BUSINESS INVESTMENT PANEL

MEETING TO BE HELD AT 2.00 PM ON TUESDAY, 30 APRIL 2019 IN COMMITTEE ROOM A, WELLINGTON HOUSE, 40-50 WELLINGTON STREET, LEEDS

A G E N D A

1. APOLOGIES FOR ABSENCE

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS

3. EXEMPT INFORMATION - EXCLUSION OF THE PRESS AND PUBLIC

1. To highlight Appendices 1 and 3 to Agenda Item 7 which officers have identified as containing exempt information within the meaning of Schedule 12A to the Local Government Act 1972, and where officers consider that the public interest in maintaining the exemptions outweighs the public interest in disclosing the information, for the reasons outlined in the report.

2. To consider whether or not to accept the officers' recommendation in respect of the above information as set out in paragraph 4.1 of Agenda Item 7.

3. If the recommendation is accepted, to formally pass the following resolution:-

   RESOLVED – That in accordance with paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, the public be excluded from the meeting during consideration of Appendices 1 and 3 to Agenda Item 7 on the grounds that they are likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information and for the reasons set out in the report that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

4. MINUTES OF THE MEETING HELD ON 7 MARCH 2019

(Pages 1 - 4)

5. STRATEGIC INWARD INVESTMENT FUND

Led by: Lorna Holroyd
(Pages 5 - 6)

6. BUSINESS GRANTS PROGRAMME

Led by: Neill Fishman
(Pages 7 - 14)

7. GROWING PLACES FUND LOANS

Led by: Chris Brunold
(Pages 15 - 34)

8. DATE OF NEXT MEETING

The date of the next meeting is 4 June 2019 at 3pm in Committee Room A, Wellington House, Leeds

Signed:

Managing Director
West Yorkshire Combined Authority

MINUTES OF THE MEETING OF THE BUSINESS INVESTMENT PANEL HELD ON THURSDAY, 7 MARCH 2019 AT COMMITTEE ROOM A, WELLINGTON HOUSE, 40-50 WELLINGTON STREET, LEEDS

Present:

Councillor Tim Swift MBE	Calderdale Council
Councillor Darren Byford	Wakefield Council
Councillor Alex Ross-Shaw	Bradford Council
Michael Allen	NatWest Bank
Colin Glass OBE	WGN
Marcus Mills	BigWord

In attendance:

Henry Rigg	West Yorkshire Combined Authority
Kate Thompson	West Yorkshire Combined Authority
Phil Cole	Leeds City Council
Paul Hyde	Leeds City Council (Up to minute 72)
Lorna Holroyd	West Yorkshire Combined Authority
Neill Fishman	West Yorkshire Combined Authority
Chris Brunold	West Yorkshire Combined Authority
Lauren Thomas	West Yorkshire Combined Authority
Megan Hemingway	West Yorkshire Combined Authority

67. Apologies for absence

Apologies for absence were received from Councillor Blake, Councillor Graham Swift, Councillor Pandor, Simon Wright and Jonathan King.

In the absence of Councillor Blake, Councillor Tim Swift chaired the meeting.

68. Declarations of disclosable pecuniary interests

Michael Allen disclosed a pecuniary interest in relation to Business Grants Programme exempt item 6 appendices 3 and 4 – grant application 1101024.

69. Exempt information - Exclusion of the press and public

Resolved: That in accordance with paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, the public be excluded from the meeting during consideration of Appendices 1, 2, 3 and 4 of Item 5, Appendices 1, 2, 3 and 4 of Item 6 and Appendices 1 and 2 of Item 7 on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information and for the reasons set out in the report that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

70. Minutes of the meeting of the Business Investment Panel held on 5 February 2019

Resolved: That the minutes of the Business Investment Panel held on 5 February 2019 be approved and signed by the Chair.

71. Strategic Inward Investment Fund

The Panel considered a report which outlined the current position regarding progress in committing grants through the Leeds City Region Enterprise Partnership (the LEP) Strategic Inward Investment Fund (SIIF).

It was noted that there were no new grant applications for consideration at this meeting.

An update was provided on project SIIF 007, which had previously been considered at the Panel meeting on 5 February 2019, detailed in **exempt appendices 1, 2, 3 and 4.** Due to Panel concerns further due diligence had been carried out and more information requested from the applicant.

Resolved:

(i) That the Panel notes the progress report on the Strategic Inward Investment Fund (SIIF).

(ii) That the Panel notes the update provided on project reference SIIF 007 and recommends that the application be rejected.

72. Business Grants Programme

The Panel considered a report which outlined the current position regarding progress in committing grants through the Leeds City Region Enterprise Partnership (the LEP) Business Grants Programme (BGP).

The Panel was asked to consider the two new grant applications detailed at 3.1. Firstly for project reference 1101231 (Wakefield), attached at **exempt appendices 1 and 2** and secondly for project reference 1101024 (Bradford), attached at **exempt appendices 3 and 4.**

Members were provided with an update on the application project reference 1100964 for a Kirklees based business, which had previously been considered at Panel on 10 January 2019. It had been recommended that the project be approved at a lower level than requested, as the business had received a previous grant award of £126,500 in June 2017.

The Panel was informed that the recommended reduced grant award level of £123,500 was formally approved by the Combined Authority's Managing Director on 23 January 2019. A funding agreement is now being finalised with the business.

Michael Allen left the meeting during discussion of project reference 1101024.

Resolved:

(i) That the update on progress on the Business Grants Programme be noted.

