

Decision Pathway – Report



PURPOSE: Key decision

MEETING: Cabinet

DATE: 05 April 2022

TITLE	City Funds LP – Investment – Increase repayment term from 10 years to 11 years		
Ward(s)	City-Wide		
Author: Jon Clayton	Job title: Capital & Investments Manager		
Cabinet lead: Councillor Cheney	Executive Director lead: Denise Murray / Tim O’Gara		
Proposal origin: City Partner			
Decision maker: Cabinet Member Decision forum: Cabinet			
Purpose of Report: <ul style="list-style-type: none"> The City Council have invested £5m in City Funds LP (Cabinet report dated – 2nd July 2019). City Funds LP have requested that the term of the fund be increased from 10 years to 11 years to continue to provide competitive products for investees in the market place. 			
Evidence Base:			
Context			
<p>The development of the Bristol City Funds concept emerged from the wider development of the One City Plan and seeks to address the following challenges facing the city of Bristol:</p> <ul style="list-style-type: none"> Systematic disadvantage and inequality. Reduced provision in local areas. A restricted grant environment means innovative projects struggle to find the right types of finance. City wide resources are unaligned, competing and duplicating efforts. <p>A range of national research led by a number of key stakeholders identified that although there is social investment available, there remains a need in the charity and social enterprise sectors for alternative funding models and appropriate finance for social impact. There is a lack of effective intermediaries enabling the supply and demand to come together at the local place based level.</p>			
The City Funds			
<p>In developing the One City Plan, City Partners identified the need for enabling funds and it was agreed that Quartet Community Foundation and Bristol & Bath Regional Capital (BBRC) would work in collaboration with Bristol City Council (BCC) to develop and take forward a pilot that would seek to deploy the funds to the greatest and most sustainable effect. A Governing Board (City Fund Board) was established, with founding members coming from communities, business, education, the voluntary sector and the Mayor’s Office to develop this new place-based funding mechanism.</p> <p>The City Funds act as a local intermediary and has a target to generate significant funding to invest into areas of need. It will provide support for the local market and community organisations to grow and develop new models of delivering social value, supported by professional investors who understand and care for the City and its people. Proactive & innovative partners have been and will continue to be sought to help the fund achieve this aim, via a combination of repayable finance, grant and donations.</p>			

The investment fund is advised by BBRC, (having regard to the investment policy approved by the Council) which will utilise repayable debt initially and equity in the longer term, and the grant and donation fund will be Quartet managed.

As part of the pilot, the City Council along with Big Society Capital (both known as the limited partners) have both invested £5m in City Funds LP to provide loans that would seek to deliver outcomes within four priorities, being

- No Child Goes Hungry
- Economic Inclusion
- Community Initiatives
- Environmental Stability

As at the end of November 2021, £3.6m (36%) of investments have been approved and deployed. Further investments amounting to £1.5m have been approved but are yet to be deployed, taking the value of approved investments to £5.1m, 51% of the fund. These investments will be used to benefit the communities of the City in areas detailed above and further information on recent investments are below with further information on the City Funds website - <https://bristolcityfunds.co.uk/>

- The Park (charity) - established community centre in Knowle West delivering special education, affordable workspace, space hire and leisure/fitness services locally.
- Ambition Community – generation of renewable energy as part of the green energy ambitions of the Lawrence Weston Community Plan
- Agile Property and Homes Limited - Housing social enterprise design and delivery of affordable modular homes for the relief of homelessness
- SAH Diagnostics - Providing new, technologically advanced, mobile cancer diagnostic units for the NHS in Bristol.

However, it should be noted that the deployment of these investments is slower than outlined in the original business plan. This was due to a variety of reasons, the primary reason being the disruptions caused by the pandemic.

