West Yorkshire Combined Authority

Report to:	West Yorkshire and York Investment Committee
Date:	13 March 2019
Subject:	**Growing Places Fund**
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Is this a key decision?	☐ Yes ☒ No
Is the decision eligible for call-in by Scrutiny?	☐ Yes ☒ No
Does the report contain confidential or exempt information or appendices?	☒ Yes ☐ No
If relevant, state paragraph number of Schedule 12A, Local Government Act 1972, Part 1:	Para 3

1. Purpose of this report

1.1 To provide the Investment Committee with an update on progress with the Growing Places Fund programme.

1.2 To provide the Investment Committee with a position statement on a Growing Places Fund Loan with changed circumstances.

2. Information

2.1 The Growing Places Fund (GPF) has operated since 2012 offering loans of between £500k and £1 million to support projects that require additional capital funding to deliver jobs and economic growth and was provided by Government specifically to invest in development schemes that are unable to proceed due to a lack of commercial finance. The fund is open to all businesses and organisations of any size based within or looking to invest in the Leeds City Region. Applications from small and medium-sized enterprises, employing up to 250 staff, are particularly welcome.

2.2 The total original GPF allocation from Government was £35.5 million of which £3.498 million currently remains unallocated. The Fund typically seeks private

sector leverage on the basis of 1:3. Loan repayments are also held separately and can be reinvested in the future.

Achievements

2.3 The programme has currently funded fifteen projects and enabled the sustainment or creation of 824 jobs and the building of 718 homes of which 106 (14.7%) are affordable, together with the remediation of 97 hectares of land and enabling 34,621 sq. m of commercial space.

2.4 Together, these projects have delivered developments that would either have been unviable or not realised as quickly as they have been. Some of the achievements of the programme to date are highlighted below:

- **Garnett's Wharfe, Otley** - £2 million funding was utilised to transform the site of a former eighteenth century paper mill and the project is now complete. The site offered 194 new houses, a 44 unit apartment complex and 2,000 square feet of refurbished and new office space. It also has a riverside restaurant and a newly opened visitor's centre.

  The loan funding was used for the initial demolition and remediation works, as well as helping to build a new access road, infrastructure and provide better riverside access for the public. Uniquely the site features an innovative hydro-electric scheme which has enabled the development to become carbon neutral on an offset basis.

- **Super G, Glasshoughton –** loan funding has been utilised for the remediation of a former colliery site in Glasshoughton prior to release for employment and housing development. The project outputs currently stand at 35 jobs and 123 homes (of which 10 are affordable), 1.6 kilometres of new road, three public open spaces and a renewed bridleway.

- **OE Electrics Ltd, Wakefield** - funding has been utilised for the completion of a bespoke manufacturing facility on Calder Park. The project outputs currently stand at 47 jobs and two apprenticeships.

- **Prince of Wales, Pontefract –** loan funding was used to support the delivery of infrastructure to facilitate the housing and employment site on this former colliery site. The project has currently produced 297 homes with over 900 homes expected in total, along with over 20 jobs.

Leeds City Region Revolving Investment Fund (RIF)

2.5 More recently the GPF programme has undertaken some joint investments with the RIF (which offers loans above £1 million) including an innovative modular housing development and new pedestrian and cycle friendly bridge across the River Aire in south bank Leeds, and enabling new homes as part of the New Bolton Woods development in Bradford.

Project with Changed Circumstances

2.6 As highlighted in para 2.1 above the original purpose of the fund was to unlock stalled developments that had been particularly affected by credit tightening. These stalled projects are not able to source full funding on the open market. This often reflects that the type of project is more complex/has greater risk than is able to be secured at viable rates. The rationale for public intervention, therefore is that providing finance on softer terms than the market is able to offer accelerates delivery of projects, and their outputs of new business premises, jobs and homes. The implication, however, is that the programme of investments are riskier than would be seen on a commercial loan book.

2.7 There is therefore always a risk with GPF loans that projects may not pay to the agreed repayment schedule. Of the original 15 investments:

- Four projects have been completed successfully, with a further two projects expected to repay loans in full in March 2019.
- Three investments will not complete (including the loan highlighted in para 2.8 below).
- Six projects are still underway.

2.8 One of the current loan recipients - GPF Loan 315 - is subject to changed circumstances and further details are provided in **Exempt Appendix 1.** The company has recently entered into administration and at an appropriate point in the proceedings, the Combined Authority will need to impair the GPF loan within its accounts.

Future Reinvestment

2.9 At its meeting on 20 September 2018 the LEP Board considered a report on the principles for the future use of returned funds from the GPF programme, in order to drive improved productivity and inclusive growth in the City Region. The LEP Board agreed to use the returned funds from the GPF programme to support significant ongoing returnable investment and grant funding for inclusive growth projects. It was also agreed in principle that capital returned funds generated through the Growing Places Fund are used as follows:

a) To continue providing investment capital on a returnable basis. It was agreed that this should comprise the significant majority of funds (e.g. 80%) in order that it continues to generate the scale of returns to provide longevity.

b) To allocate funding to directly (grant) fund projects that deliver social inclusion outcomes. It was agreed this should constitute a smaller proportion of GPF capital returned funds (e.g. 20%).

2.10 Further details were provided to the Investment Committee in November 2018 and officers are currently working up details around the parameters of such a fund for further consideration by the LEP Board. This work has been supported initially by expert external advice which begins to inform how any

future loan fund may operate moving forward. Key findings from the consultants' report include:

- **Evolving Market -**The lender population has increased significantly in recent years, with an expanding range of products, pricing and risk appetite. The view of the lenders interviewed is that if a borrower cannot access funding, it is likely not because of a lack of liquidity in the market (as may have been the case five years ago), but more because of the perceived risk of the loan / risk-appetite of the lender.

- **Perception of the GPF -** Both lenders with knowledge of the local market, and existing borrowers, agree unanimously that there is a continued need for the existence of the GPF.

3. Financial Implications

3.1 The capital repaid by GPF loans offered through the programme to 31 January 2019 is £11.959 million.

3.2 The capital anticipated in the remainder of the 2018/19 financial year is £4,299,163. There is, as always, with GPF loans a risk that projects may not pay to the agreed repayment schedule.

3.3 The capital anticipated in 2019/20 is a further £638,775.

3.4 The total capital expected beyond 31 March 2020 is £7,639,060.

3.5 The financial implications associated with GPF Loan 315 are set out in **Exempt Appendix 1.**

4. Legal Implications

4.1 The information contained in **Appendix 1** 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 information provided in the report and **Exempt Appendix 1** be noted and any comments provided.

8. Background Documents

None.

9. Appendices

Exempt Appendix 1 – Loan 315 Position Statement