

Report to: LEP Board

Date: 21 November 2019

Subject: **Future Approach to Business Finance**

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Purpose of this report

1.1 To update the LEP Board on the proposed future approach to business finance and investment management. In particular, to provide an opportunity for the LEP to discuss the draft investment strategy, governance proposals and next steps for implementation.

2. Information

2.1 The Leeds City Region Enterprise Partnership (the LEP) / Combined Authority are currently developing options for a future approach to business finance for the Leeds City Region. Building on the 2018 external review of the Growing Place Fund (GPF), Deloitte were commissioned earlier in 2019 to advise the LEP / Combined Authority on gaps in the regional investment market, potential business finance models and to advise on appropriate and robust procedures prior to launching a new fund.

2.2 The first phase of the Deloitte work recommended a number of key propositions to help the LEP / Combined Authority shape a new approach to business finance that could be scaled and adapted over time to meet the changing needs of the city region. This included a 'single front door' approach, and two initial investment products: an Invest to Grow loan and a 'Placemaker' loan.

2.3 This report focusses on the second phase of the Deloitte work which has concentrated on what is required to establish and implement this new business finance approach. In particular, the work has focussed on:

- Producing a draft investment strategy which will underpin investment decisions and developing further the initial products;
- Providing recommendations on the processes and procedures which will best protect any commercial activity that the organisation undertakes, and how assurance and due diligence will be provided;

- Proposing the roles and responsibilities for an appropriate governance structure and supporting staffing requirements, both at initial launch and for future scaling, which will ensure agile, yet robust and transparent decision making.

Draft Investment Strategy

- 2.4 The purpose of the Investment Strategy is to guide the implementation and operation of the City Region's future approach to business finance. Deloitte advise that it would be appropriate to launch the loan fund with a small number of initial products and to grow over time to expand the fund with an increased product offer, i.e. the Invest to Grow and Placemaker products mentioned above and further details can be found in the draft Investment Strategy in Exempt Appendix 1.
- 2.5 The draft Investment Strategy in Exempt Appendix 1 is provided for discussion and comment in order to inform next steps. Once finalised, the Investment Strategy will be a public facing document which sets out the LEP / Combined Authority's approach to investments, including but not limited to, minimum and maximum investment thresholds, sectors which will be supported, and investments which will not be considered for ethical reasons. It will provide a transparent methodology for investment decision-making.
- 2.6 The draft Investment Strategy:
- Identifies and defines suitable new products which could form part of the future approach to business finance;
 - Recommends appropriate agile decision making structures required to appraise commercial investment proposals;
 - Details requirements for undertaking robust due diligence for investment with a clear understanding of investment risk;
 - Recommends appropriate governance and monitoring arrangements and sets out parameters for ongoing management of a future funding portfolio; and
 - Builds in scalability for future growth in investment products, or for new products as they arise.

Governance and Decision making

- 2.7 Section 4 of the draft Investment Strategy puts forward governance proposals for any new loan fund. Table 1 below highlights the new decision making process proposed by Deloitte which is in line with those across many other loan making institutions.

Next Steps

- 2.10 The draft Investment Strategy is being presented to the LEP, Business Innovation and Growth Panel, the West Yorkshire and York Investment Committee and the Business Investment Panel. Over the coming months, feedback from each Board / Panel will be used to build on the advice from Deloitte and to help shape the final Investment Strategy which will be specific to the Leeds City Region's requirements. It is the intention that a final version of the Investment Strategy is brought back to a future meeting of the LEP for approval in early 2020.

3. Financial implications

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

4. Legal implications

- 4.1 The information contained in **Appendix 1** is exempt under paragraph 3, Part 1 Section B of the Access to Information Annex to the LEP Board Procedure Rules, as it contains information relating to the financial or business affairs of any particular person (including the LEP, the Combined Authority or any other authority holding that information). It is considered that the public interest in maintaining the content of the appendix as exempt outweighs the public interest in disclosing the information as publication at this time 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 LEP Board are requested to consider the contents of the draft Investment Strategy in Exempt Appendix 1 and provide any comments.

8. Background documents

- 8.1 None.

9. Appendices

- 9.1 Exempt Appendix 1 – Draft Investment Strategy