10.00am, Thursday, 21 November 2019

City Strategic Investment Fund – referral from the Policy and Sustainability Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The Policy and Sustainability Committee has referred a report on the City Strategic Investment Fund to Council for approval.

Laurence Rockey
Head of Strategy and Communications

Contact: Jamie Macrae, Committee Officer
E-mail: jamie.macrae@edinburgh.gov.uk | Tel: 0131 553 8242
City Strategic Investment Fund

2. Terms of Referral

2.1 The Policy and Sustainability Committee on 25 October 2019 considered a report on the City Strategic Investment Fund (CSIF), which set out proposals for the future use of the fund.

2.2 The report included revised investment criteria and due diligence measures and set out initial proposals for how the reserves of the Fund could be used to make a meaningful contribution to the scale of investment required in Edinburgh, delivery of the Council’s Economy Strategy and other strategic regeneration and development priorities.

2.3 Consideration was also given to how the Fund could be grown over time to increase its effectiveness and its ability to address funding gaps in larger and more strategically important projects.

Motion

1) To note that the current available balance of the City Strategic Investment Fund stood at £3,552,084.

2) To agree the principle that £2,150,000 of the current available balance should be set aside to support delivery of the Council’s strategic regeneration priorities.

3) To agree in principle to ring fence up to £500,000 of the current available balance to provide match funding for agreed projects.

4) To note that this would leave the available fund balance at £902,084 and proposals for the utilisation of this amount would be brought back to Committee.

5) To agree the refreshed investment criteria for debt and equity investments.

6) To agree the principle that revenue from future equity investments made by the fund would continue to accrue to the fund until it disposed of the investment in question and that other options for growing reserves would be identified and reported to Committee.

7) To note that regular reports on the impacts of the funds would be presented to Committee in due course.

8) To refer the report to Council for approval.
Amendment

1) To note the proposals in the recommendations and to agree to continue a decision on these until the report detailed at recommendation 1.1.7 in the report is provided.

2) To agree that the report at 1.1.7 should detail the opportunity costs of using the Fund within the Council’s mainstream capital programme.

Voting

The voting was as follows:

For the motion - 11 votes
For the amendment - 5 votes

(For the motion: Councillors Aldridge, Burgess, Kate Campbell, Day, Gloyer, Gordon, Macinnes, Main, McVey, Perry and Rankin.

For the amendment: Councillors Jim Campbell, Hutchison, McLellan, Webber and Whyte.)

Decision

To approve the motion by Councillor McVey.

3. Background Reading/ External References

Minute of the Policy and Sustainability Committee of 25 October 2019.

4. Appendices

Appendix 1 – report by the Executive Director of Place
Policy and Sustainability Committee

2.00pm, Friday, 25 October 2019

City Strategic Investment Fund

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<th>Executive/routine Wards Council Commitments</th>
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1. **Recommendations**

1.1 It is recommended that Committee:

1.1.1 Notes that the current available balance of the City Strategic Investment Fund (CSIF) stands at £3,552,084;

1.1.2 Agrees the principle that £2,150,000 of the current available balance should be set aside to support delivery of the Council’s strategic regeneration priorities;

1.1.3 Agrees in principle to ring fence up to £500,000 of the current available balance to provide match funding for agreed projects;

1.1.4 Notes that this would leave the available fund balance at £902,084 and proposals for the utilisation of this amount will be brought back to Committee;

1.1.5 Agrees the refreshed investment criteria for debt and equity investments;

1.1.6 Agrees the principle that revenue from future equity investments made by the fund will continue to accrue to the fund until it disposed of the investment in question and that other options for growing reserves will be identified and reported to Committee;

1.1.7 Subject to the agreement of recommendations 1.1.2 – 1.1.6, notes that regular reports on the impacts of the funds will be presented to Committee in due course; and

1.1.8 Refers this report to Council for approval.

**Paul Lawrence**

Executive Director of Place
Contact: David Cooper, Service Manager - Development
E-mail: david.cooper@edinburgh.gov.uk | Tel: 0131 529 6233
City Strategic Investment Fund

2. Executive Summary

2.1 This report provides an update on the CSIF and sets out proposals for how the fund could be used in the future.

2.2 The report includes revised investment criteria and due diligence measures for agreement and sets out initial proposals for how the reserves of the fund could be used to make a meaningful contribution to the scale of investment required in Edinburgh, delivery of the Council's Economy Strategy and other strategic regeneration and development priorities.

2.3 In addition, consideration is given to how the fund could be grown over time to increase its effectiveness and its ability to address funding gaps in larger and more strategically important projects.

