

CABINET – 9TH MARCH 2023

Report of the Director of Finance, Governance & Contracts

Lead Member: Councillor Barkley

Part A

CHARNWOOD ENTERPRISE ZONE – REQUEST FOR FORWARD FUNDING (BUILDING 28E)

Purpose of Report

This report requests approval for forward funding in respect of the Charnwood Campus site. The funding would enable the refurbishment of Building 28E on the site.

Recommendations

1. That Cabinet approve a conditional grant to the Leicester & Leicestershire Economic Partnership for an amount of up to £5.0m, to be recovered through retention of business rates generated within the Enterprise Zone.
2. That Cabinet give delegated authority to the Director of Finance, Governance & Contracts, in conjunction with the Chief Executive and Lead Member for Finance, to finalise details of the grant agreement and other agreements associated with this transaction.

Reasons

1. To facilitate the development of the Charnwood Campus site within the Enterprise Zone.
2. To facilitate efficient and timely completion of the legal arrangements.

Policy Justification and Previous Decisions

The Enterprise Zone for Charnwood was designated with effect from 1 April 2017.

The overarching legal agreement between the Council, the Leicester & Leicestershire Economic Partnership (LLEP) and Leicester City Council (as Accountable Body of the LLEP), which sets out the distribution of business rates generated from within the Enterprise Zone and outlines the forward funding mechanism, was approved by Cabinet and subsequently signed by parties representing the Council, the LLEP and Leicester City Council on 12 November 2020.

Implementation Timetable including Future Decisions and Scrutiny

It is envisaged that, subject to Cabinet approval, legal documentation will be completed allowing the funding to be made available in April 2023.

Scrutiny Commission have the opportunity to scrutinise this report in line with usual arrangements at the meeting of 7 March 2023.

Report Implications

The following implications have been identified for this report.

Financial Implications

An amount of £10m is held within the Capital Plan to cover forward funding requests in respect of the Enterprise Zone. It is planned that funding of this capital expenditure will be through borrowing. At this time, it is likely that internal borrowing will be used, at least initially.

If loan repayments from business rates generated within the Charnwood Campus site proceed as planned, then this this will result in a small contribution to the General Fund over the term of the forward funding arrangement.

Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

<i>Risk Identified</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Overall Risk</i>	<i>Risk Management actions planned</i>
Business rate generation at the EZ site prove insufficient to repay the loan	Remote (1)	Major (3)	Low (3)	<ul style="list-style-type: none">• Due diligence on project• Site sponsor is required to underwrite the loan• Pre-existing business rates can be diverted to support repayment of the loan

Key Decision: Yes

Background Papers: Cabinet report 15 October 2020 - Charnwood Enterprise Zone – Request for Forward Funding

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Part B

Background

1. Background details of the Enterprise Zone and forward funding mechanisms were set out in the Cabinet Report of 15 October 2020 (Charnwood Enterprise Zone – Request for Forward Funding). For convenience, this detail has been updated to reflect the subsequent completion of the overarching agreement between the Council, the LLEP and Accountable Body and appended to this report at Appendix A.
2. This report brings forward the second forward funding request relating to the Campus site within the Enterprise Zone. This initial request (for some £2m) is also outlined within the Cabinet report of 15 October 2020.

Forward funding opportunity – Charnwood Campus – refurbishment of Building 28E

3. The formal title of the investment scheme is the Charnwood Campus - B28E/B21 - Small Molecule Research and Development Facility (Innovation Centre Phase 1). The business case for this scheme has been approved by the the LLEP Board in line with the usual governance arrangements set out at Appendix A.
4. The principal objective of the scheme is the reactivation of currently unoccupied world-class bio-chemistry laboratory building to attract a strategically important research organisation from outside of the LLEP area. The project will upgrade existing building-part of Phase I Innovation Centre project, to comply with modern regulatory requirements providing specialised laboratories building resilient life sciences cluster in the Life Sciences Opportunity Zone.
5. It is also envisaged that the scheme will (extracts from the scheme Business Case):
 - Make available 9,417sqm of highly specialised but unused medicinal chemistry laboratory space that will support the development and growth of pharmaceutical, biotechnology, high-technology, medical technology businesses
 - Generate £408,000 pa in business rates
 - Enable Charnwood Campus to secure prospective tenants who require specialised medicinal bio-chemistry facilities, including one who have secured significant venture backing, and are now seeking space for their planned growth and expansion

- Encourage thriving companies to locate with the region and facilitate access to established science businesses in close proximity with shared experiences
 - Create 100 high value jobs within the first 12 months and a total of 225 within three to five years
 - Create a further 1,110 jobs in the supply chain (based on a 1:5 industry standard ratio where one high value job creates five low value jobs in the supply chain)
 - Achieve threefold growth in the next three to five years
6. As implied by the above, it is understood that discussions with prospective tenants for the refurbished building are well advanced.
7. The budgeted cost of the scheme per the approved business case – against which the grant will be awarded – is £4.649m; it is likely that some of this funding will be sourced from retained business rates in-hand at the LLEP and for the purposes of financial modelling a sum of £4.5m is assumed to be the forward funding required.

Forward funding arrangements

8. The outline arrangements in respect of the forward funding arrangements would be as follows:
- The 'conditional grant' to be made by the Council to the LLEP (or strictly the Accountable Body) would be in the order of £4.5m, with the balance of the funding grant to the Campus being met from historical business rate generation from the Campus site currently held by the LLEP
 - The Council would take out a loan to cover the conditional grant to the LLEP; this would be repaid on an annuitised (essentially a repayment) basis using business rates generated from the Campus site that would otherwise have been remitted to the LLEP (as set out in the overarching agreement covering business rate distributions)
 - The interest rate would be the PWLB certainty rate for the relevant period of loan, plus a risk premium reflecting the risks inherent in the forward funding arrangement; whilst generally the arrangement can be regarded as low risk the likely duration of the forward funding arrangements – likely to extend beyond ten years – inevitably gives rise to a certain level of uncertainty
9. Whilst detail on the precise forward funding required, applicable interest rates and the duration of the forward funding arrangement (including the period over which the loan would be repaid) has yet to be agreed, financial modelling has

been undertaken which strongly suggests that future business rate generation comfortably supports forward funding of the order of that requested.

