

**Business Case for the drawdown of a  
loan for refinancing of  
Limerick City and County Council**

17<sup>th</sup> September 2014

## **1. The Background**

In line with Government policy particularly as regards “Putting People First” and the Local Government Reform Act 2014, Limerick City and County Council was established on the 1<sup>st</sup> June 2014.

A key strategy around the delivery of economic growth for Limerick is the “Limerick 2030” plan. This plan has the potential and vision to deliver significant growth to Limerick and its environs. Going forward this capacity to invest is vital for Limerick and in particular the new Local Authority. In order to fully develop the potential of the plan there is an immediate requirement for a capital fund to be created totalling €20m for key strategic sites.

The Limerick 2030 Plan highlights that there is potential to generate over 12,000 new jobs in the Limerick area, with approximately 5,000 jobs been identified for the City Centre. The primary enabler of achieving these jobs will be through the development of key strategic infrastructure sites & investments across Limerick City & County which now require capital funds in order for them to be developed. These potential jobs include higher value jobs linked to sectors identified by the economic strategy at key strategic locations including the Opera Site, Colbert Station, etc. There is an urgent need to bring key sites back to full and productive use, making a major contribution to strengthening the City. Furthermore, the emphasis on high value added jobs will contribute to closing the €400 million productivity gap in Limerick’s economic performance by rebalancing the local economy to a knowledge economy to better reflect the wider Irish economy. Therefore, funding is an immediate requirement to kick-start these major strategic projects from the 2030 Plan and to enable the job creation targets to be achieved.

There also existed as part of the legacy of the former authorities a number of financial deficits, particularly within the area of unfunded capital balances and a historic insurance legacy liability. These deficits, totalling approx €12m represent a significant economic challenge for the new authority. The figure for unfunded capital balances totalling €8.1m is mainly made up of jobs within the Environment programme.

## **2. Macro Outlook for the Economy**

The latest Department of Finance forecasts for the period 2014-2018 suggest real GDP growth is set to accelerate in the coming years. It forecasts 2.1% growth in real GDP in 2014, followed by 2.7% in 2015 and 3-3.5% out to 2018. Price inflation across the economy is projected to be low in the next couple of years, so that nominal GDP expands at a slightly faster pace of 2.6% and 3.6%. The reasons for

the acceleration in the pace of economic activity primarily relate to consumer spending and, particularly, investment.

### **3. Strategic Sites Capital Works**

As part of Limerick 2030 it is proposed that key strategic sites will need an immediate working capital / cash flow fund to secure, develop and market the projects outlined in Limerick 2030.

Limerick has gained much investment attention because of the proposals/projects outlined in Limerick 2030. In addition the recent announcement that Limerick is now one of the top 10 investment locations in Europe is now driving unprecedented enterprise and investor interest in Limerick around our key strategic sites.

This interest is increasingly focussed on our strategic sites including the Opera site redevelopment, Colbert Station renewal, completion of the Hanging Garden site, the Innovation Hub in LEDP, the redevelopment of the former Cleeves site, Innovation Hub at Roxboro, the Anderson Facility in Rathkeale, Mungret College and associated lands, and related sites across county Limerick. etc.

All of these sites are now major opportunities for new business activity and have the potential to create numbers of substantial, high value added jobs for Limerick, which is the cornerstone of the of the 2030 Plan. The development of the sites will involve work for consultancy, design fees, legal, health and safety and print costs. The main sites are;

#### **OPERA SITE**

A development framework has been drawn up for the site which proposes that the development should comprise of a mixed use knowledge based office, educational and financial services development. The development will have an emphasis on educational and public /private commercial uses with provision for some small scale retail.

#### **COLBERT STATION**

The site has an initial estimate capacity to accommodate 11,500 sq.m. over 5 floors including retail at ground floor level and office accommodation for knowledge and digital activity.

#### **HANGING GARDENS**

The hanging gardens site is currently in the process of being purchased by Limerick City and County Council to provide advanced office accommodation for FDI services based activity for which there is an active pipeline. It is proposed that the development of the site be completed by way of a Part VIII planning permission.

There is also potential to vary the development by building in some communal areas i.e. lobbies etc to increase the net lettable space.

### **MUNGRET**

The Council's purchase of Mungret College and associated lands from NAMA represents a unique opportunity for the Council to acquire strategic lands on the west side of Limerick City. The subject lands include residential, agricultural and open space/amenity and education zoned uses including a number of residential sites which in the short term have the potential to deliver a significant return in value.

### **City Centre – UL Public Transportation Link**

Limerick 2030 proposes the establishment of a faculty of UL in the city centre with the Opera Site considered being the most appropriate. Critical to the success of the project is a dedicated public transport link between the city centre and the main University campus in Plassey.

### **CLEEVES**

The Cleeves site has an area of 3.2 hectares and contains a number of historically significant buildings. The site is capable of accommodating a variety of uses namely, office, education, residential and tourism related activities.

### **INNOVATION HUB**

The Innovation Hub at LEDP Roxboro will extend to 40,000sq ft and will act as stage stage two incubation and innovation space for projects graduating from both LIT and University of Limerick stage one incubation centres. The project is being coordinated by Innovate Limerick in conjunction with LIT, UL and Enterprise Ireland and should be completed by Autumn 2015. It is anticipated that approximately 150 jobs will be created directly as a result of this development and an additional 75 jobs will be created in the ten associated Community Enterprise Centres located right around the City and County.