3. Background

3.1 On 7 February 2013, the Council approved the creation of the CSIF to “create new development opportunities, support business innovation, deliver jobs and promote economic growth in Edinburgh”. It is an evergreen fund which provides debt and equity finance for projects delivering a return on investment. The Council agreed to capitalise the CSIF with £7,500,000. An investment strategy for the fund was agreed by the Economy Committee on 29 April 2014. On 7 June 2018, updated repayment terms for the CSIF were agreed by the Housing and Economy Committee.

3.2 To date, CSIF funding has been committed for the following projects:

3.2.1 East Hermiston Business Park, a 1,587 sqm industrial park in Sighthill. £2,141,491 to fund the development was approved by the Economy Committee on 28 April 2015 and by the City of Edinburgh Council on 28 May 2015. The Business Park was completed in September 2017 and is now projected to generate £145,000 of rental income for the Council annually with full repayment in 2032/33, following which the Business Park will provide additional income for the Council. The current balance remaining to be repaid to the Council is £1,947,916;
3.2.2 Replacement Meadowbank Stadium to RIBA stage 4. £700,000 to fund this design was approved by the City of Edinburgh Council on 10 March 2016. The allocation was to be repaid to the CSIF by realigning the future Capital Investment Programme. Following approval by Council for the Meadowbank Stadium project to proceed, this funding was not required as originally envisaged;

3.2.3 Cash flow issues arising as part of the closure of The EDI Group Limited (“EDI”). It was agreed by the Housing and Economy Committee on 7 September 2017 and by the City of Edinburgh Council on 31 May 2018 to allocate £1,000,000 for any cash flow issues arising from the closure of EDI. After the EDI cash balance strengthened, this funding was no longer required and the money was released back into the CSIF;

3.2.4 Design of the tram extension to Newhaven up to RIBA stage 2. The commencement of stage 2 design funded by £2,000,000 from CSIF was approved by the Transport and Environment Committee on 4 September 2017 (in the report CSIF is referred to as the Strategic Priorities Fund) with the City of Edinburgh Council giving final approval on 21 September 2017. The City of Edinburgh Council agreed on 14 March 2019 that the tram line would be extended to Newhaven. As reported to the Housing and Economy Committee on 21 March 2019 the repayment of the £2,000,000 allocated from the CSIF for design costs will not be repaid until the extended tram line is operational and generating a surplus, which is expected to be in 2025/26; and

3.2.5 Refurbishment of Powderhall Stables as work space and community space. £500,000 towards this refurbishment was agreed by the Housing and Economy Committee on 22 March 2018 and by the City of Edinburgh Council on 3 May 2018. After the Council’s bid to the Scottish Government’s Regeneration Capital Grant Fund (RCGF) was unsuccessful, the project was unable to proceed, this funding was no longer required and the money was released back into the CSIF. It was agreed that a report setting out options for Powderhall Stables would be provided in two committee cycles and a report is planned to come forward to Policy and Sustainability on 26 November 2019 on this. Subsequently, a second bid to the RCGF for grant funding to refurbish Powderhall Stables has been successful at stage one.

3.3 The most significant impact of the CSIF to date has been in catalysing and facilitating larger projects: the extension of the Edinburgh tram line and the winding-up of The EDI Group. The funding that was been made available from the CSIF helped these projects progress. As set out in the Edinburgh tram final business case, every £1 spent on this project is expected to deliver £1.40 of benefit, indicating that the £2,000,000 invested in the project by the CSIF will deliver a return of £2,800,000.

3.4 The CSIF has also directly delivered outcomes via the East Hermiston Business Park. Since completing in 2017, the 16 units at the Business Park have provided
accommodation for many different businesses. As is to be expected of small-scale units such as those in the Business Park, tenant turnover is relatively high as businesses relocate to larger premises or fold. At any given time, the Business Park could be expected to directly support on average approximately 34 full-time equivalent jobs, representing an estimated additional £1,920,000 of gross value added for the economy of Edinburgh each year. Current occupiers include a building contractor, a rope access contractor, a painter, a dog walking service, and a wedding supplier. The Park is helping meet the strong demand for small-scale, good quality, modern light industrial space in Edinburgh, a demand that is largely unmet by private developers.

3.5 The uncommitted balance of the CSIF as of Q1 2019/20 currently stands at £3,552,084, with repayment of £145,000 scheduled to be received during 2019/20.

3.6 Housing and Economy Committee on 21 March 2019 agreed to a wider review of the use of the CSIF to ensure it is deployed to meet the priorities of the economy strategy and wider city development and regeneration aims, including whether it is appropriate to increase the fund to help meet these objectives.

4. **Main report**

4.1 The city economy has changed significantly since CSIF was established in 2013 and, recognising the investment arrangements which have been progressed using the fund to date and the scale of investment/support required to progress developments in the city, the criteria for investment has been reviewed.

