

Appendix 1: Torbay Economic Growth Fund Criteria

This appendix sets out an outline for the management of the Torbay Economic Growth Fund including direct development, acquisitions and loans subject to appropriate security.

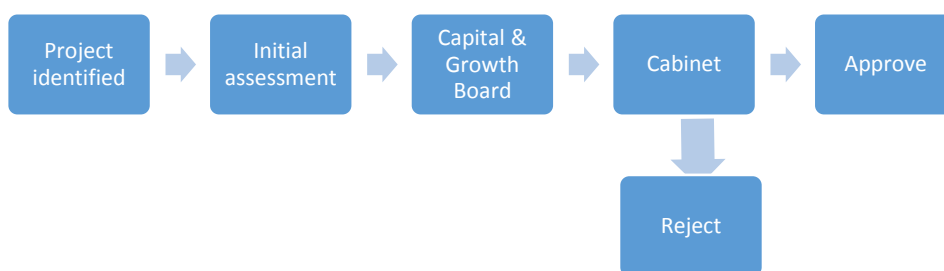
It is intended that project proposals made under the Economic Growth Fund are robust, therefore proposals will be considered initially by the Council's Capital & Growth Board who will ensure that there is a robust justification for the proposal in line with the assessment criteria set out in this Appendix.

The ambition of the fund, to have a direct impact on the economic performance of Torbay, is inherently higher risk than for the Council's Investment Fund where decisions are made principally for financial return. Therefore the assessment criteria for the Torbay Economic Growth Fund are intended to;

- complement the Council's Investment Strategy;
- reflect a suitable balance between the risks inherent in the types of projects supported and the financial/economic rewards obtainable; and
- ensure effective governance and due diligence on any proposal.

The assessment process will require all Growth Fund requests to meet the initial 'gateway criteria' set out below. Furthermore, all proposals will be expected to set out a strategic business case which will need to demonstrate that the proposal meets the additional assessment criteria set out in (a) to (i) below. Proposals will also need to demonstrate the value for money that they offer for the outcomes being delivered, that they are commercially viable and are affordable. The ability of proposals to be successfully delivered will also be tested through this process. A strong proposal will also include a clear explanation, based on appropriate evidence, of: why the proposal will work (for instance including need and market demand) and will show clearly how the planned outcomes will be realized.

If approved by the Capital & Growth Board then the proposal will be brought to Cabinet for a decision in line with the process set out below.



The Economic Growth Fund is intended to create direct impact within the Torbay economy. That is, there is a direct relationship between the project and the

outcomes that the Council has determined it wants to achieve and the benefit that is intended to be created for the community of Torbay including for instance :-

- An increase in local employment by at least:
 - Jobs safeguarded;
 - Additional investment in Torbay whether from public or private sources;
 - Additional employment space; and
 - Improved public realm.

For clarity though, the Fund is not a “cash fund” but based on future Council borrowing to fund the proposals with the borrowing repaid from future income streams generated by the project. As borrowing by the Council, the Prudential Code will need to be complied with and section 151 officer approval will be required.

For property based projects the Fund will typically seek pre-lets or good unexpired lease terms with tenants of strong financial standing. Where a loan is requested by a third party, an appropriate level of security against the loan will be required, which might include parent company or director guarantees, asset mortgages or other security which the Council’s section 151 officer is prepared to accept. Where proposals require the Council to appoint external accountancy or legal support these costs will typically be met by the proposer and added to the proposal costs.

Other costs relating to aborted projects and scheme administration will be charged to the fund where appropriate.

In considering value for money there will be an assessment of the cost per job. Government guidance suggests that lower gross cost per job can be achieved where projects have a key focus on job creation such as in the development of employment space, where there is high private sector investment, low remediation costs or where the project is focused on a small local area.

