
Report to: Leeds City Region Enterprise Partnership Board (LEP Board)

Date: 20 September 2018

Subject: **Growing Places Fund reinvestment**

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1. Purpose of this report

- 1.1 To seek agreement to the future use of receipts from the Growing Places Fund in order to drive improved productivity and inclusive growth in the City Region.

2. Information

Role and purpose of the Growing Places Fund

- 2.1 The Growing Places Fund (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 credit tightening.
- 2.2 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.
- 2.3 Typical infrastructure projects have included expansion of business premises, site remediation and developing a new road junction as part of opening up a brownfield site for housing. The GPF loan often completes a package of agreed finance that is not quite sufficient for a project that is otherwise deliverable.
- 2.4 The fund is open to all businesses and organisations of any size based in or looking to invest in the city region. Applications from small and medium-sized enterprises, employing up to 250 staff, are particularly welcome.

Performance of the Growing Places Fund

- 2.5 The LEP, latterly through the Business Investment Panel, has made 15 investments using GPF capital, with the Fund typically seeking to leverage private sector investment by a ratio of 3:1. Loans offered for capital projects are on a 'no fee' basis at interest rates that comply with state aid regulations.
- 2.6 The Fund has been subject to an internal review which has identified learning points about:
- Improving clarity for businesses and intermediaries about the funding options that exist, particularly in respect of the Revolving Investment Fund, operated by local authorities.
 - Organisational capacity and expertise to operate a returnable investment fund.

Additionally, an expert external view has also been commissioned on market demand for a facility like the Growing Places Fund.

- 2.7 Of the 15 investments:
- 2 projects have been completed successfully, returning a combined capital investment of £2.95 million.
 - 2 investments will not complete, meaning £6.41 million will not return.
 - 11 projects are still underway, accounting for £20.93 million of GPF investment.
- 2.8 Loan repayments mean there is now a significant and growing balance held on account. The accountable body's section 73 officer (Angela Taylor, Combined Authority Director of Resources), has confirmed that repaid capital receipts are unencumbered. Monies that have not yet been drawn down or allocated to projects (£5.2 million as at end of June 2018) still have to be used in line with the terms of the original Government grant.
- 2.9 The table below provides a high-level projection of the profile of capital receipts at 30 June 2018 (NB. this is subject to significant change as some repayment schedules depend on asset disposals):

Capital already repaid	£7.007 million
Capital subject to original terms	£5.200 million
Capital forecast to be repaid in remainder of 2018/19	£4.000 million
Capital forecast to be repaid in 2019/20	£4.000 million
Capital forecast to be repaid in 2020/21	£2.000 million
Capital forecast to be repaid in 2021/22	£1.000 million
Capital forecast to be repaid in 2022/23	£1.000 million
Capital forecast to be repaid in 2023/24	£1.000 million
Capital forecast to be repaid at other points	£4.000 million
<u>TOTAL</u>	<u>£29.2 million</u>

- 2.10 In addition to capital receipts, £1.843 million of interest has been paid to the LEP since 2011/12 via the organisations that administer the fund – initially Leeds City Council and latterly the West Yorkshire Combined Authority. These sums have been used for general fund expenditure.
- 2.11 Together, these projects have delivered developments that would either have been unviable or not realised as quickly as they have been:
- 97 hectares of regenerated or remediated land
 - 34,621 sq. m of commercial space
 - 671 new homes built (plus a further 47 affordable homes)
 - 177 jobs and 31 apprenticeships created or safeguarded
- 2.12 In addition to the Business Investment Panel’s role in approving GPF funding, the Combined Authority’s Overview and Scrutiny Committee has also been active to learn lessons about GPF processes. This culminated in recommendations to the Combined Authority, which were agreed on 1 February 2018. Most of these changes had already been reflected in improvements to the Assurance Framework.

Context and principles

- 2.13 Since the GPF was launched in 2011/12, the policy context has evolved:
- Economic and social conditions and priorities have changed, with the City Region refreshing its strategic priorities (see para 2.14)
 - Other public grant and loan funding streams have become available, including the Revolving Investment Fund, European Structural and Regeneration Funds and Growth Deal. **Appendix 1** provides a fuller account of public loans and grants for businesses.
- 2.14 The City Region has put in place a broader policy framework to deliver inclusive growth by addressing four ‘inconvenient truths’ identified at the LEP Board’s September 2017 awayday:
- Productivity is too low and the gap with peers is growing
 - Investment in R&D is too low
 - Living standards have stalled
 - Stubborn deprivation persists
- 2.15 With significant capital receipts returned and more forecast to arrive by 2019/20, there is now the opportunity to consider future use of the funds.
- 2.16 The City Region is facing severe funding pressures as local authorities see their central funding continue to be cut whilst demands for services increase. While these unencumbered funds could be used to address these gaps, it is instead proposed that the LEP Board decides to remain true to the original purpose of the funds, because only through bold leadership to address the City Region’s structural issues will a more productive economy ensure that everyone can contribute to, and benefit from, growth.