10. As the loan would be a repayment type arrangement no Minimum Revenue Provision charges would arise.
11. It is highly likely that the Council would – at least initially - be able to fund the loan via internal borrowing due to the Councils current level of cash balances.
12. The loan would be supported by:
 - Grant agreement – essentially an agreement between the LLEP and the Campus
 - Underwriting letter, or equivalent, setting out details of the Campus’s commitment to underwriting the loan; the Council will be party to this document and must find the covenant set out within the letter as acceptable
 - Conditional grant agreement, which will cover the amount to paid over to the LLEP additional business rates to be withheld by the Council, between the Council and the LLEP (or strictly, the Accountable Body)
13. It is envisaged that documents used to underpin the previous forward funding request that were initially developed by Leicester City Council in its role as LLEP Accountable Body can be used as the basis for the new forward funding request.

Risk assessment and due diligence

14. Generally, the loan required to facilitate the forward funding agreement can be considered as a reasonably low risk proposition since:
 - The Campus site is already generating business rates of around £0.8m per annum that would be attributable to the LLEP to service forward funding arrangements; business rates generated by this additional Charnwood Campus investment scheme would be over and above this amount
 - The current forward funding arrangement requires business rate retention of £0.55m in each financial year to 2024/25, at the end of which the initial forward funding will have been repaid; this retention can then be wholly applied to another forward funding arrangement.
 - The Campus business case for the scheme states that negotiations with tenants for the refurbished building are advanced; further, in comparison to other prospective Enterprise Zone investments (such as infrastructure) the timeframe for project delivery is relatively short at eight to ten months

- The loan will be underwritten by Charnwood Campus; in legal terms this will be by a Jayplas group holding company or group Pension Fund; Jayplas are a locally well-known and perceived as a financially substantial organisation

15. Due diligence will be undertaken to ensure that covenants set out within the underwriting letter can be met by parties representing the campus ownership.

Appendices

Appendix A Background on the Enterprise Zone and forward funding arrangements

- Leicestershire County Council 2.7%
- Leicestershire Fire & Rescue Service 0.3%

8. In terms of the selection of investment schemes it may be noted that the Agreement sets out that each Charnwood site will have an Implementation Group that will be chaired by the Chief Executive (or designated officer) of Charnwood Borough Council. The functions of the Implementation Groups are:

- To plan, oversee and advise the LLEP Board on the implementation of the LLEZ sites in Charnwood
- To develop, maintain and implement Implementation Plans for the LLEZ sites in Charnwood
- To recommend the priority and suitability of bids to the LLEP Board for the use of the LLEP retained business rates in accordance with the implementation plans
- To prioritise bids and make recommendations by application of the following criteria:
 - strategic fit – sequential approach referenced to implementation plan, planning and highway considerations
 - generation of retained business rates – amount, risk and speed of return
 - intervention rate and high level value for money, with the bid to be underwritten by the bidder (basically either the Campus or LUSEP)
 - third party funding – match or time critical issues.
 - such other criteria as shall be agreed by the LLEP and the Council in conjunction with the other parties to the Implementation Groups
- To shortlist Bids for recommendation to the LLEP Board

9. The above elements of the Agreement are designed to ensure that Charnwood Brough Council has influence on the direction of the LLEZ while recognising the role of the LLEP and other partners.

10. Once schemes have been through the LLEP approval process there will be the option for Charnwood Borough Council to forward fund projects via a separate and bespoke loan Agreement.

Forward Funding Mechanism

11. The way that forward funding arrangements will be set is as follows:
 - I. The LLEP approves the business case for an investment scheme with the site sponsor (which could be either the Campus or LUSEP) in line with the governance processes outlined above.
 - II. The funding body – which would usually be the Council – will provide funding to the LLEP in the form of a ‘conditional grant’ enabling the LLEP to make a grant to the site sponsor for the agreed amount
 - III. The funding body will be repaid using the 85% LLEP share of business rates generated from the LLEZ site; where the funding body is also the billing authority (as is likely to be the case in practice) repayments can be deducted from amounts that would otherwise be remitted to the LLEP
12. The above mechanism is designed to avoid complex accounting arrangements within Accountable Body for the LLEP.
13. In order to allow the Council to act as funding body it is necessary that funds and the associated loans required to provide that funding are reflected in the extant Capital Plan and Capital Strategy. Updated versions of these documents are scheduled for approval at the Council meeting of 27 February 2023, following which (and assuming these are approved) £10m will be available in 2023/24 to provide forward funding for the LLEZ.
14. Typically, it may be expected that the Council will need to take out a loan (which may be via ‘internal’ or external borrowing) to provide the forward funding. Any loan entered into will reflect the likely profile and timing of cash flows from future business rates, previous funding arrangements relating to the site and projections of total business rates generated by the site over the 25-year life of the LLEZ.
15. Other features of the loan:
 - Where future business rate cash flows permit, the loan will be repaid on a repayment basis; this allows a charge in respect of Minimum Revenue Provision to be avoided
 - A margin will be created between interest rate charges borne by the Council and repayments from business rates generated; this margin will vary on a case by case basis and depend on the risk associated with the loan in terms of the receipt of future business rates projected in the investment scheme business case, and other pre-existing loans relating to that LLEZ site