ECC Economic Renewal Investment Fund (ERIF)

Joint Place and Corporate Scrutiny – 24 March 2022

The story so far…

October 2017: Commercial property investment portfolio established – up to £50m out of County

June 2019: “Commercial Investment in Essex Places” reserve set up – c.£13m

December 2019: HM Treasury deters local government borrowing

October 2020: Former Leader announces £100m of investment in Essex

24 November 2020: Joint Place and Corporate Scrutiny Committee

November 2020: HM Treasury updates borrowing guidance

May 2021: New administration backs Net Zero

Feb / March 2022: Endorsed by CLT and PLT

24 March 2022: Joint Place and Corporate Scrutiny Committee

19 April 2022: Anticipated Cabinet Decision

When we last met…

Joint Place and Corporate Scrutiny Committee on 24 November 2020

- Welcomed the shift to investment **within the County**
- Supported a focus on economic, social and environmental **benefits for residents and businesses** – and communication of these
- Requested a good balance between **internal capacity and capability / independent specialist expertise**
- Urged **openness and transparency** of decisions and performance (incl. revaluations)
- Requested more information on balance of **risk and reward** relative to private sector
- Raised concerns around application of **PWLB borrowing guidance**

What is the Economic Renewal Investment Fund (ERIF)?

Essex County Council's Economic Renewal Investment Fund (ERIF) will support its commitment to good jobs, future growth and investment, green growth and levelling up the economy.

Over the next 20 years, the Fund aims to invest over £100m, support 1,000 jobs, and add £200m to the Essex economy.

It will do this through land and property projects that the market wouldn't deliver – or, may not deliver to such high standards.

All new build projects will be expected to deliver net zero carbon in operation.

The Fund will access the Council's 'Commercial Investment in Essex Places' reserve, as well as securing central government grant funding, attracting private sector funding and revolving its own rental income and capital receipts.

It will have a catalytic impact beyond the projects that it supports directly, by building confidence in Essex places and markets.

Delivering Everyone’s Essex

Strategic Fit assessed using eight Economic Renewal priorities…

Strong Inclusive & Sustainable ECONOMY	Good jobs	**Job creation and safeguarding**
	Levelling up the economy	Attract and retain **investment and talent** in strategic locations / least resilient areas
	Future growth and investment	Supporting **start-ups and high-potential firms**
	Green growth	Contribute to **green growth and climate resilience**
High Quality ENVIRONMENT	Transport and built environment	Keep momentum with / accelerate **major housing and economic growth projects**
HEALTH, wellbeing & Independence for All Ages	Healthy lifestyles	Encourage shift to **sustainable modes of transport**
A Great PLACE for Children & Families to Grow	Education outcomes	Provide opportunities for **re-skilling / up-skilling**
	Levelling up outcomes for families	Facilitate **higher productivity economic activity**

Delivering Everyone's Essex

…plus a Net Zero policy

ERIF Net Zero policy

1. All new build projects will be expected to deliver **net zero carbon in operation**.
2. Where possible, **external grant funding** will be use to enhance environmental performance.
3. Exceptions to the Net Zero expectation will be considered only where there is a clear opportunity to deliver on the Council's commitment to **Level Up Essex**. Decisions on exceptions at a project level must take account of the Fund's overall contribution to Net Zero.
4. Where a project is delivered at lower environmental credentials, it will target a higher financial return. This will allow for **cross-subsidy** into higher environmental credentials elsewhere.
5. Resources will be directed towards finding projects **on brownfield sites / refurbishment activity**.
6. Resources will be directed towards finding projects that support **green economic activity**, and development in **sustainable locations**.
7. **Waste minimisation** will be considered in procurement decisions.
8. **Lettings policies** will be designed to support growth and innovation in key sectors, including the green economy.
9. Divestment decisions will consider **long term stewardship** arrangements.

What kinds of projects will ERIF deliver?

A balanced portfolio of land and property strands and projects across the risk spectrum

Income generating property outside of Essex

Retaining three existing ECC assets valued at c.£27m, to provide initial ‘ballast’ for higher risk activity

No further acquisitions of this nature

Income generating property within Essex

Transferring development / refurbishment assets post-completion, increasing ‘ballast’ over time and generating revenue to be reinvested

Development / refurbishment

For example:

- Acquiring and repurposing an existing building to safeguard jobs in a town centre
- Delivering new R&D / high-tech floorspace to support higher productivity employment
- Providing industrial ‘Grow-on Space’ for businesses that have outgrown their initial accommodation
- Kick-starting commercial development in a new Garden Community

Development land

For example:

- Master planning to deliver high-quality placemaking
- Delivery of infrastructure / enabling works to resolve market failure
- Disposing to private sector for onward delivery of new homes, with conditions to achieve zero carbon / use off-site manufacture

What will ERIF do – and not do?