(ii) That the Panel recommends the grant application 1101231 for approval, subject to increased level of job creation.

(iii) That the Panel recommends the grant application 1101024 for approval at the lower level of £137,000.

(iv) That the update on the application project reference 1100964 be noted.

73. Growing Places Fund loans

The Panel considered a report which provided an update on the progress in committing loans through the Leeds City Region Enterprise Partnership (the LEP) Growing Places Fund (GPF). It was noted that there would be an uplift in both number of homes created and in anticipated capital received in this financial year.

The Panel was updated on two projects with changed circumstances (loan 315 and loan 109), attached at **exempt appendices 1 and 2** respectively.

Resolved:

(i) That the update on progress on the Growing Places Fund be noted.

(ii) That the update on the changed circumstances of loan 315 having gone into administration be noted.

(iii) That the update on the changed circumstances of loan 109 having been repaid early be noted.

74. Date of next meeting

The next meeting is 30 April 2019 at 2pm in Committee Room A, Wellington House, Leeds.

This page is intentionally left blank

West Yorkshire Combined Authority

Report to:	Business Investment Panel
Date:	30 April 2019
Subject:	**Strategic Inward Investment Fund**
Director(s):	Sue Cooke, Executive Head of Economic Services
Author(s):	Lorna Holroyd

1. Purpose of this report

1.1 To outline the current position regarding progress in committing grants through the Leeds City Region Enterprise Partnership (the LEP) Strategic Inward Investment Fund (SIIF).

2. Information

2.1 Spend and outputs for SIIF are detailed below.

Performance indicator	Target	Total commitments	Actual outputs (05/04/19)
Direct jobs	1,245	952	331
Number of enterprises	10	4	1
Total investment	£120,450,000	£39,151,961	£17,296,761
Programme Spend	£10,950,000	£2,853,386	£1,500,000

2.2 There are no new applications for consideration at this meeting.

3 Financial implications

3.1 There are no financial implications directly arising from this report.

4. Legal implications

4.1 There are no legal implications directly arising from this report.

5. Staffing implications

5.1 There are no staffing implications directly arising from this report.

6. External consultees

6.1 No external consultations have been undertaken.

7. Recommendations

7.1 That the Panel notes the progress report on the SIIF.

8. Background documents

8.1 None.

9. Appendices

9.1 None.

West Yorkshire Combined Authority

Report to:	Business Investment Panel
Date:	30 April 2019
Subject:	**Business Grants Programme**
Director(s):	Sue Cooke, Executive Head of Economic Services
Author(s):	Neill Fishman / Lorna Holroyd

1. Purpose of this report

1.1 To outline the current position regarding progress in committing grants through the Leeds City Region Enterprise Partnership (the LEP) Business Grants Programme (BGP).

1.2 That Panel members consider the proposed changes to programme criteria and guidance, as outlined at **Appendix 1.**

2. Information

2.1 Spend and outputs for the grant schemes funded though the Local Growth Fund (LGF) are detailed below. Achievements against these targets can be made through the three capital grants schemes which make up the BGP; the big scheme, the small scheme and the Business Flood Recovery Fund. The big scheme is for grants over £100,000, the small scheme is grants of between £10,000 and £100,000 and the Business Flood Recovery Fund is grants of £10,000 to £100,000 for businesses affected by the Boxing Day Floods of 2015 (note that this programme is now closed to new applications).

Performance indicator	Target	Big scheme committed	Small scheme committed	Flood grants committed	Total commitments	Actual outputs (16/04/19)
Direct jobs	4,100	2,980	2,455	n/a	5,435	4,012
Safeguarded jobs	n/a	152	0	1,541	1,693	1,682
Number of grant awards	765	42	604	63	709	615
Total investment	£168,500,000	£159,549,164	£174,478,124	£12,793,515	£346,820,803	£268,410,933
Programme Spend	£44,316,000	£9,499,356	£20,527,499	£2,860,375	£32,887,230	£28,476,718
Cost per job	n/a	£3,188	£8,363	n/a	£6,052	£7,098.59

Performance indicator	Target	Big scheme committed	Small scheme committed	Flood grants committed	Total commitments	Actual outputs (16/04/19)
Cost per job (including safeguarded jobs)	n/a	£3,033	n/a	£1,856	£4,614	£5,001.53

2.2 To date commitments of £30.03 million have been made through a combination of the big and small schemes.

2.3 As outlined in previous Business Investment Panel papers, grants are now funded through a combination of the Business Growth Programme and Access to Capital Grants, both of which are funded through the LGF.

2.4 Commitments through the Business Flood Recovery Fund currently stand at £2.86 million. Of a total of 66 projects approved, three have been withdrawn, 58 are complete and £119,528 is left to pay to five businesses whose projects are still live.

2.5 All grant awards are listed in summary form on the LEP website and updated quarterly.[1]

3. New large programme applications

3.1 There are no new applications for consideration.

4. Update on large programme application considered at Panel on 7 March 2019

4.1 At Panel on 7 March 2019, Members considered two applications:

- The first from a lighting manufacturer based in Bradford requesting a grant of £200,000 towards a total investment of £1.058 million for a range of capital equipment and improvements to premises in order to increase production capacity. Panel members recommended that the application be supported, but at a lower level of £137,000, on the basis that the grant matched the contribution the company was making to the investment directly from its own reserves. The application was formally approved by the Combined Authority's Managing Director on 29 March 2019. A funding agreement is now being finalised, with the business contracted to the creation of 14 new jobs (9 of which must pay the Real Living Wage or above), plus one apprentice. The grant is to be released in arrears, upon evidence of defrayal of expenditure being provided and a site visit being undertaken.

