Lancashire Enterprise Partnership

# Growing Places Investment Strategy v.3

February 2023

# Contents

# 1. Background

1.1 The Growing Places Fund (GPF) was launched in 2011 as a joint initiative of Department for Communities and Local Government (DCLG) and Department of Transport (DfT) who sought assurance that local partnerships were committed to using GPF for the provision of infrastructure and would target projects which represent good value for money.

1.2 When the GPF was launched, it was strongly encouraged by Government, to be used as a revolving Fund to unlock stalled investment; this has been the approach to-date in Lancashire with 100% of allocations being made in this way.

1.3 In 2012 the Lancashire Enterprise Partnership (LEP) was allocated £19,378,944 million.

1.4 GPF has three overriding objectives,

- To generate economic activity in the short term by addressing immediate infrastructure and site constraints and promote the delivery of jobs and housing,
- To allow LEP's to prioritise the infrastructure they need, empowering them to deliver their economic strategies,
- To establish sustainable revolving funds so that funding can be reinvested to unlock further development and leverage private sector investment.

1.5 GPF was designed and used to unlock or help progress stalled or blocked commercial development and to provide access to loan finance in places that had been overlooked. This is still a key issue for parts of Lancashire.

1.6 In 2015 DCLG commissioned an Appraisal Report in England which evaluated the performance of GPF.

1.7 It reflected that 84% of the GPF had been awarded on a loan only basis. A minority of LEPs deployed the funds as grant only or a mixture of loan and grant. It set the precedent that LEPs can use the Fund as grant in order to meet economic needs.

1.8 The Lancashire LEP uses the interest generated from the GPF to pay for salaries of officers and strategic initiatives to supplement the grant funding received from government and company members in the operational budget.

1.9 The original funding allocation was un-ringfenced and came with the single condition that it had to be used for capital projects. In July 2020 DCLG confirmed that there were no specific conditions regarding whether repaid loans could be treated as capital or revenue when it was returned to the LEP.

1.10 The LEP now has the flexibility to use the funds for capital, revenue or grant. For any approval of funds such as grants, the LEP needs to be aware that if grant is deployed then there will be a consequential loss of income regarding the LEP's core operating budget as well as the opportunity to recycle the funds to further projects in the future i.e. reducing the overall pot available for investment

1.11 For every £100k of GPF loan, the LEP could expect to receive an average return of 4% plus the Bank of England base rate.

# 2. Current Position

2.1 The purpose of GPF is to grow the economy of Lancashire by bringing forward development on marginal schemes which would not have come forward if left to market forces.

2.2 Evidence for the Internationalisation Strategy revealed that for every 4 jobs there are 5 people of working age and approximately 80,000 people leave the county to find employment. This costs our economy £4.3bn per annum and 130,000 people can't find jobs to match their skills. By using GFP strategically to support public sector initiatives it has the potential to make a bigger impact, retain talent in Lancashire and thereby grow the economy.

2.3 The current criteria for GPF is a stalled scheme based in Lancashire. The funding is for development sites which include housing, infrastructure, commercial or industrial buildings. Security is always taken for the loan, usually in the form of a first charge over the land or building and the borrower pays for the legal, valuation and monitoring surveyors fees of the LEP.

2.4 The benefit of this approach has been to create an Evergreen Fund which contributes to the economic success of Lancashire. The outputs and impacts of the scheme are outlined in Section 3 below.

2.5 The nature of GPF in the alternative finance market is that schemes can take a long time to come forward. Many borrowers have not previously gone through a rigorous due diligence and monitoring process which has subsequently resulted in developers being much more robust in their approach going forward after completing a Growing Places scheme.

2.6 GPF has successfully brought forward development continuously since 2012 and now is the only funding available to the LEP to deploy.

2.7 At present, GPF is the most significant resource that the LEP has available to unlock and support projects so GPF needs to be fully deployed and used to its maximum potential to positively impact the Lancashire economy, utilising the flexibility of the Fund.

