

**Paper for: The LEP Board**

**Title: EZ Loan – Approval of EZ Facility Agreements**

**Date: 26 February 2020**

**Strategic Purpose: Delivery of Strategic Objectives**

**Resource Implications: Financial**

**Board: For Decision – To approve executing the Facility Agreements**

1. **Executive Summary**
	1. Enterprise Zones are specially designated areas identified for regeneration and development for business use. Under an agreement between the Ministry of Communities, Housing and Local Government and the Local Authorities any additional business rates generated, until 2041, from investments in the Enterprise Zones can be retained by the Local Authorities, on behalf of the LEP, to fund further projects to promote economic growth.
	2. The board is already aware that the LEP has been in discussions with the three Local Authorities with a view to securing loan facilities of £30M to invest into projects within the Enterprise Zones. We have identified a pipeline of projects expected to generate in excess of £90M of additional business rates. The loan and associated interest shall be repaid from the additional of retained business rates created by the new debt.
	3. Discussions with Local Authorities has now reached agreement on the basis of the Facility Agreement in Appendix A. The Facilities are non-recourse in nature and the Local Authorities can only look to the additional business rates generated in the Enterprise Zones for payment of interest and the loan principal.
	4. Decisions on which projects are invested in will be determined by the LEP EZ Board, on which the Local Authorities are represented. Applications will be subject to an early initial review to determine any which should not proceed to further work. EZ investments will be made so long as they meet certain pre-conditions, such conditions are still to be finalised.
	5. It is expected that the drawn portion of the loan will need to be reported as a liability on the LEP balance sheet. Interest costs will be charged to the LEP Income and Expenditure account in the period in which they are incurred.
	6. The key terms of the loan have been reviewed at the EZ Board and by the F&A Committee, receiving support to bring this recommendation to the full board.
2. **Background**
	1. There is a strong and shared strategic rationale between the LEP and its local authority partners to provide funding to unlock and accelerate new development in the Enterprise Zone (EZ). Not only does it attract new businesses, create new jobs and boost economic activity, it also generates a stronger flow of retained business rates that can be reinvested into other economic development projects within the EZ and across the wider-sub region.
	2. The proposal is for the LEP to borrow money to invest in new development in the EZ by providing grant funding to landowners/developers in the Enterprise Zone. This borrowing will be repaid through the additional retained business rates generated by the new development. Once the borrowing is repaid, the retained business rates will be put into a sub-regional investment fund that will be used to fund future projects.
	3. To date, the LEP has committed £7.6m in investments in the EZ utilising its existing Growing Places Fund (GPF) in advance of the loan facility being established. However, there are insufficient funds in GPF to fund any further investments in the EZ. Therefore, the LEP has been in discussions with our three local authority partners regarding borrowing c.£30m to fund future investments in the Enterprise Zone. The GPF capital advance needs to be repaid in 2019/20.
	4. The project investments are expected to generate in excess of £90M of additional business rates, thus providing a good return on the proposal.
3. **Progress to date**

Our discussions with the three local authorities have established a number of key principles for the establishment of the EZ borrowing facility:

* 1. Each local authority will provide the funds to enable the LEP to fund EZ investment projects in their own areas, effectively this would operate as three separate loan facilities.
	2. A single interest rate (set at an agreed percentage above the PWLB base rate) and standard terms and conditions (including arrangement fees) will be applied across all three loan facilities.
	3. In the event that a local authority is unwilling or unable to finance an EZ project in their area, the investment opportunity would be made available to the other two local authorities.
	4. Borrowing is drawn down against individual investments as and when required in order to minimise the level of interest paid by the LEP.
	5. Approval of investments would be made through the LEP’s existing EZ investment approval process, which includes EZ Board approval, P&I Committee approval and LEP Board approval for investments over £2.5m.
	6. A credit committee made up of finance representatives from the three local authorities is established to provide assurance to the EZ lenders (local authorities) about the security of their lending.
	7. If EZ investments meet a set of agreed Conditions Precedent, loans would be agreed by the Credit Committee. These would include, for example, the financial standing of the developer, planning status of the scheme etc.

Warrington Borough Council have been leading the preparation of the loan terms and we now have a set of agreed Facility Agreements which have been shared with the other two local authorities for review and agreement has been reached on a common way forward.

Local authorities are currently progressing the documents through their internal approval processes and should be in a position to execute the documents shortly.

1. **Structuring and financial reporting of the loan**
	1. The contractual arrangements regarding the loan will have direct implications on how it is reported financially by the LEP and importantly that it shows on the balance sheet of the LEP as a liability. Alongside the considerations for the loan contract, the advice from the LEP’s auditor is that the MOU with respect to the EZ does not vest in the LEP sufficient legal rights over the income for the LEP to include future cash flows as a financial asset.
	2. The LEP balance sheet will appear unusual with the significant liability of the loan overshadowing all other assets and liabilities of the organisation. Given that the loan can only be serviced by the retained business rates, and the Local Authorities do not have recourse to the LEP’s other income flows or assets, this does not affect the ongoing solvency of the LEP.
2. **Internal and External Review**
	1. The EZ board were appraised of the progress at their meeting on September 12th and the loan facility was considered by the LEP’s Finance and Audit Committee on September 24th 2019. Both committees are supportive in principle of the loan and the key terms.
	2. As documentation has developed, advice has been sought from an independent member of the EZ Committee with extensive legal experience in this field.
	3. The facility agreement has also been shared with the external auditor for advice on the accounting treatment.
3. **Process**
	1. In order to comply with the conditions’ precedent within the Facility Agreements, a legally drafted minute has been prepared, to record the Board’s resolution for the LEP to enter the Facilities.
	2. Borrower’s certificates confirming compliance with the conditions’ precedent in the Facility Agreements.
	3. Subject to the first two steps being completed, the Facility Agreements can be executed.
4. **Recommendation**
	1. The Board is recommended to approve the EZ Facility Agreements.
	2. The Board is requested to authorise execution by the Chair and Chair of the EZ Board.

**Ian Brooks**

**Finance and Commercial Director**

**February 2020**

Appendix A

Summary of the Loan Terms

* + - Each authority will make available £10M.
		- The facility shall be a non-recourse facility meaning that the only security available to the Local Authorities for payment of interest and repayment of capital is the future retained cash flow arising from business rates, and there is no further recourse to any other income streams or assets of the LEP.
		- The arrangement fee for each loan shall be £25k (essentially to cover the out-of-pocket expenses of each Local Authority in establishing the loan facility).
		- Interest on outstanding balances will be at 2.05% above the Public Works Loan Rate (PWLR).
		- Money can be drawn to invest in projects during the first 3 years of the loan facility, the interest rate applied to each drawn down set at the prevailing PWLR.
		- Interest will be initially added to the loan until projects begin to realise business rates.
		- The LEP will commit to pay 80% of the expected business rates from each project towards interest and loan repayments (the remaining 20% provides cover for any shortfall of income in the event that the business rates fall short of plan, or can be used to fund further projects, or can be used to make voluntary overpayments of the loan capital).