- The second application was from a Wakefield based distribution business seeking to relocate to larger premises in order to facilitate expansion. The new premises require complete fit-out, along with investment in warehouse management software. Total project costs amount to £1.48 million and the company requested a grant of £148,000 linked to the creation of 12 new jobs.

[1] http://www.the-lep.com/about/governance-and-funding/grants-for-business/

Panel members were minded to approve the application, but recommended that it be linked to 20 new jobs. The application was formally approved by the Combined Authority's Managing Director on 29 March 2019 on this basis. A funding agreement is now being finalised, with the business contracted to the creation of 20 new jobs, all paying the Real Living Wage, or above. The grant is to be released in arrears, upon evidence of defrayal of expenditure being provided and a site visit being undertaken.

5. Proposed changes to programme criteria and guidance

5.1 Panel members are asked to consider proposed changes to programme criteria and guidance as outlined at **Appendix 1**.

6. Financial implications

6.1 There are no financial implications directly arising from this report.

7. Legal implications

7.1 There are no legal implications directly arising from this report.

8. Staffing implications

8.1 There are no staffing implications directly arising from this report.

9. External consultees

9.1 No external consultations have been undertaken.

10. Recommendations

10.1 That the Panel notes the progress report.

10.2 That the Panel considers proposed changes to programme criteria and guidance as outlined at **Appendix 1**.

11. Background documents

11.1 None.

12. Appendices

12.1 Appendix 1 - proposed changes to programme criteria and guidance.

This page is intentionally left blank

Appendix 1

BUSINESS GROWTH PROGRAMME

PROPOSED CHANGES TO CRITERIA AND GUIDANCE

1. Background

The Business Growth Programme (BGP) provides grant support of between £10,000 and £250,000 to eligible businesses towards capital related investment (plant, equipment, machinery and premises fit out/refurbishment) that leads to job creation. The programme provides a contribution of up to 20% of cost for small businesses (less than 50 employees) and 10% for both medium sized (50 - 249 employees) and large businesses (250 employees and above).

Since April 2015, the programme has been funded through the Local Growth Fund and currently runs until March 2021, with a total budget of £44.3 million. As of February 2019, £31.8 million had been offered to approximately 600 businesses, with 5,280 new jobs contracted for, against a programme target of 4,100 by March 2021. Actual expenditure as of February 2019 was £27.5 million, with 3,607 new jobs created. The Leeds City Region Enterprise Partnership's (LEP) Inclusive Growth principles have also been embedded in the programme since July 2018.

With demand for the programme still at a high level, budgets reducing and an increasing number of borderline applications being received, it is felt pertinent to review criteria and programme guidance to inform delivery for the remainder of the programme.

2. Sector Eligibility

Priority in terms of applications to the programme is given to companies operating in the LEP's key growth sectors and/or their direct supply chains, specifically:

- Healthcare and life sciences;
- Digital and creative;
- Low carbon and environmental;
- Manufacturing;
- Financial and professional services;
- Business to business services.

Applications from companies operating outside these sectors are currently considered on a case by case basis. As of February 2019 applications from businesses operating outside the key growth sectors represented 1.5% of all those received and awarded.

The highest volume of applications received from businesses operating outside the key growth sectors are from on-line retailers. To date, these have been considered on the basis that they have the ability to serve both national and international markets and where they will be creating a significant number of new jobs. Applications have also been accepted from companies operating outside the key growth sectors where there are significant regeneration benefits, for example, bringing a vacant or derelict building back into use, especially in a deprived ward within the City Region. Applications are not accepted from high street retailers or localised business to consumer services on the grounds of potential displacement.

At present, it is not proposed to make any changes to sector criteria, however this will be reviewed following the conclusion of the new Local Industrial Strategy. Until then, it is proposed that applications from on-line retailers will continue to be accepted where significant levels of new employment will be created, significant being defined as more than 50 new jobs.

3. **Additionality/Added Value**

The most common reason for the rejection of applications is around additionality/added value. All applications to the programme are appraised in line with Her Majesty's Treasury Green Book. This includes demonstrating additionality/added value, which is tested by one or more of the following:-

- The grant fills a funding gap;
- The grant accelerates an investment;
- The grant enables an investment to be made on a larger scale;
- The grant influences the location of an investment (where companies are considering competing locations outside the City Region).

All of the above incorporate an element of financial need. During financial year 2018/19 there has been an increasing number of applications being rejected in comparison to previous years on the grounds of lack of additionality/need for support. The key reasons for this being levels of cash at bank held by applicants and the amount of directors' remuneration and dividends taken.

There can be no prescriptive ceiling in terms of what is deemed to be reasonable in terms of levels of cash at bank held, as this will differ greatly by size of business, payment terms to which a business works and levels of working capital required. However, in terms of directors' remuneration and dividends, current guidelines limit it to a maximum of £150,000 per director/shareholder, per annum, averaged over a three year financial period. The average over three years is felt to be fair and is in place to reflect fluctuations a business may experience in trading performance, which normally has a consequent 'knock on' effect in terms of the levels of remuneration and dividends taken.

