

Report to: LEP Board

Date: 14 July 2020

Subject: **Future Approach to Commercial Investment**

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Purpose of this report

- 1.1 To update the LEP Board on the revised approach to the commercial investment project in the light of the COVID-19 pandemic, and to provide an opportunity for the LEP to discuss the next steps for implementation.
- 1.2 To approve £300,000 of the returned capital being used as match-funding to support the LEP's Strategic Business Programme Phase 2 in order to support 500 high growth businesses up to the end of March 2023.

2. Information

- 2.1 The Leeds City Region Enterprise Partnership (the LEP) / Combined Authority developed options for a future approach to business investment 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 investment 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 for engaging with the public sector on investment opportunities, and two initial investment products: an Invest to Grow loan and a 'Placemaker' loan.

Impact of COVID-19

- 2.3 Since this work was completed, the COVID-19 pandemic has swept the world and the economic landscape has changed dramatically from the one we were in at the start of this project proposal.

- 2.4 Phase 3 of the planned programme was intended to implement the agreed elements of phase 1 and 2 in a way that efficiently and effectively recycles the returned Growing Places Fund, which currently amounts to £17m in total. The impact of lockdown, furlough and the resulting significant economic turbulence, coupled with the Governments financial support programme aimed at SMEs across the UK, suggests that a review is undertaken of whether this should remain an area of focus for the LEP and Combined Authority.
- 2.5 Deloitte's initial view is that short/medium term loan finance market is currently being heavily serviced by Government, and that there is considerable difficulty in assessing risk in this market at present. Furthermore, the anticipated high failure rate of businesses in this sector means that this may not be the best place for the LEP / Combined Authority to place its funds designed for economic growth interventions. If after further review this is agreed to be the case, this recycled Growing Places Fund capital may be applied to the creation of an investment fund for physical/ real estate assets that can be used to both support regional growth objectives and create a longer sustainable income stream. As a consequence, it is proposed that phase three of the project is refreshed and revised to comprise of the following workstreams.

Planned

| Workstream | Stage 1 | Stage 2 | Stage 3 |
|---|---------|---------|---------|
| 1. Market comparator refresh | | | |
| <ul style="list-style-type: none"> Prepare high level overview of other LA / CA property investment programmes as well as comparable private sector funds Key points to compare: total size of fund, key investments, teams/resources, governance Run internal session to assess comparators and refine look and feel of investment programme including any proposed variance from previous investment strategy | | | |
| 2. Internal processes | | | |
| <ul style="list-style-type: none"> Establish governance requirements and identify key appointments (internal and external) Set up delegations / approval boards or teams Appoint to key roles (may be temporary) Revise investment strategy and agree return requirements, investment budget etc. Prepare budget and financial cash flow to support initial investment assessment and ongoing portfolio review Prepare and implement reporting schedule | | | |
| 3. Identify opportunities | | | |
| <ul style="list-style-type: none"> Agree strategy for identifying opportunities – call for projects vs direct Meet with relevant LCR teams to identify opportunities: <ul style="list-style-type: none"> ✓ to include WYCA Regeneration and Capital Projects team ✓ David Shepherd (LCC) regarding opportunities related to inward investment enquiries ✓ City / Local Authority property and regeneration teams ✓ Deloitte RE Shortlist opportunities for further consideration based on size, high level return potential, speed of investment etc Consult externally for opportunities if none available from initial sources | | | |
| 4. Process initial opportunities through approval process | | | |
| <ul style="list-style-type: none"> Agree formats for assessment documents Prepare credit assessment document and cash flow for initial opportunity Commission relevant due diligence on opportunity as per approval process Execute initial investment | | | |

Next Steps

- 2.6 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 the autumn of 2020.

Strategic Business Growth Programme, Phase Two

- 2.7 The Strategic Business Growth Programme (SBG) is the LEP's flagship high growth support programme. Phase One of the programme (worth £2.83m) completed in March 2020 and supported over 350 SMEs to achieve substantial growth. This is evidenced within the recent independent evaluation which reported that the programme created over 820 new jobs, delivered a GVA contribution of £72.3m and an increase in export activity worth £81.2m.
- 2.8 Furthermore, the evaluators also undertook a comparative analysis, by geography and sector, of a group of SMEs supported by the programme in 2017 against an identical number that had not participated. The average increase in turnover for businesses supported through the programme (2017 - 2019) was 86% and the average increase in employment numbers, 62%. This compared to 21% and 20% respectively for businesses not in receipt of support.
- 2.9 EU funding of £1.62m was approved in early 2020 to deliver the second phase of the programme, but the required match-funding of circa £600,000 has been affected by the financial impact of COVID-19 on the Combined Authority (CA). Therefore, if £300,000 of funding from the £17m returned capital could be allocated to SBG phase two (via a ringfenced capital grants fund available only to the participating SMEs), the remaining £300,000 of required match-funding could be obtained from the contribution of those participating SMEs.
- 2.10 The Combined Authority has put forward a proposal for additional Local Growth Fund capital monies for 2021/22, and this includes a substantial amount of funding for capital investment by businesses as an extension of the current successful Business Growth Programme (BGP). If the bid for additional BGP is successful, the £300,000 request of the £17m returned capital could be repaid.

3. Financial implications

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

4. Legal implications

- 4.1 There are no immediate legal implications from this report.

5. Staffing implications

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

6. External consultees

6.1 No external consultations have been undertaken specifically related to the contents of this report, although significant consultation has taken place previously with boards and panels on the investment fund and strategy.

7. Recommendations

7.1 LEP Board are requested to consider the contents of the revised project plan and provide any comments.

7.2 LEP Board is asked to approve £300,000 of the returned capital to be used as match-funding to support the LEP's Strategic Business Programme Phase 2 in order to support 500 high growth businesses up to the end of March 2023.

8. Background documents

8.1 None.

9. Appendices

9.1 None