### **ANDERSON BUILDING RATHKEALE**

Limerick City and County Council has recently acquired the 100,000sq ft manufacturing facility at Rathkeale, Co Limerick. The site sits on approximately 5 acres and is located at the centre of the County next to the main Limerick Tralee Road at Rathkeale. The site is a turn key operation and is ready to let in unit sizes from 2,000 sq ft upwards for SME's or can be let in one unit to a larger entity.

### **HATCHERY BUILDING KANTOHER**

Comprising of 30,000sq ft, this building was acquired earlier this year and is currently undergoing some minor modernisation works, 10,000sq ft of the building has already

been let to a local poultry processing business and the remainder of the building will be put on the market in the coming months.

## **FOOTBRIDGE**

Limerick 2030 proposed that the river be turned into the garden of the city and that the existing public realm works carried out around the city be enhanced. It is proposed to provide a new link between Arthurs Quay and Merchants Quay and onwards to King Johns Castle.

### **4. The Proposal**

The hub of the proposal is that Limerick City and County Council will need to borrow €32m over a 30 year period with an approximate interest rate of 3.5% based on the following profile.

2014 € 8m

2015 €17m

2016 € 7m

Currently Limerick City and County Council avail of an overdraft facility totalling €37.5m, however there is no guarantee that this will be available to the new authority going forward, even with approval from the DOECLG.

As a result of this proposal the current existing overdraft facility will be reduced, other than allowing for current working capital / cash flow requirements. With this proposal funds will be available for a capital programme that underpins Limerick as a driver for economic growth within the Mid-West Region.

### **5. Debt Finance**

The use of debt finance and borrowing can be a viable option for local authorities when financing medium to long term projects. By using debt finance, a council can advance the date in which services can be obtained. This can extend the capital cost more equitably over a longer time period. At the end of 2012, Limerick City and County Council had loans of €87m, which is 2.1% of total net assets. Of this debt €28m relates to other debt, which is less than 1% of total net assets. This suggests that there is scope to raise additional debt for capital purposes. It should be stated that a number of loans are due to expiry by the end of 2015 which will generate further annual savings of €0.198m.

## **6. Loan Costs**

The annual repayment of the proposed €32m loan is approx €1.724m. This has to be taken in the context of current interest rates and also allowing for the fact that property prices are trading well below the boom then it has to recognise that there exists potential for significant capital appreciation within the market place.

## **7. Repayment Proposal**

While the level of borrowing appears significant it has to be taken in the context on a Revenue and Capital Budget for 2014 in excess of €200m. Limerick City and County Council is now in a unique situation and the merger will deliver efficiencies and savings for future years. Other elements which will come in to play are sited below.

### **7.1 Merger Savings**

Savings identified annually for the merger involve salary savings of €1.25m. In addition operational savings, including travel will be generated of €0.684m within the next few years with an immediate benefit of €0.519m in Year 1.

### **7.2 Increased Income Capacity**

The capital works programme outlined above will ensure positive yields of income as regards rates for the new authority. Although not recognised immediately, Limerick City and County Council has the potential to benefit from significant rate income within the medium to long term as a result of the 2030 plan. In addition the increased development of sites particularly within the Metropolitan area will benefit current rate payers and this has the immediate potential of sustaining current rental income.

### **7.3 Increased Collections**

As at the end of December 2013, Limerick City and County Council had rates arrears of €25m. A number of initiatives and efficiencies have been factored in to 2014 in order to address this disappointing situation. These are;

- A continual focus and review on the top 100 arrears customers
- The introduction in 2014 of a Business Support Scheme to encourage prompt payment
- Debt Recovery Services prior to Legal Action Tender Competition
- Greater facilitating and monitoring of payment plans

- Debt collection training for staff working within the section
- Where appropriate cases referred for legal action

It is anticipated that these increased measures will bring in an additional annual income of €0.500m.

## 8. Summary of Proposal

The main aspect involving this proposal is that Limerick city and County Council will have to provide for an additional annual loan cost at the end of 2015 of €1.52m. This will increase to €1.724 at the end of 2016. In order to finance this option the following will need to happen;

➤ Annual salary savings of	€1.25m
➤ Operational savings of	€0.68m
➤ Collection efficiencies	€0.50m
➤ Expiry of short term loans	€0.19m
<b>Total</b>	<b>€2.62m</b>

Obviously there are risks attached within areas of economic activity and other factors which may have an impact on future financing for the Council however Limerick City and Council is in a unique place and the onus needs to be on economic development and job creation which will provide a strong foundation for the future of both city and county. This will help facilitate a greater experience for housing, social, economic development in Limerick and in the future ensure a greater quality of life for the citizen.

It is also the opinion that this proposal will help further enshrine the merger process and will see Limerick City and County Council as a key driver for change and innovation, not only for the citizens of Limerick, but for the entire mid west region. I would therefore request formal approval from this Council for the borrowing as outlined in this plan.

**Conn Murray**

**Chief Executive**

**Limerick City and County Council**

