

<b>Committee(s):</b> Policy, Resources and economic Development Committee	<b>Date:</b> 2 February 2022
<b>Subject:</b> Brentwood Regeneration Fund	<b>Wards Affected:</b> All
<b>Report of:</b> Ian Winslet, Strategic Director (Housing and Regeneration)	<b>Public</b>
<b>Report Author/s:</b> Name: Ian Winslet, Strategic Director (Housing and Regeneration) Telephone: 01277 312644 E-mail: ian.winslet@brentwood.gov.uk	<b>For Decision</b>

### Summary

The Council, in its 'Brentwood 2025' Corporate Strategy, has stated 'Growing our Economy' as a central plank of its ambition and has committed to developing a culture that supports the creation of new enterprise, inward investment and the growth of existing business. Regeneration of housing and other sites in the Borough is central to this ambition and the Council is already directly delivering affordable housing to support local families and, in turn, their contribution to the local economy. The Council is now looking at how it might go further with this social purpose activity and proactively facilitate regeneration projects where sites are stalled and where some financial intervention, through a dedicated 'Regeneration Fund' might unlock development and help accelerate delivery.

### Recommendation(s)

**Members are requested to:**

- R1. Approve the establishment of a 'Brentwood Regeneration Fund' to support commercial regeneration projects in the Borough. Subject to approval of the fund, specific opportunities for the allocation of fund finance will brought to this committee for consideration as they arise.**

### Main Report

#### **Introduction and Background**

1. A proposed fund, with the working title 'Brentwood Regeneration Fund' focuses on the Council's desire to accelerate delivery and fast track regeneration that otherwise might take longer to materialise. The Council does not see that it has a role in replacing the proper activity of mainstream lenders and investors in the market, simply instead, acting as a lender to discrete local projects where regeneration would not take place without the Council's intervention. External advice on the proposal has been sought from:
  - a) Anthony Dearing of Radcliffe Chambers (Legal Counsel) – Legal and Vires
  - b) Arlingclose Ltd – Treasury and Financial

2. A new regeneration strategy currently in early development will, amongst other things, demonstrate this appetite for taking a proactive role in regenerating sites within the Borough using prudential borrowing after carefully assessing terms, anticipated return and risk, and due diligence.
3. Through a blended approach to investment, the Council will support the delivery of a range of commercial regeneration schemes and attempt to influence market conditions in Brentwood to create an increase in private sector investment in stalled sites. The principal driver for this activity is to achieve the Council's social purpose and strategic regeneration ambitions and is therefore activity which falls outside of the definition of 'investment for yield' which, if that were the case, might preclude the use of PWLB or other prudential borrowing for such activity. A formal view on this critical point has been sought both from legal and treasury advisors and both are confident that the Council can rely upon this activity being excluded from the investment for yield definition.

### **Primary Objectives**

4. The primary objectives of the Council's fund are to support delivery and to provide access to appropriate 'Regeneration Funding' to pump-prime development activity within Brentwood Borough. In summary the main objectives being pursued are:
  - a) To provide targeted social purpose investment using prudential borrowing to kick start regeneration and help to bring forward projects that produce new homes or other economic benefit as outlined in the Council's Corporate Strategy.
  - b) To ensure that there is no additional pressure on General Fund as a result of this activity.
  - c) To ensure that any funding provided by the Council is flexible, attractive to the market but recoverable.
  - d) To ensure that any funding decisions are taken based upon robust appraisal processes and due diligence to manage risk and optimise the deployment of Council resources for its regeneration ambitions and social purpose.
  - e) To allocate Council resources to unlock third party investment that would not otherwise have come forward and increase the pace of delivery than would otherwise have been the case.

### **Legal Consideration**

5. The Council has taken specific legal advice on the proposal. In Summary, the Council has the power to invest relevant to its functions under any enactment, or for the purposes of the prudent management of its finances under Section 12 of the Local Government Act 2003. The council has a general power to borrow under Section 1 of the Local Government Act 2003. The Council intends to borrow from

the Public Works Loan Board or in the form of other prudential borrowing and provide debt finance under Section 12 of the Local Government Act 2003.

### **Financial Considerations**

6. Financial and treasury advice been taken on the proposal. In summary, the advice received confirms that the Council can undertake this activity within set principles and subject to detailed due diligence and assessment of individual opportunities for on-lending. The financial principles proposed to be adopted and upon which advice has been sought are:
  - a) The Council will use its LA to LA or PWLB borrowing capacity to support local private sector regeneration activity through loans to support SME developers that cannot, for whatever reason, obtain mainstream borrowing.
  - b) Activity be undertaken within CIPFA guidance on PWLB borrowing for housing and regeneration activity.
  - c) Specific on-lending to be within strict criteria for schemes, total exposure, minimum and maximum lending, planning in place and other risk criteria satisfied as agreed by Members.
  - d) After proper due diligence is undertaken as any lender might.
  - e) That on-lending is undertaken at market compatible rates and that security, either against the asset within the project, or a floating charge on other assets, are in place.
7. In addition, it is proposed that criteria for the 'portfolio' be also put in place so that total exposure does not fall outside of parameters set initially by this committee.