At present, programme guidance issued to applicants doesn't formally highlight the fact that levels of remuneration and dividends taken (in line with the threshold outlined above), along with levels of cash at bank held, could adversely affect the outcome of an application. **It is therefore proposed that programme guidance is updated to incorporate this and that the £150,000 pa remuneration/dividend threshold be adopted as policy going forward. The primary rationale behind this is to make businesses clearly aware of the policy at pre-application stage, which may**

influence their decision to submit an application, which in turn should lead to a lower number of rejections and subsequent appeals.

4. Applications from Large Businesses

Related to additionality/added value, an increasing number of enquiries and applications to the programme were received in 2018/19 from large businesses (over 250 employees) or businesses owned by a larger group. Whilst applications are accepted from large businesses, grant awards are capped at a maximum of 10% of eligible capital costs, in line with state aid regulations. In a number of cases in 2018/19 the grant request was below £50,000, which brings into question additionality.

It is therefore proposed that applications from large businesses continue to be accepted, but only where minimum total project costs are £750,000 or above, which equates to a minimum grant request of £75,000 and proposed new job numbers are at least 20.

5. Productivity Focus

With the City Region's productivity (Gross Value Added per hour worked) 86% of the national average, closing this gap would add £10 billion to the economy, which, at individual business level predominantly means investing in more technologically advanced equipment, not always requiring additional staff to generate greater levels of output.

In view of the strong presence of manufacturing firms in the city region's economy, the LEP's economic policy has increasingly focused on how to support those firms to become more productive, especially by investment in new technology, adopting the practices of Industrie 4.0 across supply chains and though increasing skill levels of workers in those firms.

Within the grant programme, increasing number of applications are from businesses requesting support towards fit out and refurbishment of new premises. As this has a lower alignment with the productivity agenda it brings into question the added value of continuing to support fit out and refurbishment works when grant availability is reducing. On that basis, a number of options are open, namely:

a) Make fit-out/refurbishment of premises ineligible for support on the grounds of limited additionality and lesser alignment with productivity drivers.
b) Only allow fit-out/refurbishment works as an eligible cost when they form part of a wider package of investment that also incorporates purchase of new plant and machinery, and where the latter represents at least 75% of total investment costs.
c) Continue to support fit-out/refurbishment works, but at a reduced contribution rate. For example, a 10% contribution as opposed to 20% (this could also be combined with option b above).

The recommendation is option a) for the reasons highlighted.

6. Multiple Applications

In September 2017, a multiple applications policy was introduced, which restricts businesses to the submission of three successful applications within a three-year period or receipt of a maximum of £250,000 over the same period. The primary rationale behind this was to encourage businesses to think more strategically about capital related investments planned over a 12 to 18 month period, rather than submitting multiple ad-hoc applications, and to facilitate take-up of the programme by a wider client group.

This policy has worked well and the options are to leave it unchanged or extend to four years in order to further limit the potential for multiple applications.

7. Appeals

Businesses who have their application rejected currently have the right to appeal in writing within two weeks of the decision being made. Appeals against decisions to reject applications up to and including £25,000 are considered by the Executive Head of Economic Services, with appeals from £25,001 to £250,000 considered by the Combined Authority's Managing Director.

It is proposed to work up a more explicit policy for appeals including specific grounds upon which they will be considered. It is recommended that officers will take forward this work with input from legal and governance colleagues and a further update will be provided in due course.

8. Next Steps

Following consultation with Business Investment Panel, the proposed changes will be considered by the Business Innovation and Growth Panel and LEP Board with a view to implementation by Autumn 2019.

Report to:	Business Investment Panel
Date:	30 April 2019
Subject:	**Growing Places Fund Loans**
Director(s):	Melanie Corcoran, Director of Delivery
Author(s):	Chris Brunold, Project Manager

1. Purpose of this report

1.1 To update the Panel on progress in committing loans through the Leeds City Region Enterprise Partnership (the LEP) Growing Places Fund (GPF).

1.2 To update the Panel on progress towards a future investment fund.

1.3 To update the Panel on one project with changed circumstances.

2. Information

Growing Places Fund update

2.1 The Growing Places Fund (GPF) began in 2012 offering loans to support projects that required additional capital funding to deliver jobs and economic growth and to unlock stalled developments post-recession, within a timescale of five years or less. The fund was open to all businesses and organisations of any size based in or looking to invest in the Leeds City Region. Any future loans are currently on hold pending the launch of a renewed fund aimed at the needs of the current lending environment and SMEs.

2.2 The total original GPF allocation from Government was £35.5 million of which £3.505 million remains unallocated. The Fund typically sought private sector leverage on the basis of 1:3.

2.3 Loan repayments are held separately and can be reinvested in the future fund.

2.4 The programme has currently enabled the sustainment or creation of 835 jobs and the building of 785 homes of which 106 (13.8%) are affordable.

GPF Capital Position

2.5 The capital repaid by GPF loans offered through the programme to 31 March 2019 is £16.258 million.

2.6 The capital anticipated in the 2019/20 financial year is £638,775. There is, as always, with GPF loans a risk that projects may not pay to the agreed repayment schedule.

2.7 The capital anticipated in 2020/21 is a further £2.656 million.

2.8 The total capital expected beyond 31 March 2021 is £4,928,775.

Update on Future Investment Fund

2.9 Work on developing options for a new loan fund that responds to current market needs has progressed. Further information on this is included in **Exempt Appendix 1.** A report which was considered by the LEP Board in March 2019 is attached at **Appendix 2** for information.

