

<b>COUNCIL</b>	<b>AGENDA ITEM. 13(f)</b>
<b>13 JULY 2016</b>	<b>PUBLIC REPORT</b>

## **INCREASE IN THE INVEST TO SAVE BUDGET**

<b>R E C O M M E N D A T I O N S</b>
<b>FROM : Corporate Director: Resources</b>
<p>That Council:</p> <ol style="list-style-type: none"> <li>1. Approves the increase in the Invest to Save budget</li> <li>2. Subject to approval of item 1, approves the amendments to the Treasury Management Strategy to: <ol style="list-style-type: none"> <li>a) take account of the increase to the Invest to Save Budget</li> <li>b) to add the proposed Housing Joint Venture company to the list of external bodies that the Council is able to lend to.</li> </ol> </li> </ol>

### **1. PURPOSE AND REASON FOR REPORT**

- 1.1 The purpose of this report is to request an increase of the Council's Invest to Save budget initially by £75m plus an additional £50m when the Empower loan is refinanced and the loan is repaid to the Council. This will enable the Corporate Director, Resources to approve additional capital financing to qualifying Invest to Save projects.

### **2. BACKGROUND (& CONSULTATION)**

- 2.1 Within the 2012/13 MTFS a budget of £100m was included within the capital programme to support Invest to Save schemes. This budget was included on the basis that any projects would deliver savings to the Council. The principles outlining how the budget should be spent are:
- Each project needs to complete the Council's standard full business case.
  - Schemes should deliver savings that improve the financial position of the Council presented in the MTFS.
  - Schemes are also considered that maintain the MTFS position, but contribute towards delivering service improvements or towards achievement of Council priorities.
  - The assumption is that payback from schemes starts in the same year that the project starts. If this is not the case, proposals will need the following additional analysis in the business case:
    - A full net present value analysis
    - An outline of how the finances will be covered across financial years if schemes are not cost neutral within each financial year
  - Proposals are subject to the Council's decision making requirements e.g. any schemes above £500k will be subject to a Cabinet Member Decision Notice approved by the Cabinet Member for Resources and the relevant portfolio holder
  - An update on schemes is included in future financial reports to Cabinet during the year.
- Schemes are not approved and budget is not allocated until all of the above are in place.
- 2.2 As schemes are agreed a budget is allocated to the project. The allocation of budget does not mean that the amounts have necessarily been drawn down and spent, it simply reserves an amount of the overall Invest to Save budget for that scheme. For example whilst the Axiom loan

has not been fully drawn down we must reserve the full budget allocation of £30m for this project. The current allocation of the £100m Invest to Save scheme is as follows:

Axiom Housing Association Loan	£30.0m
Empower ECS Peterborough 1 LLP loan	£47.0m
Other projects	£18.4m
<b>Unallocated amount</b>	<b>£ 4.6m</b>

The other projects are mainly energy schemes, including the Northminster Car Park lighting project, but also include projects such as the expansion of capacity at Vivacity Premier Fitness.

- 2.3 Unless the Invest to Save budget is extended the Council is unable to advance further funds to qualifying Projects and is denied the opportunity of making a return on such investments.

## **2.4 Partnership with Empower**

- 2.4.1 In December 2014 by DEC14/CAB/112 Cabinet resolved to approve that Council entered into a strategic partnership agreement with Empower Community Management LLP to enable a first project to deliver solar PV on private residential properties in Peterborough. Cabinet also resolved that the Council entered into a shareholder agreement to become an equal partner in a Community Interest Company with Empower Community Management LLP and that Council entered into a finance agreement with the Community Interest Company. The company into which the Council lends is ECS Peterborough 1 LLP. The value of this decision was £4.45m

- 2.4.2 By subsequent Cabinet Member Decision Notice OCT15/CMDN/ 83, 84 and 85 approval was given to:

1. Approve Extension of Qualifying Property Ownership for Private Residential in Peterborough – no additional funding.
2. Extension of Scheme to Axiom Housing Association – value up to £2.5m.
3. Approve investment for Social Housing Schemes outside Peterborough – value up to £40m

The total amount currently allocated from the Invest to Save budget to the Empower scheme is £47m

- 2.4.3 Subject to the extension of the Invest to Save Budget, Council will be able to consider potential future investment opportunities in renewable energy schemes with ECS Peterborough 1 LLP and enable it to expand its portfolio outside of residential property installations. To facilitate this potential investment opportunity an additional £30m needs to be allocated to the Empower project from the proposed increased Invest to Save budget. To be clear, this decision simply creates the investment budget itself. Each allocation from the budget will be subject to the Council's decision making process, including executive decisions as necessary.

- 2.4.4 If the extension to the Invest to Save Budget is agreed, the total amount available to ECS Peterborough 1 LLP will be £77m. This company will continue to be funded in the short term at a commercial rate of interest until the scheme is refinanced by long term funding by a private funder and there is an objective to refinance in the first quarter of 2017. Once this has been repaid it is suggested that an extra £50m will be allocated to the Invest to Save budget to enable the funding of future schemes. This additional £50m will only be triggered once ECS Peterborough 1 LLP has been refinanced and the loan repaid to the Council.

## **2.5 Other qualifying Invest to Save projects**

- 2.5.1 Within the 2016/17 Budget and MTF5 Council approved the proposal for setting up a Housing Joint Venture. This project is currently being developed and will be subject to a future Cabinet decision on the specific nature of this. The Council is planning to use existing affordable housing money to support this project but it may also wish to lend to the JV as well to advance more schemes. As such £20m of the proposed increased Invest to Save budget is to be allocated to this

project. Again this only creates the investment budget itself. Each allocation from the budget will be subject to the Council's decision making process, including executive decisions as necessary.

2.5.2 To accommodate additional schemes that may arise an additional £25m is proposed to be allocated within the increased Invest to Save budget.

2.5.3 The above are current intended allocations, if projects do not go ahead the budget will be available for alternative projects.

### **3. IMPLICATIONS**

#### **3.1 Financial**

3.1.1 The financial implications are contained within the body of the report.

3.1.2 An amendment to the Treasury Management Strategy (TMS) is required to reflect the increase in the invest to save budget. The prudential indicators will need to be revised for the increase in Capital Expenditure and the proposed Housing Joint Venture vehicle will be added to the list of authorised companies in paragraph 3.6. The updated TMS is appended to this report.

#### **3.2 Legal**

3.2.1 The Council has the ability to lend to external organisations under the Local Government Act 2003 "power to invest" as well as under the general power of competence. In making any such investment the Council is required to give regard to the Government's commentary to the Guidance on Local Government Investments, as well as the statutory guidance issued by the Secretary of State and specific guidance published by the Chartered Institute of Public Finance and Accountancy. Furthermore, any such investment must be consistent with the Council's Annual Investment Strategy. Any request for funding from the Invest to Save budget will also be made in accordance with the Council's Constitution and applicable Contract Rules.

3.2.2 Unlawful state aid occurs where a benefit is granted from a public resource for free or on favourable terms which distort competition. Any loans granted from the Invest to Save budget follows market principles and as such and there is no unlawful state aid implication.

### **4. APPENDICES**

Appendix 1 – Revised Treasury Management Strategy

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