The Fund provides a 'new string to the bow' of the ECC Capital Programme

Socioeconomic	Financial	Development activity	ECC Estate	Environmental
✓ **Resolving evidenced market failures** ✓ **Investment beyond initial purchase price**	✓ Projects under £12.5m (incl. grant funding) ✓ External funding beyond £12.5m	✓ Infrastructure and enabling works ✓ Non-residential property (housing only where ancillary)	✓ Development Land ✓ **Land and property assets within County**	✓ Land and property ✓ Expectation of Net Zero carbon in operation
× **Competing with the private sector** × **Indefinite holding of assets** × Development finance	× **Investment primarily for yield** × No return on investment × 100% grant funded	× Social infrastructure (e.g. schools, libraries) × Direct delivery of housing	× **Land and property assets outside County** × ECC service operational assets × Residential lettings	× Renewable energy generation × Charging / energy storage

*Nb – **Bold type** indicates a requirement of PWLB borrowing guidance*

The wider ECC investment landscape includes Essex Pension Fund, Treasury Management, support to subsidiaries, shareholdings and loans to third parties

Concerns from elsewhere…

CROYDON | Delivering for Croydon
www.croydon.gov.uk

BRISTOL energy

WARRINGTON Borough Council

THURROCK COUNCIL

Luton

RobinHood energy
A not for profit company

SURREY

Cambridgeshire County Council

How will ERIF reduce risks?

- **Scale of fund** modest relative to size of organisational revenue budget / capital programme
- **No reliance on investments** to fund day-to-day service delivery
- Each investment decision subject to **individual business case**, maximum £12.5m per project
- **Higher-risk activity balanced with lower-risk** (existing commercial property portfolio, new income generating assets and cash reserve)
- Prudent approach to **Minimum Revenue Provision** (MRP)

Summary of key principles

Portfolio- and project-level controls span the Five Cases recommended by HM Treasury

Strategic and economic arrangements

- Projects to be appraised for **strategic fit, financial return, social value and environmental benefits** – mixture of hurdles, targets and prioritisation criteria

Financial arrangements

- Controls reflect different risks associated with **different strands of activity**
- Value of higher-risk activity shall remain below 1.4x that of the **'ballast' of lower-risk cash and prime assets**
- **Maximum lot size** £12.5m, to ensure diversification of risk
- **Maximum grant funding requirement** prior to start on site shall not exceed £10m across the portfolio at any one time
- Revenue reserve shall not be allowed to fall below £0.5m, to provide a **contingency for unexpected revenue costs**
- Confirmation of **compliance with CIPFA guidance and Prudential Code** formally sought from ECC Section 151 Officer prior to any capital investment decisions

Commercial arrangements

- Use of external advisers alongside internal capacity building to provide **independence, market intelligence and specialist support**
- **Facilities management** through existing arrangements, unless specific reasons to deviate

Management arrangements

- Scrutiny of investment / divestment proposals by **ECC Corporate Landlord**
- Investment / delivery / divestment decisions would follow **formal ECC governance routes -** Finance Cabinet Member or Cabinet, depending on delegation thresholds
- Economic Renewal Cabinet Member as formal consultee, to ensure **rounded decision-making**
- Financial, economic and environmental performance will be **regularly reported on and reviewed**

How will projects be selected / critical decisions taken?

Stage 1 – Initial assessment
Target: Two weeks

Gateway 1
Sifting / risk assessment matrices

Gateway decision(s):
- Funding for due diligence and feasibility analysis

Decision(s) taken by:
Economic Growth and Localities / Housing Growth teams

Stage 2 – Due diligence and feasibility analysis
Target: 4-6 weeks

Gateway 2
ERIF Strategic Business Case template

Gateway decision(s):
- Submission of 'in principle' bid
- Negotiation parameters for acquisition

Decision(s) taken by:
C&IG Board

In consultation with:
Relevant Cabinet Members

Stage 3 – Further due diligence and negotiations
Target: 4-6 weeks

Gateway 3
ECC Decision template

Gateway decision(s):
- Exchange of contracts to acquire
- Budget for acquisition and scheme development
- 'In principle' approval of high-level plans and budget for later stages

Decision(s) taken by:
Cabinet Member Action (below £5m) / Cabinet approval (£5m and above)^

In consultation with:
Relevant Cabinet Members

Stage 4 – Delivery strategy

Gateway 4
ECC Decision template

Gateway decision(s):
- Delivery strategy
- Budget for delivery
- 'In principle' approval of high-level plans and budget for operation and maintenance

Decision(s) taken by:
Cabinet Member Action (below £5m) / Cabinet approval (£5m and above)^

** Commercial & Income Generation Board decision could be taken through written deliberation, without meeting (i.e. 'virtual')*
^ Urgent decision procedure can be used, where appropriate