GPF Projects with Changed Circumstances

2.10 One GPF project has changed circumstances. Detail is provided for information in **Exempt Appendix 3**.

Project Ref	Total Loan	Recommendation
113	£2.450 million	Discuss

3. Financial Implications

3.1 The financial implications associated with the report at 2.9 and the project with changed circumstances in para 2.10 are set out in **Exempt Appendices 1 and 3.**

4. Legal Implications

4.1 The information contained in **Appendices 1 and 3** is exempt under paragraph 3 of Part 1 to Schedule 12A of the Local Government Act 1972 as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information). It is considered that the public interest in maintaining the content of the appendices as exempt outweighs the public interest in disclosing the information as publication could prejudice current and future decision making.

5. Staffing Implications

5.1 There are no staffing implications directly arising from this report.

6. External Consultees

6.1 No external consultations have been undertaken.

7. Recommendations

7.1 That the update on progress in committing loans through the GPF be noted.

7.2 That the report provided in **Exempt Appendix 1** on a future investment fund be discussed and feedback given.

7.3 That the information provided in **Exempt Appendix 3** on projects with changed circumstances be noted and feedback given.

8. Background Documents

None.

9. Appendices

Exempt Appendix 1 – Update on a future investment fund.

Public Appendix 2 - LEP Board report - Reinvestment of Grants and Loans

Exempt Appendix 3 – Project 113 – changed circumstances.

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 7

Appendix 1

Document is Restricted

This page is intentionally left blank

LEEDS CITY REGION ENTERPRISE PARTNERSHIP

Report to:	LEP Board
Date:	26 March 2019
Subject:	**Reinvestment of grants and loans; and Enterprise Zones**
Director:	Alan Reiss, Director, Policy, Strategy and Communications
Author(s):	Alex Clarke and Seamus McDonnell

1 Purpose of this report

1.1 To update the Leeds City Region Enterprise Partnership (LEP) on issues of business finance. Particularly the role of the LEP in making business investments and the future use of returned funds from the Growing Places Fund. This paper seeks the Board's view on how this work should be further developed; including through external support.

1.2 To detail an approach to funding the development of the Leeds City Region Enterprise Zones. Whilst this maintains the 'loan first' principle it also recognises that under certain circumstances sites will require grant funding where there is evidence of market failure if they are to be developed.

1.3 This paper will initially consider the approach to grants/returnable investments before looking at the particular issues and circumstances that will shape the approach required to ensure the successful development of the Enterprise Zones.

2 Information

<u>Background and context – Business Finance</u>

2.1 Elements of the reinvestment of grants and loans work have been discussed by the LEP's Business Innovation and Growth Panel at their meeting in February 2019, and comments from that session have been incorporated into this report.

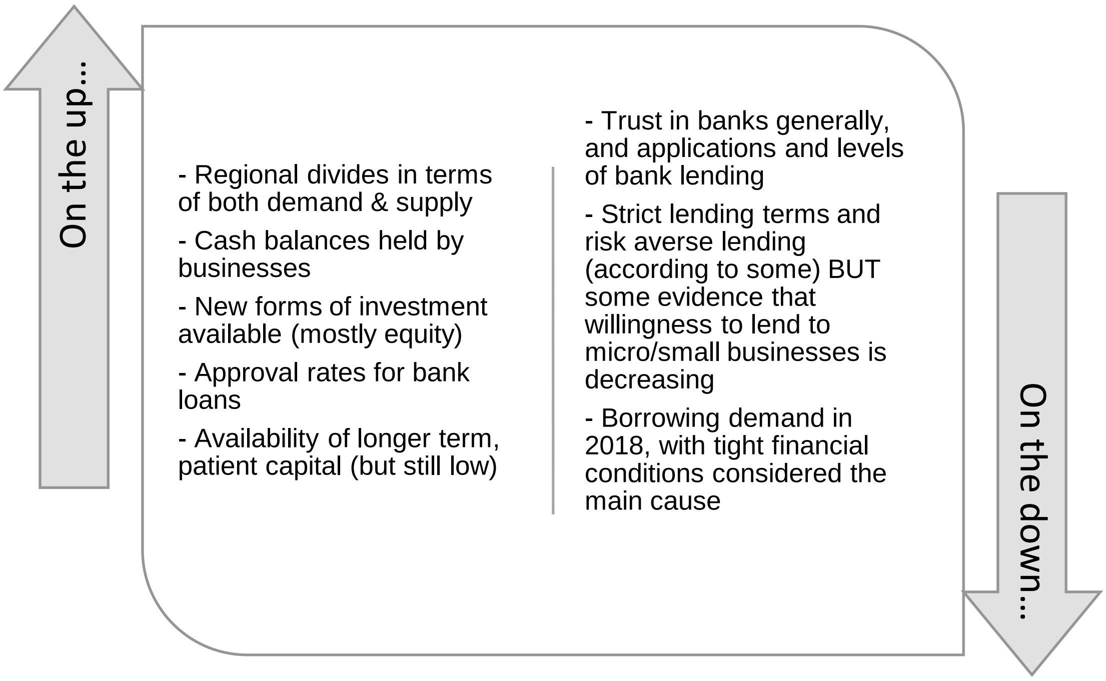
2.2 The role of public intervention in business finance is usually focussed on achieving broader policy priorities as well as helping overcome the asymmetric / imperfect information, or imperfect competition / coordination problems, between business finance supply and demand that cause market failure. In line with HM Treasury's Green Book, it is required that public funds only be used to support projects where there is either clear evidence of market failure or redistribution impacts, where additionality is evident and where any financial support can be shown to represent value for money.