2.8 Growth Deal and Getting Building Fund have been fully committed and the Levelling Up Fund and the UK Shared Prosperity Fund is only open to Local Authorities, not LEP's. This has limited the ability of the LEP to apply for funding to support the growth of the Lancashire Economy.

2.9 Added to this is the poor economic outlook for the next 18 months and the government's desire for those areas that want a devolution deal to put their plans to them. As part of a devolution deal LEP's will be combined with a Combined Authority to provide the voice of business. Therefore, the Lancashire Enterprise Partnership as we know it will transition into a County Combined Authority in future. The launch of the Lancashire 2050 strategic framework in November 2022 (on Lancashire Day) signalled the start of the process for Lancashire.

2.10 Currently schemes come forward and are assessed on a case-by-case basis. This ensures that there is a rolling programme of drawdowns and repayments.

2.11 There are three schemes going through due diligence and due to a freeze on marketing for over 2 years the pipeline needs rebuilding. It is important to utilise this funding to the maximum and make the funding work hard to create an environment where companies thrive and talent is retained.

2.12 Given that circa 80,000 workers per annum travel outside of Lancashire for highly paid jobs to match their skill set. There is a need to grow the quantum of jobs and retain talent in the county

2.13 In order to align the Fund with the Strategic Framework of the LEP, GPF will be used for bringing forward development sites to support other public sector investment, inward investment, EZ development and the co-creation of an Innovation Fund with all activities aligned to the sectoral priorities and sector action plans. Going forward, it is proposed to nominally split the Fund to cover,

- Development Sites – business as usual
- Inward Investment opportunities
- Enterprise Zone development
- Innovation/ Manufacturing/Low Carbon Fund - to be externally managed
- A closer alignment with LEP sectoral priorities and sector action plans.

2.14 As of 31 January 2023. the Growing Places loan has delivered the following outputs.

| Measure | Output |
|---|---|
| Number of completed schemes | 10 |
| Number of schemes on site | 1 |
| Value of loans | £39,893,370 |
| Value of loans repaid | £ 38,159,751 |
| Private sector investment | £ 107,457,445 |
| Interest received on loans | £2,177,036 |
| Square Foot/Square Metres developed | 2,129,196 sq. ft. (197,808 sqm) buildings plus 215,278 sq. ft. (20,000 sqm) public realm |
| Jobs created | 2,135 |
| Housing units delivered | 776 |

2.15 Types of schemes developed.

| Type of scheme | Number |
|---|---|
| Commercial | 2 |
| Mixed Use | 2 |

| | |
|---|---|
| Housing | 2 |
| Land remediation | 1 |
| Infrastructure | 1 |
| Retail | 1 |
| Leisure | 1 |
| **Total** | **10** |

2.16 The impact of GPF has been to support private sector development on the back of public sector investment in places such as Burnley, Wyre and Pendle. GPF schemes have come forward as a result of public sector investment via the Growth Deal or Getting Building Fund programmes and has widened the impact of those schemes.

2.17 It has supported Local Authority strategic aims in West Lancashire and Preston with GPF schemes kick starting regeneration in those boroughs as developers had the confidence to realise their ambitions. In these instances, the banks were not prepared to lend to the borrowers. Again, further private sector development has followed.

2.18 It has enabled new developers in Lancashire to start their development journey, thereby growing capacity in the market.

2.19 GPF could use the opportunity to close the economic performance gaps by supporting Levelling Up Funded schemes, UK Shared Prosperity programmes and the Lancashire Urban Development schemes . Using GPF can significantly enhance schemes that have attracted public sector intervention and build on the traction created.

2.20 GPF impact is not only felt directly on the schemes that receive funding but indirectly through the interest generated which pays for officer salaries and other strategic initiatives. The more interest that is generated from GPF provides funds other initiatives that can contribute towards closing the economic performance gap in Lancashire.

