
INVESTMENT OPPORTUNITIES
- UPDATE AND REQUEST TO INCREASE THE FUND

Responsible Cabinet Member - Councillor Stephen Harker,
Leader of the Council

Responsible Director -
Paul Wildsmith, Managing Director

SUMMARY REPORT

Purpose of the Report

1. To update Council on progress against the agreed Capital Investment Fund and to seek approval to increase the fund.

Summary

2. Council has previously approved the principle and establishment of an investment fund to be used for innovative investment opportunities beyond the traditional Treasury Management Strategy in order to achieve greater returns given the low returns on investment.
3. The established fund is being utilised as envisaged in the original reports to Council to include Joint Venture vehicles and economic regeneration initiatives. Returns on joint ventures are anticipated at over £4m.
4. To further deliver the desired outcomes of the fund this report presents a request from Cabinet to increase the provision from £30m to £50m.
5. Any use of the fund will be subject to a full detailed report to Cabinet.
6. It is anticipated that the next calling on the fund will be used for a new joint Venture at Middleton St George using the procured Housing Joint Venture agreement.

Recommendation

7. It is recommended that :-
 - (a) The Capital Investment Fund be increased to £50m.

- (b) Repaid loans are recycled back into the Investment fund.
- (c) The operation of the fund is delegated to Cabinet in line with previous Council approval.

Reasons

8. The recommendations are supported by the following reasons :-
- (a) To allow the Council to take up opportunities to gain investment returns.
 - (b) To allow the investment fund to be established and financed.
 - (c) To enable Cabinet to consider detailed proposals many of which will be commercially sensitive.

Paul Wildsmith
Managing Director

Background Papers

No background papers were used in the preparation of this report

Elizabeth Davison : Extension 5830

S17 Crime and Disorder	No impact as a result of this report
Health and Well Being	No impact as a result of this report
Carbon Impact	No impact as a result of this report
Diversity	No impact as a result of this report
Wards Affected	No impact as a result of this report
Groups Affected	No impact as a result of this report
Budget and Policy Framework	This is a Council decision and is a variation to the MTFP
Key Decision	This is not a key decision
Urgent Decision	This is not an urgent decision
One Darlington: Perfectly Placed	No impact as a result of this report however detailed proposals are likely to enhance the Borough's economy.
Efficiency	The utilisation of the Investment Fund is likely to increase Council income.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

MAIN REPORT

Background

9. In November 2016 Council agreed to the establishment of a Capital Investment Fund and following the successful implementation agreed to increase the fund to £30m on 22 February 2018.
10. Since the establishment of the fund Cabinet have agreed to six uses of the fund:-
 - (a) £1.5m to fund a Joint Venture Company to build and sell houses at Eastbourne. The project is progressing well with sales going to plan and interest being earned on the investment. In addition to the earned interest, profit projections currently exceed the original £0.4m with a likely pre-tax profit of over £0.7m.
 - (b) £1.5m has been made available to advance a loan to Market Asset Management to fund improvements to the covered market. Some small advances have been made, but the majority of the loan is not expected to be advanced until next year.
 - (c) £1.5m has been earmarked as a guarantee should the Council wish to exercise its step in rights in respect of the Darlington Mowden Park Arena should the Sports Village not prove viable.
 - (d) £3.14m being the balance of funding required to purchase land at Neasham Road to facilitate the Darlington Farmers Auction Mart move. The funding will be repaid from future section 106 receipts from affordable housing along with any capital receipts received from the site. This scheme is in its infancy so the funding won't be repaid for a number of years.
 - (e) £2.63m being the balance of funding on the Feethams House Office development. This development is due to start in the next couple of months with an anticipated completion date later in 2019.
 - (f) £12m to fund a Joint Venture company to build and sell houses at West Park. The scheme has recently been approved and will be completed over a seven year period. The Council is due to receive interest on the loan of £0.5m and a pre-tax profit on the venture of over £1.565m.
 - (g) £6.1m to fund a joint venture company to provide the infrastructure, build and sell homes in Heighington. The Council is due to receive interest on the loan of £0.225m and a pre-tax profit on the scheme of £0.677m.

Anticipated returns

11. The profits anticipated on the joint venture schemes along with the profit on the loans is over £4m as shown below and are crucial to the MTFP. There are however further financial benefits not captured in these figures including increased council tax and new homes bonus payments.

Joint Venture	Pre-tax profit £m	Interest on loan £m
Eastbourne	0.700	0.400
West Park	1.565	0.500
Heighington	0.677	0.225
Total	2.942	1.125

12. The investment fund utilisation also provides for wider benefits which extend further than direct financial reward, for example the investment into Feethams house. The establishment of Grade A office accommodation in the town centre is seen as a significant regeneration scheme and job creation opportunity.
13. With regard to the Cattle Mart, this has been a priority for the Council for a number of years as it was recognised that the current location is unsuitable for a Mart operation, undesirable in the context of wider regeneration opportunities, impacts on the neighbourhood around Bank Top, and furthermore is constraining DFAM's growth opportunity. The acquisition of the land at Neasham Road not only assists with this priority but also facilitates significant additional development of affordable and social housing to meet an identified need within the borough.

Request for additional funding

14. In total Cabinet have allocated £28.37m of the fund to date; the success of the fund and the returns achieved, and anticipated to be achieved, are key to the MTFP. Further opportunities are available which would be advantageous to the Council, Cabinet will shortly receive a detailed report relating to a development at Middleton St. George utilising the Housing Joint Venture framework to build and sell homes on the site. The development of the site could be up to 55 homes, the funding required for this project could be up to £5m.
15. During the forthcoming financial year further opportunities may arise for the Council to make investments therefore it is recommended that the investment fund is increased from £30m to £50m. As previous any utilisation of the fund will be subject to a full detailed report to Cabinet.
16. The fund will be created as needed by the use of prudential borrowing and the revenue funding of each proposal will be identified within each report so all financial implications can be considered at the time of the report.
17. The aim of this report is to provide a provision that will allow investment decisions to be taken in a timely and commercial manner.

Recycling the fund

18. As the life of an investment comes to an end and repayment is made, it is proposed the funding is recycled back into the investment fund for further utilisation. Any future scheme would of course still require a full detailed business case report to Cabinet.