2.3 In recent history the rationale for public investment in this way has been driven particularly by a lack of liquidity in the market following the financial crisis. As a result of this market failure, the LEP played an important role in providing financial support to encourage investment and stimulate business growth.

2.4 However, evidence suggests that this has now changed, with an increasing number of actors in the business finance landscape offering a larger and more varied product offer, meaning the issue for accessing business finance is less about liquidity in the market and more about risk appetite and investment readiness (a summary of analysed trends is outlined in diagram 1 below).

2.5 In order to ensure that the LEP continues to fulfil a role that is not met by the existing business finance market, whilst aligning to new policy priorities around productivity and inclusive growth, work has been undertaken to understand current business finance trends and to begin to map where the LEP's investment role in the future should be.

Diagram 1: Analysis of trends in business finance[1]



Aligning business finance policy to city region priorities

2.6 In developing the LEP's role in business investment going forward, one of the guiding principles should be the City Region's priorities. Table 1 below maps how business finance can contribute to these priorities, indicating where some existing LEP products are already doing so.

[1] The table summarises evidence from a number of sources: British Business Bank, Treasury Committee, Bank of England, Patient Capital Review, Grant Thornton

Priority	Potential impact of business finance (existing programmes)
1. Boost productivity	• Supports investment in business processes or projects that deliver greater firm level productivity (productivity pilot, strategic business growth programme, investment readiness project) • Providing the financial support required to drive research & innovation (access innovation / connecting innovation ESIF bid) • Target productivity enhancing behaviour particularly in low productivity sectors (business basics fund project)
2. Enable inclusive growth	• Make finance conditional on improving inclusive growth outcomes (criteria being rolled out across programmes) • Stimulate regeneration in more economically disadvantaged places through supporting businesses in specific locations and stimulating demand (including through Enterprise Zones)
3. Deliver a connected transport system	• Unlock investment in infrastructure or businesses on key route networks
4. Support transition to a low carbon / clean growth economy	• Supporting firms that particularly look to operate in a low carbon / clean growth approach (resource efficiency fund) • Speeding up the diffusion of new, cleaner businesses practices across all sectors by enabling business investment; including air quality

A future business investment model for the LEP

2.7 Historically the LEP has worked on the basis of individual business finance products, ring-fenced to deal with specific locations or projects (e.g. Enterprise Zones) or offer a single product (e.g. Growing Places Fund loans). Whilst this model has worked well and in some circumstances continues to unlock significant investment, specific location or product approaches do limit the potential investment in other projects or businesses that could generate significant growth for the City Region and contribute to wider policy aims. It has also functioned well in a market where there was a strong rationale for public investment to unlock investments that otherwise would not be fulfilled by the private market. However, as described above the business finance market has since changed significantly with increased liquidity available and a broader range of finance options. Taking on board this learning, and based on the emerging policy work and analysis of business finance trends, it is proposed that the LEP looks to develop a future business investment model, which will require exploring a different set of skills and structures.

2.8 As well as a different set of skills and structures, a new model would also need to deliver a different set of investment products, and provide reinforced approaches to existing programmes such as for Enterprise Zones (further details of how this might work is included in paras 2.17 – 2.37 below). Based on trend and market analysis to date, this might be based on two broader, yet distinct, products:

- A returnable investment, structured income fund supporting regional growth whilst delivering sustainable returns to the LEP;
- A flexible growth fund that can be used to invest in targeted investments to respond to changes in business needs, where there is clear evidence of market failure and therefore additional levels of risk.

Structured Income fund

2.9 Whilst the market may be providing greater levels of liquidity for business investment, there remains significant room for further investment in the City Region. At a national level, business investment has hardly grown since 2016, and current forecasts suggest the impact of the UK leaving the European Union will affect this further, at least in the short term.

2.10 Within this context, and with a desire for the LEP to generate a returnable income stream from lower risk opportunities that can be used to support the City Region's priorities, it is proposed that further exploratory work is undertaken to understand how a LEP structured income fund could operate. This will include exploring the types of opportunities that would deliver a sustainable returned income, and how it would enable further investment in the City Region. At this stage there is no specific budget which could provide the finances for this fund, and therefore implementation would be dependent on the outcome of future funding decisions from central government.

Flexible growth fund

2.11 The second product would be a more flexible funding pot that has as its primary objective the addressing of market failures in the business finance market. Here the focus would also be on making investments that deliver productivity and inclusive growth in the City Region, however it would look to operate where those investments were not being adequately supported by the private market, and, therefore, in an area where there is a higher level of risk.

2.12 The primary source for this investment pot would be the returned capital from the current Growing Places Fund (GPF), with the capability to increase in size as wider funds become available. GPF was one of the first funding streams for LEPs, with the Leeds City Region LEP receiving £35.5 million of capital funding in 2011/12 to use for loans and grants to unlock stalled developments that had been particularly affected by the tightening of credit. With significant capital receipts returned and more forecast to arrive by 2019/20, and the changes to the external economic environment and business finance landscape as outlined above, it was proposed at the LEP Board meeting of 20 September 2018 that there is now the opportunity to consider future use of these returned funds. This has been reinforced by an external evaluation report of the programme, which reported at the end of 2018.

2.13 It is proposed that the flexible fund pot would be established in line with the recommendations agreed by the LEP Board in September 2018. In particular, in line with the guiding principles, 80% of the returned funds would be used to continue providing investment capital on a returnable basis. Work on how the further 20% would be utilised to directly (grant) fund projects that support inclusive growth is also being progressed separately through the Inclusive Growth and Public Policy Panel.