# 3. SWOT

3.1 The SWOT analysis presented below is based on the performance of GPF over 10 years and sets out the strengths, weaknesses, threats and opportunities for the Fund going forward.

| **Strengths** | **Weaknesses** |
|---|---|
| • Successful deployment of funds creating private sector leverage, jobs, housing units, infrastructure and development space<br>• Evergreen Fund created<br>• Operated on a commercial basis<br>• Capital recycled<br>• Creates income for the LEP<br>• Only significant resource available to the LEP to deploy | • Not widely deployed<br>• Fund size cannot be increased<br>• Currently only used for stalled sites<br>• Slow process through due diligence can deter borrowers |
| **Opportunities** | **Threats** |
| • Other uses could be investigated due to new flexibilities<br>• Support inward investment on a capital or revenue basis<br>• Support development on Samlesbury Enterprise Zone on a capital basis<br>• Support expansion development projects on a capital basis<br>• Provide revenue funding into an Innovation Fund for Lancashire<br>• Provide loan or grant funding to encourage Inward Investment in Lancashire<br>• Potential to improve talent retention in the county<br>• Used as grant funding in exceptional circumstances for the benefit of the Lancashire economy | • LEP budgets squeezed due to LEP Review and may be needed for operational activity<br>• Grant use would deplete the Fund<br>• No money currently available to increase the size of the pot<br>• Uncertainty of use of funds after merger of LEP into County Combined Authority<br>• Other competing public sector funds such as the Lancashire Urban Development Fund, the Northern Powerhouse Investment Fund and Rosebud<br>• UK Government Recovery Loan Scheme |

3.2 GPF has successfully deployed loan funds that have delivered significant outputs and generated over £2m of interest as income for the LEP.

3.3 It is run on a commercial basis and each loan is judged on its own merit. Historically interest rates have been set by reference to the EU Reference Rate, an EU State Aid measure to ensure market parity so that no State Aid is involved. Now that the UK has transitioned out of the EU and a new UK Subsidy Control regime applies, interest rates will be set by reference to the principles set out in the Subsidy Control (Gross Cash Amount and Gross Cash Equivalent) Regulations 2022 which come into force on 4 January 2023. This will ensure the provision of the loans will not involve any element of unlawful subsidy and therefore lending is on a 'no aid' basis. Further information on pricing of loans is detailed in Section 6.

3.4 GPF is not oversubscribed and needs to be marketed to fully utilise the funds. Resource needs to be devoted to working with developers and finding schemes that bring employment into the county. It takes time and resource to bring forward deals that are complex , risky and hard in order to provide the board with viable proposals that will ultimately help close the economic performance gap.

3.5 Funds left on deposit with LCC attract a rate of interest of 0.1% the funds deployed attract a much higher rate of interest to reflect the risk taken in investment. The deposit rate is subject to LCC Treasury Management Policy. Funds on deposit are not being utilised to support the Lancashire economy.

3.6 As GPF is the only significant resource available to the LEP to support economic growth there are a number of calls on it.

3.7 With the new flexibilities available to GPF, the uses of the Fund on a loan basis will be expanded in order to have greater economic impact. Grant should only be used in exceptional circumstances as it will deplete the impact of the fund in future.

3.8 GPF has been used as capital funding and the recently launched Lancashire Urban Development Fund also provides capital funding for office, commercial and industrial buildings. GPF will work in conjunction with this Fund to bring development forward but to date no joint schemes have come forward. Please note that the Urban Development Fund presently cannot support housing development.

3.9 The Northern Powerhouse Investment Fund and Rosebud provide revenue funding for Lancashire businesses. The recent Availability of Finance in Lancashire report (July 2022) highlighted that apart from early seed funding there wasn't a lack of funding for businesses in Lancashire. However, there were recommendations to promote the financial offer and improve the financial eco-system which is the subject of a separate workstream.