The City Funds have requested a 1 year extension that would provide the following benefits (further details set out in appendix I);

- Longer duration would continue to provide loans comparable to those currently offered by other lenders, and therefore these loans would remain competitive in terms of repayment profiles.
- To create affordable repayment profiles that would reduce the default and refinancing risk for investees.
- To provide higher average dealing size reducing the number of deals and subsequent transaction costs

The Current Internal rate of return (IRR) is 2.1% and by increasing the duration by 1 year would result in a marginal increase to 2.2%. However, this would mean that capital repayments of £75k would not be returned until 1 year later. Further detailed information is contained in Appendix I.

The investment agreement provides an option to enable the fund duration to be increased by 1 year and then one further 1 year option taking the maximum loan duration from 10 years to 11 years. This 1 year extension has to be consulted and approved by boards governing City Funds as required by the investment agreement. The boards being the General Partner, Governing Board, Investment Advisory Committee and BBRC (adviser to City Funds LP) with the final decision being with the limited partners.

It is noted that above boards and Big Society have approved these changes.

Cabinet Member / Officer Recommendations:

That Cabinet:

1. Authorise the Director Finance to take all steps required to extend the term of the City Funds LP by 1 year from 10 years to 11 years.
Corporate Strategy alignment: The purpose of the Investment in City Funds LP aligns with the aspirations and values within the City Council's Corporate Strategy.
City Benefits: The Investment fund supports the goals of the One City Plan, ie diverse economy, community resilience.
Consultation Details: City Funds LP, Big Society Capital and internal officers
Background Documents: Original Cabinet Report – 2 nd July 2019.

Revenue Cost	£n/a	Source of Revenue Funding	n/a
Capital Cost	£n/a	Source of Capital Funding	n/a
One off cost <input type="checkbox"/>	Ongoing cost <input type="checkbox"/>	Saving Proposal <input type="checkbox"/>	Income generation proposal <input type="checkbox"/>

Required information to be completed by Financial/Legal/ICT/ HR partners:		
<p>1. Finance Advice: The change in the duration of the fund will enable City Funds LP to continue to provide competitive loans in the market place by extending the loan durations and reduce the risk in the fund by reducing the risk inherent with shorter repayment profiles, such as liquidity and refinancing risk.</p> <p>The extension of the fund will marginally increase the returns for the Council from an internal rate of return of 2.1% to 2.2%. However, the principal loan repayments of £75k will be delayed by 1 year into year 11 resulting in minimal lost interest. This lost interest will be offset from the additional interest received by extending the fund and will be monitored through the Capital Financing budget.</p>		
Finance Business Partner: Michael Pilcher – Chief Accountant and Deputy S151 Officer 24 March 2022.		
<p>2. Legal Advice: The Partnership Agreement makes express provision for the parties to extend the life of the partnership at any time prior to the tenth anniversary for a period of up to one year. Such extension requires a special resolution at a meeting of the Limited Partners ie the Council and Big Society Capital Ltd. It is noted that all other parties have agreed to the proposal.</p>		
Legal Team Leader: Eric Andrews ; Legal Services; 3 rd February 2022		
3. Implications on IT: I can see no implications on IT in regards to this activity		
IT Team Leader: Gavin Arbuckle – Head of Service Improvement and Performance		
4. HR Advice: No HR implications evident.		
HR Partner: James Brereton (HR Business Partner), 9th February 2022		
EDM Sign-off	Mike Jackson	9 th February 2022
Cabinet Member sign-off	Councillor Cheney	21 st February 2022
For Key Decisions - Mayor's Office sign-off	Mayor's Office	7 th March 2022

Appendix A – Further essential background / detail on the proposal	NO
Appendix B – Details of consultation carried out - internal and external	NO

Appendix C – Summary of any engagement with scrutiny	NO
Appendix D – Risk assessment	NO
Appendix E – Equalities screening / impact assessment of proposal	NO
Appendix F – Eco-impact screening/ impact assessment of proposal	NO
Appendix G – Financial Advice	NO
Appendix H – Legal Advice	NO
Appendix I – Exempt Information - Extract of Bristol and Bath Regional (BBRC) Report (BBRC - advisor to Limited Partners).	Yes
Appendix J – HR advice	NO
Appendix K – ICT	NO
Appendix L – Procurement	NO