other key sectors including co-operatives.

Executive Summary

At its meeting on 3 May 2018, Council approved a motion from Cllr Jim Campbell to examine ways in which the real-terms value of the City Strategic Investment Fund (CSIF) could be maintained, with a report to be brought to the next meeting of the Housing and Economy Committee. This report discharges that motion.

Report

City Strategic Investment Fund: project repayment terms

1. Recommendations

- 1.1 Members of the Housing and Economy Committee are asked to note the contents of the report and agree the changes to project repayment terms as set out with a view to maintaining the real-terms value of the Fund going forward.

2. Background

- 2.1 At its meeting on 3 May 2018, Council approved a motion from Cllr Jim Campbell examining ways in which the real-terms value of the City Strategic Investment Fund (CSIF) could be maintained, with a report to be brought to the next meeting of the Housing and Economy Committee.

3. Main report

Basis of establishment of the CSIF

- 3.1 On [7 February 2013](#), Council approved the creation of the CSIF to create new development opportunities, support business innovation, deliver jobs and promote economic growth in Edinburgh. The CSIF is an “evergreen” fund that will provide debt and equity finance for projects delivering a return on investment. Following Council’s agreement to capitalise the CSIF with £7.5m, an investment strategy was agreed by the Economy Committee on [29 April 2014](#).
- 3.2 Since that time, a number of eligible projects have benefited from the provision of upfront investment from the Fund, with this investment then repaid in accordance with the resulting savings/income profile or other arrangement agreed with the sponsoring service area at the time of approval.
- 3.3 As with the Council’s Spend to Save Fund, repayments from benefiting projects have thus far been calculated with reference to simple payback criteria i.e. not adjusted for the impacts of inflation. In the case of projects where repayment is by means of resulting rental income received, this has suited the essentially-fixed nature of such payments during the period between rent reviews.
- 3.4 Following Council’s approval of use of the CSIF to support the restoration and refurbishment of Powderhall Stables, the remaining uncommitted balance on the

Fund is £1.8m¹, should all of the potential sums approved thus far be required. With the exception of tram design works, where repayment of sums advanced is predicated on the Council's proceeding with the tram extension, the self-sustaining nature of the fund means that its full *cash* value will, in due course, be reinstated. As is illustrated in Appendix 1, however, given the fifteen-year payback period of the East Hermiston Business Park project, this reinstatement will not be achieved until 2032/33.

- 3.5 Creation of the Fund was predicated on the provision of upfront financial support to a steady pipeline of eligible, self-financing projects that might not otherwise be taken forward. As such, the Fund balance at any given time will represent a snapshot of the combined impact of the level of upfront investment provided to each project and its relative stage of repayment. If operating successfully, the Fund balance would be expected to be lower than the initial capitalised sum (with the difference representing the total level of outstanding payments) but of sufficient value to mean that subsequent eligible projects could still be supported. To date, all eligible projects have been supported and, in this respect, the Fund has achieved its aims.
- 3.6 Should the tram extension project proceed, the Fund balance would additionally be expected to increase to £4.168m in 2019/20. While this will not address the underlying issue of the reduction in the Fund's real-terms value, it should nonetheless allow for eligible projects to continue to be considered. Should members be of the view that this level of balance is insufficient to take forward qualifying projects, however, any addition to the capitalisation of the Fund would require to be considered as part of the 2019/20 budget process.

Proposed changes to repayment terms

- 3.7 The impact of inflation will, however, erode the real-terms value of the Fund if repayments continue to be calculated with reference to the initial cash sum invested, with this impact more pronounced for projects with longer payback periods. In order to address this diminution in the purchasing power of the Fund, it is therefore proposed, going forward, to factor in an inflationary uplift to the level of project repayments made to allow its real-terms value to be maintained.
- 3.8 It is proposed that the repayment profiles for newly-approved projects include provision for both repayment of the initial cash sum advanced through the Fund and an appropriate allowance for inflation. This inflation-linked element will be set indicatively at 3% per annum but will be reviewed on a case-by-case basis, taking into account project payback periods and relevant inflationary projections, with the resulting repayment profile presented to the Committee as part of project approval.