3.10 GPF will be used to support inward investment in a capital or revenue capacity. For example, there is an opportunity to attract a nuclear imaging company into Lancashire and loan funding from Growing Places could be used for revenue and capital to attract the company to land here. Grant funding could be used but it would limit the size of the Fund going forward and only used if there is no other support available. Buy supporting inward investment activity GPF brings investment and jobs into the county. Lancashire underperforms in terms of FDI activity in relation to Greater Manchester and Cheshire & Warrington LEP's

3.11 GPF can be used alone but if used in conjunction with another lender such as LCC, the Lancashire Urban Development Fund or Blackpool Council's Loan Fund it will have a bigger impact and provide an attractive loan package for attracting inward investment into the county. It can be based on capital or revenue or a mixture of both and will support closing the economic performance gap.

3.12 GPF can be used in a revenue capacity to collaboratively create a new Innovation Fund such as a Low Carbon Innovation Fund with partners such as the University of Central Lancashire.

3.13 There is the opportunity to use GPF strategically to create the environment to increase high quality jobs and improve talent retention in the county.

3.14 Whereas there is a tried and tested process for development loan schemes, shown in Appendix A, a streamlined process will need to be developed for other uses of GPF. In order to speed up the process more use of the Urgent Business Procedure is likely in order to work to the proposed project timescales rather than the board meeting timetable.

# 4.Investment Strategy

4.1 The Investment Strategy sets out the framework to manage the inherent risks in lending.

4.2 Continue to use the fund as a loan funding mindful of the uncertain nature of the transition to a County Combined Authority. However, in exceptional circumstances it could be used as grant.

4.3 The investment decision matrix at Section 5 will assist the board in assessing each proposal to ensure that the impact will contribute to the Lancashire economy. Whereas is it important for schemes to create jobs it is also important to create desirable housing for people to live. Given that a large number of people work from home the value of housing should not be underestimated.

4.4 Schemes that build on public sector funds such as Levelling Up, UK Shared Prosperity, Towns Fund will be more impactful if private sector developers see the public sector intervention as de-risking their propositions and bring forward their development.

4.5 GPF is an alternative financial instrument to high street lenders and as such the viability of the scheme or creditworthiness of the borrowers may not satisfy bank lending. It is therefore an inherently riskier proposition.

4.6 Balanced against the risker proposition is the economic benefits that schemes bring to Lancashire. Those benefits include sq. ft. developed, buildings brought back into use, new infrastructure created, highly skilled new jobs created, private sector funds leveraged, commercialisation of R&D, new housing, social value and net zero activity/technology implementation.

4.7 GPF will adopt a generally cautious approach but be prepared to accept a higher level of risk where a lending opportunity has a strategic fit with the LEP's Sector Groups or Strategic Framework and has a significant economic impact.

4.8 Key to providing an accessible fund to support economic growth in the county is the need for the process to be known, understood and timely.

4.9 Going forward GPF will be nominally split into 5 areas to cover

- Development Sites – business as usual
- Inward Investment opportunities
- Enterprise Zone development
- Innovation/ Manufacturing/Low Carbon Fund - to be externally managed
- A closer alignment with LEP sectoral priorities, sector action plans, Levelling Up and UK Shared Prosperity Funds

4.10 All schemes will align to the work of LEP's Strategic Framework and Sector Groups, which are business led and provide the LEP with sector intelligence. They have developed or are in the process of developing action plans to support the businesses in their sectors. In addition to the six sector groups detailed below there are four emerging sectors.