4.2 The criteria approved in 2013 are set out in Appendix 1 and clearly reflect the city economy, strategy and priorities at the time.

4.3 The resources of the CSIF are relatively modest in the context of major capital investment schemes. Therefore, the approach taken to date, and proposed in the future, is to consider projects which contribute to the strategic priorities for economic development and regeneration in the city.

**Fund Allocation, Criteria and Due Diligence Arrangements**

4.4 As the CSIF was created as an evergreen fund, one of the key considerations of investment was the need to have the money repaid within a reasonable timescale. This has meant that some strategic priority projects have been unable to progress using seed-corn funding from the CSIF.

4.5 It is proposed to utilise the CSIF in three different ways in future:

4.5.1 to continue with debt and equity investment where clear market failure is identified;

4.5.2 to allocate funding to projects which are of key strategic importance to the Council’s Economy Strategy; and
4.5.3 to ring-fence funding for external funding applications which require match funding and which contribute to the Council’s strategic priorities showing the potential for significant public and private leverage.

4.6 Taking account of the commitments already made from CSIF it is proposed to allocate £2,150,000 of the current balance over the next five years to take forward major developments in the city at Edinburgh BioQuarter, Edinburgh Waterfront and in West Edinburgh as well as through City Centre Transformation. This element of funding would not be repaid but would provide dedicated resources (both financial and project support) to drive forward development which would otherwise not be possible. This level of resource is essential if progress on these schemes is to move forward at pace.

4.7 Edinburgh BioQuarter, Edinburgh Waterfront and West Edinburgh are all flagship developments of strategic scale. From an economic perspective, all three have the potential to deliver significant economic benefits. West Edinburgh is one of the most economically significant developments in the city’s history, with the International Business Gateway alone expected to deliver over 200,000 sqm of office space. Edinburgh BioQuarter is an important source of high value new jobs in health, life sciences, and associated industries. The Edinburgh Waterfront is a vital source of new housing as well as offering potential for the nurturing of key sectors such as tourism and the creative industries and the renewal of the maritime sector. Collectively, the three developments have the potential to deliver tens of thousands of new jobs along with new homes, schools, healthcare facilities, leisure facilities, and greenspace. Investment by the Council in these developments can help secure investment from both private sector developers and public sector stakeholders such as the Scottish Government, NHS Lothian. There is a key role for the CSIF in helping unlock these developments by funding the upfront work required for them to be made shovel ready.

4.8 In September 2019, Council approved ambitious plans to transform central Edinburgh by improving the public realm and prioritising sustainable travel on foot, by bike and public transport. It is forecast that the implementation of the City Centre Transformation strategy could bring about £420m of monetised benefits over a 25 year period based upon £314m invested, alongside significant, related benefits that cannot be readily quantified. This is calculated based on the positive effect of the proposals on wellbeing, health, economic activity and reduction in accidents.

4.9 It is further proposed to ring-fence up to £500,000 for match funding for external funding bids to be progressed (e.g. the Powderhall Stables project as outlined in paragraph 3.2.5). This funding would not be repaid. It would be used to leverage in additional external funding for Council projects. The Council currently has £2,560,000 of bids to the latest round of the RCGF that have been accepted to round two and it is anticipated that this element of the CSIF could be used to try and help secure RCGF funding.
4.10 The remainder of the fund (circa £1,047,084 including the £145,000 scheduled to be received during 2019/20), and any additional income received, would continue to be utilised for longer term debt or equity investment in development and regeneration projects in the city. The following criteria will replace the existing criteria as set out in appendix 1:

4.10.1 Aligns with the themes of the Edinburgh Economy Strategy, City Housing Strategy, Local Transport Strategy, or other relevant strategy; and

4.10.2 Has a viable, sound business case; and

4.10.3 Will deliver a financial return enabling the principal to be fully repaid in an agreed timeframe along with a minimum indicative uplift of 3% per annum, with the precise uplift to be determined by the Head of Finance.

4.11 This element would continue to be an evergreen element of the fund, with repayment terms clearly set out. The Council would continue to seek to identify opportunities to leverage in external funding to supplement the investment by the CSIF. This element of the CSIF could potentially be used to supplement projects such as the refurbishment of Granton Station and/or building upon the investment in the building from the Scottish Government’s Town Centre Fund.

4.12 All projects and/or priorities recommended by officers for investment will still require the approval of Council before being progressed.

**Approach to investment**

4.13 While the CSIF is a valuable tool, its resources are limited in the context of the major costs required to facilitate and deliver investment in Edinburgh. For example, the net funding requirement from the Council for the education and transport infrastructure required to deliver the Edinburgh Local Development Plan is estimated at £178m.