2.14 In terms of how the flexible funding pot would operate, it is intended to take on board the recommendations of the evaluation report of the GPF programme in terms of administration, appraisal and approval and risk management. Also reflecting the findings of the report, in terms of the current business finance conditions, it is suggested that it be deployed across a number of potential investment options to ensure the fund addresses the challenges for business investment, particularly around risk appetite. As suggested by BIG Panel, this could also look at specific deployment to sectors, subject to alignment with British Business Bank and Northern Powerhouse Investment Fund offers. Current options being considered include:

- Capital finance loans - similar to the existing GPF but with new criteria and a defined target market that reflects current priorities of the City Region;
- Supporting businesses with additional finance above a mainstream loan - partnering with an existing or multiple existing financial institution to provide additional finance that is required for a project to be viable, but not supported by the main lender;
- Open market opportunities to finance SMEs e.g. peer to peer lending platforms that allow regional and sectoral targeting.

Next steps

2.15 Subject to the views of the Board, in order to develop this new model for business investment, it is proposed that the LEP take the following three steps:

- Engage with external advice on the approach to developing the new model
- Work to develop the internal capacity required to enable the LEP to service our commercial grant and loan activity, with the ambition to establish a centre of excellence
- Further scoping of the two products and soft market testing of the opportunities in the existing market.

2.16 The final design of the two products will be directed by a number of key questions for the LEP to agree on:

- the balance of risk and return desired in investments, and the extent to which investment operate in an area of clear market failure or just a market gap.
- how far LEP finance products should contribute to the City Region’s four policy priorities, in particular inclusive growth.

- whether the LEP is comfortable with, or actively wishes to pursue, new approaches such as peer to peer lending (as opposed to a loan funding approach).
- if strategic partnering with private sector business finance providers (such as banks) is desirable and the extent to which the LEP could rely on their due diligence processes.

2.17 In support of this proposed action, it is also recommended that a working group is established with representation from businesses. In their meeting of 26 February the Business, Innovation and Growth Panel agreed that the group would report to the BIG Panel on development of the two products, and that Panel members would consider nominating themselves to join the group.

Enterprise Zones (EZs)

Background and context

2.18 The Leeds City Region EZ programme supports the Leeds City Region Strategic Economic Plan (SEP) and the principle of 'good growth' by supporting delivery of innovation, good jobs/incomes and improving the quality of places. The EZs are also identified as Spatial Priority Areas (SPAs) within the SEP.

2.19 The accelerated development of the EZs formed a crucial part of the ambition contained within the SEP to deliver over 35,000 jobs and £3.7bn of additional GVA by 2036. It is anticipated that the programme could have a significant catalytic impact in terms of future development further driving jobs growth and additional GVA impacts.

2.20 The principal aim of the EZ programme is to achieve accelerated delivery of sites and high quality employment floor space. Phase 2 of the EZ programme consists of nine specific sites that have been put forward by partner councils and approved by Government - if the EZs are to be developed then they will therefore have to proceed on these sites.

2.21 Currently the EZ programme has an indicative capital funding approval of £45.044m to be invested in accelerating delivery on the phase 2 sites as well as enhancing power supply on phase 1. The funding comprises £20m Local Growth Fund (LGF) and £24.939m from over-programming against LGF. Due to the time window set by central Government for delivery and spend of Growth Deal objectives, this funding is only available for draw down until 31 March 2021. In addition the occupier incentives that come with EZ designation are only applicable for new businesses entering the phase 2 EZ sites by 31 March 2022.

2.22 A number of outline business cases have recently been received for evaluation through the Assurance Framework, including requests for funding support from the private sector. One of the central considerations for the LEP in assessing these business cases is whether to support financially through grant or loan facilities and the LEP Board has previously had an informal discussion on these matters in January 2019.

Barriers to development

2.23 The development of a number of the EZ sites is constrained by a range of physical and/or market challenges. Physical constraints across the programme include topography, access, utilities, drainage and remediation. Addressing these issues increases the cost of development and in some circumstances means that the level of return to the developer would not justify the investment.

2.24 The market challenges faced by the sites largely relate to the presence of market failures. The failures effectively mean that there are distortions within the operation of the market that prevent it from operating efficiently. This provides the rationale for the public sector to intervene in order to correct or alleviate these ‘failures’.

2.25 These barriers to development combine to increase the costs of development whilst potentially creating wider benefits for society (e.g. employment, enabling further development, attracting supply-chain companies) rather than just for the developer.

Due diligence and controls

2.26 In assessing business cases as they come forward, the viability assessment – amongst other due diligence tests - will be key and would need to confirm that there was both an outright market failure and validate the claimed wider benefits and costs attributable to the developer, in order to justify any grant contribution from the public sector. The due diligence tests would be commissioned and overseen by the Combined Authority as accountable body for the LEP.

2.27 Where grants are approved then it would be appropriate to insert an overage agreement into the grant approval to ensure that the public purse benefits from any positive changes in the market as the development progresses, such that a rate of return greater than that originally anticipated may trigger repayment of some of the grant awarded, i.e. returnable investment.

2.28 Adequate investment security arrangements will need to be in the funding agreement to ensure that any overage conditions can be both monitored robustly (e.g. through appointment of a monitoring surveyor) and relied upon in the event of overage conditions being triggered requiring repayment of all/part of the grant, as well as in the event of default in delivery conditions.