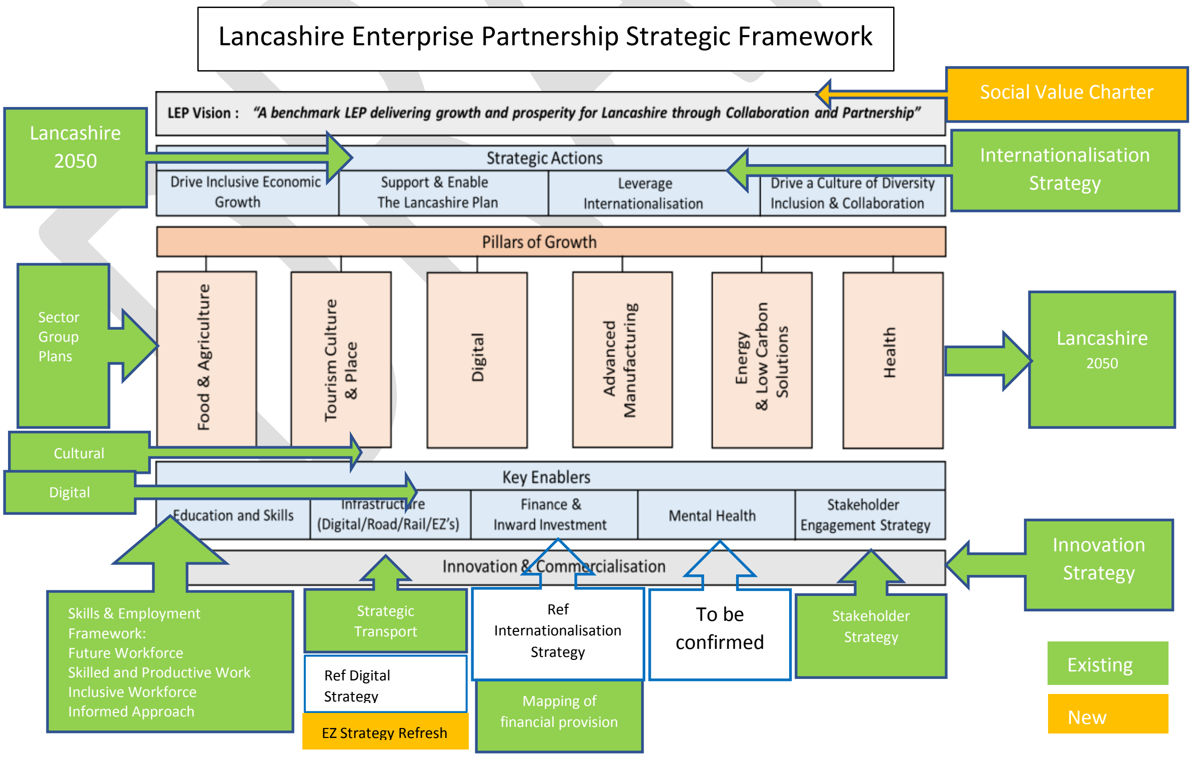
4.11 Existing Sector Groups,

- Energy & Low Carbon
- Advanced Manufacturing
- Digital
- Food & Agriculture
- Health
- Tourism, Culture and Place

4.12 Emerging Sectors, as identified in the refresh of the Lancashire Innovation Plan include,

- Cyber, Digital and Secure Systems, including Electech
- Clean and Sustainable Growth, including Clean Energy
- Advanced Mobility and Manufacturing, including Space & Satellites
- Health including Medtech

4.13 Schemes coming forward for GPF will align to one element of the LEP's Strategic Framework. The Strategic Framework is illustrated below and has been updated to reflect today's position.




4.14 Each scheme is assessed on its own merits and will deliver economic impact in terms of highly skilled new jobs, private sector leverage, sq. ft. developed, R&D, social value and include net zero activities or technology implementation in line with the LEP's Strategic Framework. The impact will address at least one of the above elements or build on public sector investment such as the Levelling Up Fund, UK Shared Prosperity, Local Authority plans, Towns Funds or the Lancashire Urban Development Fund. More detail on the investment decision matrix is detailed in Section 5

4.15 In order to improve the utilisation of GPF, the range of projects for which the fund can be deployed will be promoted via a targeted marketing campaign.

