

Derby Enterprise Growth Fund

SUMMARY

- 1.1 To seek urgent approval by the Council Leader to transfer £1.5m to the Council's Derby Enterprise Growth Fund (DEGF) from Reserves.
- 1.2 This will address a cash-flow issue. This transfer will be reimbursed via rental payments due to the DEGF such that it will be financially neutral to the Council.
- 1.3 This injection of funds into the DEGF will enable the fund to meet existing commitments as well as those which are anticipated to arise at the May DEGF Investment Panel. In doing so this will also ensure that the Council is able to achieve its match-funding commitments arising from an EU funded 'sister' fund known as the "D2Enterprise Growth Fund" (D2EGF).

RECOMMENDATION

- 2.1 To approve the transfer of £1.5m from Budget Risk Reserve to the Council's Derby Enterprise Growth Fund (DEGF) to be reimbursed via the associated rental agreements.

REASONS FOR RECOMMENDATION

- 3.1 To comply with the Council's contract with the Government to continue to deliver the successful DEGF programme. An urgent decision is necessary due to the requirement to fund £278K (Feb Panel) of offers which have been formally accepted and are at due diligence and contracting, together with the ability to provide formal offer letters for cases to be presented at May Panel totalling c£650K. These funds, with the exception of a £67K loan, help achieve our D2EGF contract.

SUPPORTING INFORMATION

4.1 Derby Enterprise Growth Fund – Resource Requirements

Derby Enterprise Growth Fund (DEGF) operates as a grant and loan scheme to support business growth in and around Derby with financial awards approved by an independent Investment Panel. The fund commenced with a £20m grant payment

from the Government's Regional Growth Fund. All of the original £20m has been awarded to businesses and the scheme now operates largely from loan repayments. The fund continues to see a strong level of interest and has had an extremely positive impact on the Derby economy (see 4.3 below).

- 4.2 The Council have secured a further c£1.3m of additional funding from the European Union's European Regional Development Fund and is being used to support grants to businesses in Derby and Derbyshire. These funds must be committed by December 2018. This sister fund is called the D2 Enterprise Growth Fund (D2EGF).
- 4.3 The DEGF and the D2EGF are two of the main tools the Council uses to achieve its performance targets in relation to job and business growth. DEGF is currently exceeding its output target; D2EGF is on target. The overall impact of these funds to date has been:
- The fund has received over 720 EOIs with a total project value of £384m
 - 177 businesses have been awarded funds
 - Over £28m of DEGF contracts have been awarded
 - Over 2,323 jobs have been created in the Derby area (already exceeding the March 2020 target established in the RGF offer letter to which DCC is contracted)
 - More than £1.6m additional business rates have been generated by companies extending their property or moving into Derby (figures from VOA.gov.uk).
- 4.4 The Funds are currently subject to a cash-flow issue, due in part to the protection of public funds regarding a DEGF loan. The resolution to this issue included the transfer of ownership of property to the Council. A tenant has agreed a 15 year lease from the Council for an initial rent of £250k p.a. (for first 5 years). If the Council chose to sell the building the net receipt from the building would be returned to the DEGF.
- 4.5 Not transferring funds to DEGF from Reserves include would have implications for commitments made at the DEGF Investment Panel in February and for proposals programmed for the 16 May Investment Panel (most of which relate to the D2EGF programme). Difficulties would also arise in committing the EU funds before the deadline of December 2018.
- 4.6 In order to resolve matters, it is proposed that the Council injects £1.5m from Reserves into the DEGF immediately. In return the Council would retain the annual rent payments of £250k until such time as the £1.5m, plus interest, has been reimbursed. The intention is that this will be financially neutral to the Council over time. The recommendation above reflects this proposal. Interest will be charged at 4.3% p.a. on the average balance outstanding each year.
- 4.7 Once the £1.5m has been reimbursed, the rent from the building or the receipt should we choose to sell the building, will be retained by the DEGF (i.e. for further investment in growing Derby businesses).
- 4.8 Funds which provide a mix of loans (as a 'funder of last resort') and grants to promote economic growth are inevitably depleted over time. Officers are considering ways of topping up the DEGF (and the Regen Fund) and this will be subject to a separate report.

- 4.9 Applications to the fund are filtered in a variety of ways so that only stronger cases are presented to the Investment Panel once a complete business case has been supplied including the provision of financial statements, and in the case of loan requests, details of existing and future lending. Loan applications must conform to a DEGF Loans Policy. If the Panel approve an application “in principle”, there is a robust due diligence process. The subsequent contracting process ensures that all appropriate conditions and recommendations are documented including information required for on-going monitoring.
- 4.10 The monitoring of live projects requires receipt of management information and explores any changes in circumstances that could affect debt serviceability and the security position in terms of current asset values. Periodic reports are given to the Investment Panel about material changes in circumstances for live loans.
- 4.11 The rental income offers the main risk mitigation for the repayment of the ‘internal loan / injection’ proposed. In the unlikely event that rent is not paid the Council has the ability to remove the tenant and seek another tenant or sell the building. Clearly an asset sale would have wider considerations. The balance of DEGF funds is carefully monitored, particularly against pipeline / application requests, to ensure that over-commitment against the Fund does not occur.

OTHER OPTIONS CONSIDERED

- 5.1 Do Nothing – This would severely impede the operation of DEGF and lead to a failure to commit ERDF resources and under-delivery of outputs.
- 5.2 Suspend all new applications to the fund until sufficient headroom has been rebuilt in the DEGF account arising from loan repayments – this will reduce the creation of new jobs and growth of businesses and impact on the business rate income created in Derby.

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Estates/Property officer Service Director(s) Other(s)	Emily Feenan, Principle Lawyer Don McLure, Interim Strategic Director of Corporate Resources / Section 151 Officer John Green, Estates Manager Greg Jennings, Interim Director of Regeneration and Housing
For more information contact: Background papers: List of appendices:	Alan Smith, Head of Economic Regeneration alan.smith@derby.gov.uk 01332 641624 None Appendix 1 - Implications

IMPLICATIONS

Financial and Value for Money

- 1.1 As detailed in the main body of the report and appendices. This proposal addresses a cash-flow issue and is financially neutral to the Council.

Legal

- 2.1 None directly arising.

Personnel

- 3.1 None directly arising.

IT

- 4.1 None directly arising.

Equalities Impact

- 5.1 None directly arising.

Health and Safety

- 6.1 None directly arising.

Environmental Sustainability

- 7.1 None directly arising.

Property and Asset Management

- 8.1 None directly arising.

Risk Management and Safeguarding

- 9.1 There are sufficient reserves and provision to sustain the recommendations in this report.

Corporate objectives and priorities for change

- 10.1 None directly arising.