- 2.17 In developing proposals, the following guiding principles have been used:
1. The future use of funds should fit coherently with the City Region’s wider funding landscape, minimising fragmentation and bureaucracy.
 2. These unencumbered funds should be used only when there is no other appropriate funding stream.
 3. Use of the funds should:
 - a) Maximise private and public investment in the City Region, including using as match revenue to leverage investment
 - b) Improve productivity in the City Region
 - c) Deliver inclusive growth ambitions by either:
 - generating a financial ‘return on investment’ to fund further inclusive growth activities
 - directly funding activities that improve outcomes for the most disadvantaged.

Proposed future uses

- 2.18 Based on the principles above, it is proposed that capital receipts are used as follows:
- a) To continue providing investment capital on a returnable basis. It is suggested 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 improve outcomes for the most disadvantaged. It is suggested this should constitute a smaller proportion of GPF capital receipts (e.g. 20%).
- 2.19 The table below illustrates indicative investment amounts taking account of the projected profile of receipts and proportions above:

Year	Funds for returnable investment	Non-returnable funds to deliver inclusive growth aims
2018/19	£8.8 million	£2.2 million
2019/20	£3.2 million	£0.8 million
2020/21	£1.6 million	£0.4 million
* the remaining £7 million either doesn’t have a clear date when it is due to be repaid, or will be repaid in 2021/22 or later.		

- 2.20 Given the principle to fit coherently to the wider funding landscape, if the LEP Board supports the direction of the proposal, there needs to be consideration whether this funding enhances existing processes or is delivered via separate channels. For example, the Revolving Investment Fund (RIF) is undertaking a similar review.
- 2.21 If the LEP Board agrees to pursue returnable investment, a further report will be brought to the LEP Board setting out how this will be delivered, taking

account of a number of factors. Some of the design questions are posed below, should the LEP Board want to give initial guidance:

- What balance should be struck between generating a financial return on investment and addressing market failure to deliver outcomes like remediated land, new housing, growing and more productive businesses, etc.?
- Previously, the provision of secured loans on soft terms reflects a certain level of risk. What's an appropriate risk appetite in future?
- The fund has historically provided secured loans. What prospect is there for different types of investment, including equity?¹
- The target market for returnable investments – including whether, for example, to extend reach to Higher Education institutions.
- This approach depends on market demand. The Combined Authority has commissioned PwC to review demand and this is due to report in October 2018 and will shape the operational design of the new approach.

Other options

2.22 The table below outlines other strategic approaches considered:

Option	Potential advantages	Potential disadvantages
Use all receipts for revolving funding (subject to market demand)	<ul style="list-style-type: none"> • Invests more in supporting growth and improving productivity. 	<ul style="list-style-type: none"> • May not improve outcomes for the most disadvantaged as far or as fast.
Use all of the receipts (or a higher proportion) for inclusive growth grants	<ul style="list-style-type: none"> • Able to improve outcomes for the most disadvantaged faster and to a greater degree. 	<ul style="list-style-type: none"> • May miss opportunities to improve productivity and growth in the business base that could address the City Region's 'inconvenient truths'.

3. Financial Implications

3.1 The LEP Board's decision about the strategic direction of the Fund will have financial implications. The high-level picture is outlined in the report, with a commitment that a further report will describe the detailed financial implications based on the operationalisation of the LEP Board's decision. A number of design questions are raised in para 2.21 that will help shape that work.

4. Legal Implications

4.1 There are no direct legal implications as a result of this report.

¹ This was considered briefly by the Business Investment Panel on 9 August 2018. The emerging consensus among members was that, in general, the LEP/fund should be cautious in its approach to equity investments.

4.2 The report describes that the Accountable Body's section 73 officer is satisfied about the use of unencumbered funds once they have been repaid after being used for their original purpose.

5. Staffing Implications

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

6. External Consultees

6.1 The Business Investment Panel has provided initial views on the potential of using equity investments.

7. Recommendations

7.1 That the LEP Board note the performance and position of the Growing Places Fund.

7.2 That the LEP Board agrees to use the receipts from the Growing Places Fund to support significant ongoing returnable investment and grant funding for inclusive growth projects, as described in para 2.17 of the report.

7.3 That a further report be prepared on how this direction might be operationalised, based on any advice provided in respect of the design questions in para 2.21 of the submitted report.

8. Background Documents

8.1 Report of the Scrutiny Committee to the Combined Authority (1 February 2018).

9. Appendices

Appendix 1 – Overview of the funding context