# 5. Investment Decision Matrix

5.1 Schemes coming forward for consideration by the board may have very different characteristics which may make it difficult to assess how it will contribute to the growth of the Lancashire economy. The following matrix is designed to assist the board in balancing disparate schemes in order to assess how it will improve the economic performance of the county.

5.2 It's importance to recognise that schemes that don’t create jobs or any high value jobs may still have a big impact on the local area so Local Authority priorities should be taken into consideration.

5.3 The Investment decision matrix is a methodology to assess whether a GPF proposal is worthwhile in achieving the LEP's growth ambitions.

| Activity | GPF requested | New Jobs | Highly Skills Jobs | Private sector leverage/ match funds | Sqm developed | Net Zero impact | Social Value impact | Proposal should cover one of these two elements | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Sector Impact | LUF/UKSP/LUDF/LA Priorities including Towns Fund and Graduate Retention |
| Development Sites | Up to £1,000,000 | 5 | 0 | Min £100,000 | 500 sqm | EPC rating B<br>BREEAM Very Good | Work experience placement<br>Regeneration of site | Align with 1 sector | Contribute to or build on public sector funding |
| | £1,000,000 to £3,000,000 | 7 | 1 | Min £300,000 | 750 sqm | EPC rating B<br>BREEAM Very Good<br>Low carbon heating/cooling | Work experience placement<br>Local spend<br>Regeneration of site | Align with 1 sector | Contribute to or build on public sector funding |
| | Over £3,000,000 | 10 | 2 | Min £900,000 | 1,000 sqm | EPC rating B<br>BREEAM Very Good<br>Low carbon heating/cooling<br>EV charging<br>Low carbon transport to site | Work experience placement<br>Local spend<br>Local job opportunities<br>Improvement to local area | Align with 1 sector | Contribute to or build on public sector funding |
| Inward investment opportunities | Up to £5,000,000 | 20 | 10 | Min £5,000,000 | 1,000 sqm | Low carbon technology use<br>R&D for net zero<br>Carbon offsetting | Local spend<br>Local job opportunities | Aligns with 1 sector or | Support the growth of the economy by aligning to a public sector initiative |

| Activity | GPF requested | New Jobs | Highly Skills Jobs | Private sector leverage/ match funds | Sqm developed | Net Zero impact | Social Value impact | Proposal should cover one of these two elements | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Sector Impact | LUF/UKSP/LUDF/LA Priorities including Towns Fund and Graduate Retention |
| | | | | | | | Apprentice opportunities | | |
| EZ Development | Up to £5,000,000 | 20 | 10 | Min £5,000,000 | 1,000 sqm | Low carbon technology use<br>EV charging<br>EPC rating B<br>BREEAM very good | Local spend<br>Local job opportunities<br>Apprentice opportunities | Aligns with 1 sector | Contribute to or build on public sector funding |
| Innovation equity fund | Up to £5,000,000 | 100 | 40 | £10,000,000 | 0 | R&D low carbon technology/digital /innovation<br>Commercialisation of technology | Local job opportunities<br>Apprentice opportunities<br>School/college engagement | Aligns with 2 sectors | Support the growth of economy by aligning to a public sector initiative |
| Grant | Up to £2,000,000 total | 20 | 10 | Up to £2,000,000 | Up to 500 sqm | R&D low carbon technology/digital /innovation<br>Commercialisation of technology<br>Utilisation of technology | Local spend<br>Local job opportunities<br>Apprentice opportunities<br>School/college engagement | Aligns with 2 sectors | Contribute to or build on public sector funding |

5.4 Each scheme will not tick every box in the relevant row but it will enable the board to measure the scheme against desired outcomes.

5.5 None of the columns are weighted so are all equal in terms of value to economy. Each box will be allocated a score of between 0 and 10 on a sliding scale as follows,

0 = doesn't meet requirement
5 = meets the requirement
10 = exceeds the requirement by some margin

5.6 Each row has a maximum score of 70, combining the score of the last two columns. If a scheme reaches a minimum threshold of 25/70, then the scheme will be brought to the board for consideration.