¹ Taking into account expected in-year repayment, however, the anticipated 2018/19 year-end balance is £2.022m.

No changes will, however, be made to the payment profiles for projects previously approved for support through the Fund.

- 3.9 In cases where repayment is linked to receipt of a fixed income stream (such as property rentals), the changes may have the impact, other things being equal, of lengthening project payback periods and thus the balance available for future projects. It may, however, be possible in relevant projects to reduce, or eliminate entirely, this impact by applying the additional rental income resulting from rent reviews to offset the higher, inflation-inclusive liability to the CSIF.
- 3.10 There is also a risk that the need for eligible projects to commit to a repayment profile inclusive of an inflationary uplift will diminish the Fund's attractiveness, resulting in fewer projects being put forward and the existing, or any future, balance not being utilised, contrary to its aims. Given this risk, it is proposed that in those cases where this need to protect the real-terms value of the Fund threatens the viability of a project, these projects nonetheless be brought to the Committee for consideration in light of their wider contribution to the Fund's aims of creating new development opportunities, supporting business innovation, delivering jobs and promoting economic growth in Edinburgh.

On-going monitoring of Fund's use

- 3.11 The effectiveness of these new arrangements will be subject to annual review to ensure that they strike an appropriate balance between maintaining the value of the Fund in real terms and facilitating approval of a steady flow of eligible projects aligned to the Fund's wider aims.

4. Measures of success

- 4.1 The Fund is able to support a range of eligible projects aligned to the Council's wider objectives on a sustainable basis.

5. Financial impact

- 5.1 All uses of the Fund are subject to analysis of detailed business cases and, where relevant, evidence of securing other required contributions and permissions.

6. Risk, policy, compliance and governance impact

- 6.1 Operation of the Fund contributes positively to the Council's objectives to support new development opportunities and business innovation, deliver jobs and promote sustainable economic growth in Edinburgh.

7. Equalities impact

- 7.1 There is no direct additional impact of the report's contents.

8. Sustainability impact

8.1 There is no direct additional impact of the report's contents.

9. Consultation and engagement

9.1 There is no direct relevance to the report's contents.

10. Background reading/external references

10.1 [Capital Coalition Budget Motion](#), City of Edinburgh Council, 7 February 2013

10.2 [City Strategic Investment Fund](#), Economy Committee, 29 April 2014

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11. Appendices

One – CSIF projected cash flow

Appendix 1 – City Strategic Investment Fund: projected cash flow

Project	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
East Hermiston Business Park	(£42,113)	(£1,277,659)	(£803,479) *	£145,500	£145,500	£145,500	£145,500	£145,500	£145,500
EDI cash flow reserve	–	–	–	(£1,000,000)	–	–	£1,000,000	–	–
Meadowbank Stadium	–	–	(£0)	–	–	–	–	–	–
Tram design works	–	–	–	(£2,000,000)	£2,000,000	–	–	–	–
Powderhall Stables	–	–	–	(£500,000)	–	£50,000	£50,000	£50,000	£50,000
Balance at year end	£7,457,887	£6,180,228	£5,376,749	£2,022,249	£4,167,749	£4,363,249	£5,558,749	£5,754,249	£5,949,749
Project	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
East Hermiston Business Park	£145,500	£145,500	£145,500	£145,500	£145,500	£145,500	£145,500	£145,500	£86,251
EDI cash flow reserve	–	–	–	–	–	–	–	–	–
Meadowbank Stadium	–	–	–	–	–	–	–	–	–
Tram design works	–	–	–	–	–	–	–	–	–
Powderhall Stables	£50,000	£50,000	£50,000	£50,000	£50,000	£50,000	–	–	–
Balance at year end	£6,145,249	£6,340,749	£6,536,249	£6,731,749	£6,927,249	£7,122,749	£7,268,249	£7,413,749	£7,500,000
*Based on a drawdown from the CSIF of £847,089, partially offset by income of £43,610.									