Project-level controls in place across the Five Cases

To be examined at each gateway

	Strategic Case	Economic Case	Financial Case			Commercial Case	Management Case
Control	**Strategic fit**	**Cost Benefit Analysis**	**Maximum lot size**	**Cashflow modelling**	**Debt Management Office tests for PWLB borrowing**	**Investment readiness**	**Risk assessment**
Metric	Scoring matrix across nine criteria, aligned to Everyone's Essex	Exchequer Benefit Cost Ratio (x.x : 1.0)	Total capital expenditure (£, acquisition and delivery, including that repaid by grant funding)	Post-financing IRR (%, assuming 100% debt)	Pass / fail for each of five tests	Scoring matrix	Scoring matrix
Criteria	To aid prioritisation by decision-makers	Pass / fail based on minimum hurdle (2.0 : 1.0)	Maximum of £12.5m	Pass / reliant on growth / fail (3.75% to 5.00% for EPC Rating A+; 4.25% to 7.00% for EPC Rating B)	Pass / fail overall	No criteria, to avoid only progressing easy / more developed projects, but visibility provided to decision-makers at each gateway	Minimum score of 2 out of 4 across all gateway criteria, and visibility provided to decision-makers at each gateway

Subject to ongoing review

Risk management

The mitigations proposed reduce risks associated with the Fund

Top 15 risks and issues (out of the 40 identified)

Organisational

1. Reputational impacts arising through controversial projects / schemes / issues

Service delivery

2. Delays / abortive costs due to consents process
3. Insufficient officer capacity and capability
4. Capital values lower than anticipated (other than related to economic and property cycle)
5. Bias in project selection / business case development
6. Failure to secure non-recoverable grant funding
7. Aborted negotiations to acquire land and property
8. Disputes with neighbours
9. Unable to meet requirements within approved financial parameters
10. Design liability / construction disputes
11. Site capacity reduced through consents process / environmental constraints
12. Reduced demand due to behavioural changes post-pandemic
13. Lettings policy impacts occupancy levels

External

14. Economic and property market cycle / competition impacts capital receipts
15. Change to central government policy reduces access to capital funding

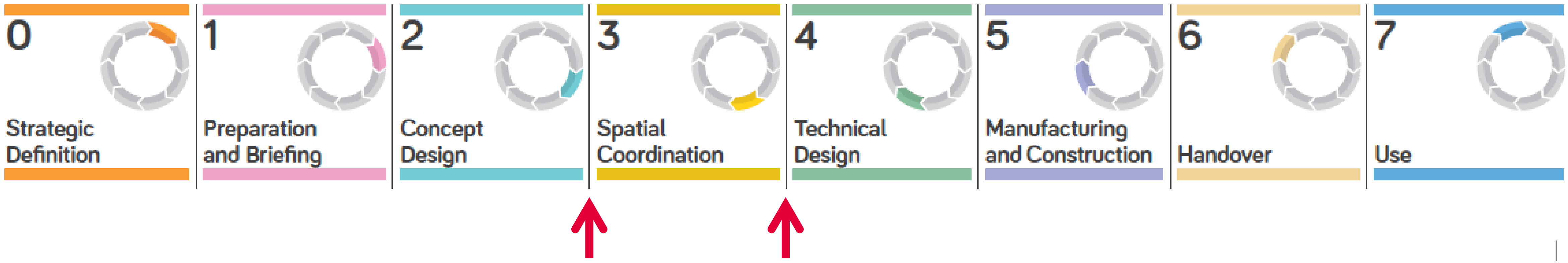
Key mitigations

- Assessment matrices used to provide consistency of decision making
- Decision making in line with ECC Constitution, including arrangements for declarations of interest
- Sufficient budget to allow proper resourcing, including recruitment / procurement of specialist expertise
- Independent advice and market intelligence from external specialists
- Desktop engineering studies to be commissioned early on, supplemented by site inspections as appropriate
- Appropriate contingencies and conservative assumptions. Conditional agreements for acquiring land, where possible
- Stakeholder engagement strategy for each project, involving ECC Communications team where appropriate
- Phased approaches to project development and delivery

Delivery and disposal

- Typically, **trade-offs** between:
  - Lower capital receipts and risk for ECC, greater uncertainty for private sector
  - Greater income and greater control of benefits realisation for ECC, less uncertainty for private sector
- **Potential delivery routes** include:
  - **Master Developer** - Procure multi-disciplinary team, promote through planning system, deliver enabling works / infrastructure, restricted disposal to private sector (may include transfer to Essex Housing Development LLP)
  - **Developer** – Establish Employer's Requirements and procure Design and Build team OR traditional two-stage procurement (procure design team followed by Main Contractor, who would novate design team and subcontract as required thereon)
  - **Delivery partnership** – Procure delivery partner, contract management of Development Agreement thereon
- **Natural jump-off points** after RIBA Plan of Work Stages 2 and Stage 3 – more complicated if we wish to deliver enabling works / infrastructure

Natural 'jump-off points' across RIBA Plan of Work stages



Questions/Feedback?