2.29 Currently the EZ programme team commission external technical advice to undertake due diligence on business cases as they come forward. It is envisaged that the commercial due diligence arrangements for the EZ programme moving forward will follow the same pathway and be overseen by the same technical team as those put forward to manage the broader business finance portfolio outlined in paras 2.1 – 2.16 above once this funding stream is operational.

Loans and grants

2.30 In essence the ability of a project or programme to be supported through a loan rather than a grant will effectively be determined by consideration of the nature of the market failures present. Absolute market failure will mean that costs of delivering the project are greater than the market returns that can be generated. In these circumstances it would require non-market benefits to be present (e.g. positive externalities) to justify the provision of a grant.

2.31 Loans remain a useful tool to assist the development of sites in certain circumstances, e.g. where access to finance is limited or to support cash-flow.

Principles and parameters

2.32 Whilst the overall aim is to ensure that the EZs will be developed, this will be done on the basis that the approach maximises value for money and benefits realised, identifying the minimum funding needed to take the proposition forward.

2.33 Schemes will be funded on a loans first principle. Where a scheme can support a loan then this would be the primary route for funding. Some projects may warrant a blend of both grant and loan intervention.

2.34 The nature of market failure and independent cost and viability assessments, including a red book valuation, will determine whether a project should be able to proceed on the basis of a loan. If grant is required then the assessment will inform the maximum of grant that could be awarded.

2.35 A thorough due diligence process will be undertaken in the assessment of grant requests, including but not limited to: evaluation of delivery options; financial due diligence and Know Your Customer checks; evidence of compliance with State Aid rules and other statutory approvals; evidence of a tendering exercise having been undertaken.

2.36 All grant funding agreements will be subject to an overage clause that will trigger repayment depending on the returns/values generated. Adequate security arrangements to protect the LEP’s investment will be put in place.

2.37 All interventions would be required to consider how best they can commit to the inclusive growth conditions applicable to other LEP grants.

2.38 Grant payments to be made against evidenced defrayed expenditure

3 Financial Implications

3.1 There are no direct financial implications as a result of the proposals relating to the reinvestment of returned capital from GPF as contained in this report. However, the LEP Board’s decision about the future design of business investment products will have financial implications, and a further report will be required that describes the potential costs and income from the proposed products including interest, technical support, resource and potentially balancing a portfolio of risk.

3.2 The decision to approve the policy on grant support to the private sector to further the development of the Enterprise Zones will also have implications to future decisions through the Investment Committee on assistance to developers of these sites, whether that be through loan or grant funds.

3.3 Approval of the proposed approach to the EZs will also help to ensure that the maximum number of schemes can be developed at pace and within funding timescales. Without this support, some schemes may not proceed, grant funding could be at risk of being returned to central Government and there would be a subsequent loss of business rates to the LEP for reinvestment into future economic activity.

4 Legal Implications

4.1 There are no direct legal implications as a result of this report in respect of EZs, however the decision will inform future decisions on investment into the EZ programme as individual projects/sites progress through the Assurance Framework, whether that be through loan or grant funds. One of the most significant considerations is State Aid. The Combined Authority as accountable body for the LEP is a public body subject to the State aid rules, which require it to ensure that providing grant funding pursuant to the EZ programme will not breach the rules.

4.2 In summary, state aid can occur whenever state resources are used to provide support to “undertakings” which distorts or threatens to distort competition and affects trade between Member States. Guidance on state aid states that the financing of infrastructure by a public body should be treated as economic activity if it will be commercially exploited from completion or at a later date. Therefore the Combined Authority must consider what state aid exemptions may be relied on and what conditions must be met to avoid creating a risk of breach. Bespoke State Aid advice will need to be sought on a project by project basis.

5 Staffing Implications

5.1 There are no direct staffing implications arising from this report. However, the operationalisation of the proposed business finance products would have staffing implications in the future. For this reason the report recommends further work be undertaken to develop the internal capacity required to enable the LEP to service commercial grant and loan activity as part of the EZ programme together with the proposed broader business finance portfolio.

6 External Consultees

6.1 The LEP Board, Business, Innovation and Growth and Business Investment Panel have received the expert report on the future of the GPF and the current programme risks, and will continue to be involved in the development of the new products. As well as the expert report, some informal conversations have taken place with market lenders on the current business finance landscape.

7 Recommendations

7.1 The LEP Board are asked to note the progress of work to date on business finance, and to provide feedback in particular on the suggested approach to business investment and endorse the following three actions:

1. Engage external advice on the approach and design of the two products;

2. Work to develop the internal capacity required to enable the LEP to service our future commercial grant and loan activity, with the ambition to establish a centre of excellence;

3. Further scoping of the two products and soft market testing of the opportunities in the existing market.

7.2 The LEP Board are also asked to provide feedback on the two business investment products to test further through this work, namely:

1. A returnable investment, structured income fund supporting regional growth whilst delivering maximum returns to the LEP

2. A flexible growth fund that can be used to invest in targeted investments to respond to changes in business needs, where there is clear evidence of market failure and therefore additional levels of risk

7.3 The LEP Board are asked to approve the policy guidance outlines in paras 2.17 – 2.37 above for provision of grant support to the private sector on projects with a demonstrable viability gap as a funding option for the Leeds City Region Enterprise Zone (EZ), to assist with accelerated delivery of the programme.

8 Background Documents

8.1 None

9 Appendices

9.1 None

Document is Restricted