4.14 There is therefore a rationale to grow the reserves of the CSIF, both to increase its ability to act in the near-term and to enable it to make a meaningful contribution to the level of investment required in Edinburgh. Two proposals for how the reserves of the CSIF could be grown are set out below:

4.14.1 Revenues from any *equity* investments made by the CSIF could continue to accrue to the fund until it disposed of the investment in question (as opposed to the current arrangement whereby once the initial investment from the CSIF has been repaid, any additional revenues would accrue to the General Fund). This would enable the CSIF to build a portfolio of investments that in the long-term would enable it to grow indefinitely, although this would have an impact on revenue to the General Fund. By comparison, it is anticipated that additional revenues from projects funded by *loans* from the CSIF would, once the principal and interest had been repaid, continue to accrue to the General Fund as is currently the case.

4.14.2 The CSIF could seek to diversify its portfolio away from purely longer-term projects, identifying investment opportunities that will deliver a relatively quick return. This would enable the CSIF to grow its overall reserves more
rapidly as well as reinvesting its capital more regularly. Such investments may involve higher risk but could also provide higher return.

4.15 Committee is requested to agree the proposal at 4.14.1 and to ask officers to investigate the proposal at 4.14.2 in more detail and report back to Committee. This will also require Council approval.

5. **Next Steps**

5.1 Assuming Policy and Sustainability Committee agree the recommendations in this report, it will referred to Council for approval.

5.2 Committee will continue to receive information on development proposals, match funding applications and proposed resource allocation to strategic development priorities as these emerge, for approval.

6. **Financial impact**

6.1 As set out above, the uncommitted balance of the CSIF as of Q1 2019/20 is £3,552,084. The CSIF is currently projected to be fully replenished in 2032/33.

6.2 It is proposed that £2,150,000 of the current balance is ring-fenced over the next five years to support the progression of major developments in the city which would otherwise not be progressed, as outlined in paragraph 4.6.

6.3 A further £500,000 is recommended to be ring-fenced (as outlined in paragraph 4.9) to provide match funding for external funding applications.

6.4 The remainder of the fund (£902,084, rising to £1,047,084 when repayments of £145,000 scheduled to be received during 2019/20 are taken into consideration) and any future income will continue to be utilised for debt and equity investments, in line with the arrangements set out in paragraph 4.10.

6.5 Paragraph 4.14 explains two ways in which investment could be made to increase the financial resources available in the fund, with the recommendation to progress with the arrangement outlined in paragraph 4.14.1, while further work is undertaken on 4.14.2.

7. **Stakeholder/Community Impact**

7.1 The future of the CSIF has been discussed with the Corporate Property and Facilities Management and Finance service areas.

8. **Background reading/external references**

8.1 None.
9. Appendices

9.1 Appendix 1 – Existing and Proposed City Strategic Investment Fund investment criteria
9.2 Appendix 2 – City Strategic Investment Fund: projected cash flow (current projects)
9.1 Appendix 1

**Existing City Strategic Investment Fund Investment Criteria**

1) The fund be aligned [sic] with the business plans for the arms length property company and also with the Local Development Plan.
2) Property development, commercial activity or business start-up projects;
3) Alignment with the City of Edinburgh Council’s Economic Strategy including potential for significant economic benefit to the city and the local economy through the creation of new, permanent jobs, increased GVA, and/or other significant benefits;
4) Located within the City of Edinburgh Council area, with special priority given to projects within any of the city’s four Strategic Development Areas (City Centre, South East Edinburgh, Waterfront and West Edinburgh);
5) Links to a key industry sectors or strategic Economic Development priorities;
6) Robust business case and experienced project management;
7) Ability to recover investment within five years;
8) Positive contribution to placemaking and enhancement of the city’s quality of life;
9) Evidence that the Fund will add value to the project, beyond the financial investment, for example through addressing perceived market failure; and
10) Alignment with the Council’s Sustainable Development Strategy in particular meeting carbon reduction targets.

**Proposed City Strategic Investment Fund Investment Criteria for Debt and Equity Investment**

1) Aligns with the themes of the Edinburgh Economy Strategy, City Housing Strategy, Local Transport Strategy, or other relevant strategy; and
2) Has a viable, sound business case; and
3) Will deliver a financial return enabling the principal to be fully repaid in an agreed timeframe along with a minimum indicative uplift of 3% per annum, with the precise uplift to be determined by the Head of Finance.
## 9.2 Appendix 2 – CSIF: Projected cash flow (current projects only)

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A – Net expenditure based on expenditure of £767,659, partially offset by income of £48,575.
B – Net income based on income of £145,000, partially offset by expenditure of £54,060.