### **Initial investment criteria considerations**

8. There are, as with all investments, risks associated with on-lending. Investment criteria will be set specifically to mitigate risk in the portfolio of activity and detailed due diligence undertaken on project opportunities before being presented to members for consideration. The following key criteria are recommended to mitigate risk in the overall on-lent portfolio. *Table 1* below.
9. Other project specific criteria will develop through analysis and discussion, and individual projects may have additional criteria applied after due diligence.

**Table 1: Indicative Investment Criteria and Risk Mitigation**

Attribute	Detail
Market Compatibility in lending criteria	To meet the Council's cost of activity and ensure it meets Subsidy Control criteria
Maximum total fund investment £100m and Individual project debt finance no less than £1m and no greater than £20m.	No one project exposure should be over <b>20%</b> of the portfolio at full investment
Fund to be allocated by 'investment class' (i.e., housing, care, retail)	No one 'investment class' exposure should be over <b>35%</b> of the portfolio at full investment
Planning Consent	Scheme must have Planning consent in place at the point of investment
Securitisation	All investment to be matched with asset security, floating charge, or a combination.
Lending term and delivery timetable	The maximum delivery timetable for a project is no more than 3 years from the date of investment and no loan will exceed a 3-year term.

### Approval process for specific fund opportunities

10. Once a project has been identified as meeting the primary objectives outlined in paragraph 4 of the report, full assessment of the financial opportunity and due diligence will be undertaken specific to the opportunity. This will include but not be restricted to,
  - a) A description of the scheme, opportunity, and proposed outcomes for the Council
  - b) A description of the body/person as loan recipient
  - c) Impact on the Council's Capital Funding Requirement (CFR)
  - d) A demonstration that the loan is part of an in-area regeneration scheme and that the loan is not being made for yield.
  - e) A demonstration that the opportunity complies with the wider prudential code
  - f) Calculation of a market complaint interest rate involving a full analysis of the loan counterparties financial strength as well as an understanding of the market in which it is operating in along with an understanding of any parent/group relationships. (Specialist external support will be engaged for this process)

- g) Fees, charges and cashflow predictions and risks over the life of the loan
- h) Proposed draft Heads of Terms for the loan agreement (specialist legal advice will be engaged for this purpose and for the loan agreement)
- i) How the portfolio meets the criteria outlined in paragraph 9 of the report (commencing once two loans are in progress)
- j) Confirmation that the section 151 officer is satisfied with the proposal

## **Consultation**

- 11. Consultation has taken place with the Financial Initiatives Working Group and agreed proposals should be worked through and brought back to Committee.

## **References to Corporate Plan**

- 12. The Council's Corporate Strategy 'Brentwood 2025' refers to 'Growing our Economy' as a central plank of its ambition and has committed to developing a culture that supports the creation of new enterprise, inward investment, and the growth of existing business

## **Implications**

### **Financial Implications**

**Name/Title: Jacqueline Van Mellaerts, Corporate Director (Finance & Resources) and S151 Officer**

**Tel/Email: 01277 312500 jacqueline.vanmellaerts@brentwood.gov.uk**

- 13. The Financial considerations have been addressed within the report. A £20m fund has been allocated within the capital programme of the Council's Budget 2022/23 and the Capital Financing Requirement has been amended accordingly. However, the fund will not be drawn down on until specific proposals for the use of the fund are brought back to this Committee.

### **Legal Implications**

**Name & Title: Amanda Julian, Corporate Director (Law & Governance) and Monitoring Officer**

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- 14. The Council has the power, under the Local Government Act 2003, to set up this fund and to on loan as the main objective is not for yield but for regeneration and housing purposes. In setting the interest rates the Council will have regard to primary market rates to avoid State Aid and Subsidy Control issues.

Further legal advice will be provided as to the content of the loan agreements, to ensure that the necessary consents are obtained to satisfy the requirements of Part 8 of the Local Government Act 2003.

### **Economic Implications**

**Name/Title: Phil Drane, Corporate Director (Planning & Economy)**

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15. The Regeneration Fund proactively facilitates regeneration projects where sites have stalled through financial intervention to unlock development and accelerate delivery. This contributes to the Council's corporate priority to grow the economy. The Council is committed to developing a culture that supports the creation of new enterprise, inward investment and the growth of existing business. Regeneration of housing and delivery of development in the borough is a way to deliver economic growth, in addition to other corporate priorities such as developing communities and improving housing.

### **Background Papers**

- Anthony Dearing Radcliffe Chambers– Legal Opinion
- Arlingclose Ltd – Financial and Treasury Advice

### **Appendices to this report**

**None**