Conversely projects which have wider objectives such as regeneration (town centre or more disadvantaged communities) or where there is a specialist purpose then higher costs per job would apply. Where project proposals are submitted which have a short term carry cost they will only be considered if the Economic Growth Fund as a whole is able to meet this cost i.e. it is expected that the cost of one project’s deficit is at least being met by surplus from other projects keeping the overall Fund costs covered.

The assessment criteria for the Economic Growth Fund does not prescribe a specific cost per job benchmark as a range of figures can be expected depending on the type of proposal under consideration.

The Council will not support proposals which would result in funds being used for activities which could bring the authority into disrepute and the issue of ‘state aid’ rules will be considered and applied where appropriate.

Cabinet will also take into consideration the Council’s overall ability to service increased levels of debt. As such, while individual projects, proposals or requests may not meet their full borrowing costs in the very short term (allowable under the

initial gateway criteria) the Economic Growth Fund as a whole must always be in a position whereby it is able to meet its overall costs.

Initial Gateway Criteria (projects must meet each)

No.	Criterion	Pass	Fail
1	The proposed Economic Growth Fund commitment is for a sum equal to or greater than £250,000		
2	There are measurable economic benefits that will be achieved within a maximum period of 3 years from the delivery of the project i.e. <ul style="list-style-type: none"> • Create a minimum of ten jobs for Torbay residents or • Modernise Torbay’s business infrastructure or • Encourage inward investment, relocation and business start-up within Torbay or • Promoting higher level skills 		
3	Projects will achieve a 0% minimum return over forecast borrowing costs and any other relevant operating costs (including operational costs through any construction and operational phases) taking into account the expected average return over a 5 year period from the expected date of completion of the loan.		

Additional Assessment Criteria

Assuming that Economic Growth Fund proposals meet the Gateway Criteria then all proposals will also be assessed against the following;

- a) Ability of the Proposal to provide financial benefits to the authority i.e. where future income or sales can be used to;
 - provide short term support for Economic Growth Fund projects that cannot fully meet borrowing repayments in short term, a period of no longer than three years;
 - accelerate delivery of the Council’s Economic Strategy;

- support of the Council's wider service delivery;
 - reduce borrowing.
- b) Proposing acquisitions will normally only be considered if they are good quality commercial property in traditional sectors, i.e. office and industrial, unless they are to be acquired for land assembly purposes. There would be an expectation of new or existing tenants to be on full repairing and insuring leases with a lease of at least 5 years.
- c) The financial business case will be considered taking into account the rate of return and income growth potential.
- d) Projects will be expected to achieve a positive net return after borrowing costs (assuming the prevailing PWLB interest rate at time of expenditure). Projects not meeting this position in the short term, by year three of the project, will be considered exceptionally and projects which cannot meet this threshold in the medium term, by year 5 of the project, will not be considered.
- e) Proposing property acquisitions where the property may have a strategic value to the Council would allow Cabinet to relax some of the above criteria where acquisition has potential for redevelopment or to enable development.
- f) Loans will require applicants to offer appropriate security to the Council and the term of the loan would typically be expected to be 5 to 10 years. The rate of interest on the loan would be consistent with the Council's Investment & Regeneration Fund i.e. 2% minimum return over borrowing costs and other relevant operating costs. Loans which do not offer full security will have a higher rate applied commensurate to the risk involved.
- g) Loans made to third party entities, outside of the Council and its owned companies, will be subject to a maximum loan to value rate (LTV) of 75% but the Council will typically expect the LTV to be no greater than 50%.
- h) Location of the project, the Council expects that the majority of commitments made through the Economic Growth Fund will be in Torbay but by exception may choose to support schemes in the immediate travel to work area where the objectives of the Economic Growth Fund can be met. Within Torbay project proposals located within the town centres and within, or principally for the benefit of, Torbay's more disadvantaged communities will be able to offer higher costs per job.
- i) Project proposals are expected to demonstrate how they will generate additional benefits for Torbay by adopting social value principles for instance indicating how employment opportunities will be recruited to from disadvantaged wards, how training and/or apprenticeship opportunities will be created or how the project will develop and use a locally based supply chain.