# 6. Pricing

6.1 Historically GPF loans have to date been based on the EU Reference Rate which is a benchmark used by other public funds such as the Northern Powerhouse Investment Loan and is accepted as being on a no aid basis and therefore commercial.

6.2 Going forward, pricing will reference the principles set out in the Subsidy Control (Gross Cash Amount and Gross Cash Equivalent) Regulations 2022 which come into force on 4 January 2023. The value of the security available and the credit worthiness of the company and/or parent company will be assessed against the table below to decide the minimum interest rate.

6.3 Prior to June 2018 pricing was a fixed rate, but this methodology leaves the LEP exposed to the potential UK Subsidy Control regime issues. The pricing of interest rates, from June 2018 was over LIBOR. However, LIBOR is being phased out so now the Bank of England base rate is being used to protect integrity of the loan and ensure that it remains commercial, i.e. it doesn’t fall foul of UK Subsidy Control regime.

6.4 The table below indicates the minimum interest rates that the board may want to apply to each scheme. It is within the gift of the LEP to apply higher rates than the minimum stated below. All interest rates will be in addition to the Bank of England base rate, currently at 3%.

6.5 As and when the Bank of England base rate changes the table below will need to be reviewed against the subsidy Control Regulations to ensure that it remains a commercial loan on a 'no aid' basis.

| Security Available | High | Normal | Low |
|---|---|---|---|
| **Very Good -** First charge over property/land where the valuation confirms initial value covers the value of the loan and/or<br>Fixed and floating Debenture over asses of the company and/or<br>Parent Guarantee and/or<br>Signed pre-let<br>50% public sector leverage contribution | 3% | 3.25% | 3.5% |
| **Good -** First charge over property/land where the valuation confirms initial value covers part of the value of the loan and/or<br>Fixed and floating Debenture over assets of the company and/or<br>Parent Company guarantee and/or<br>Signed pre-let<br>40% public sector leverage contribution | 3.75% | 4% | 4.25% |
| **Medium -** Second charge over the property and/or | 4.5% | 4.75% | 5% |

| Security Available | High | Normal | Low |
| --- | --- | --- | --- |
| Fixed and floating Debenture over assts of the company and/or<br>Parent Guarantee and/or<br>Signed pre-let<br>30% public sector leverage contribution | | | |
| **Poor -** Second charge over a number of properties and/or<br>Fixed and floating Debenture over assts of the company and/or<br>Parent Company guarantee and/or<br>Signed pre-let<br>20% public sector leverage contribution | 5.25% | 5.5% | 5.75% |

# 7. Social Value

7.1 There are a number of measures of social value and these measures have been selected to reflect the nature of the Growing Places Fund

7.2 The following measures can be used and when each scheme is considered by the board the appropriate measures will be indicated.

- Work Experience places
- Apprentice Opportunities
- Local Job Opportunities
- Local Spend by commissioning of local SMEs and third sector organisations
- School/ College Engagement by supporting careers, education and information sessions
- Workforce Development
- Community based projects driven by the local communities in which the project is based

7.3 The above measures are only an indication and the social value measures will be included in each scheme for the board's consideration.

7.4 Social value measures that are committed to as part of the application will be viewed as deliverable obligations in line with the loan agreement.

7.5 Successful applicants will be required to complete regular monitoring of social value measures to Lancashire LEP.

7.6 Where appropriate Lancashire LEP will play a support role in linking the applicant to local skills, employment, training and community provision to ensure maximum impact is achieved.

7.7 The investment decision matrix can be used to attach a value to the social value element of the scheme to assess it against other schemes.

# 8. Net Zero

8.1 All schemes will contribute to the Net Zero agenda by utilising at least one of the following measures,

- EPC Rating B
- BREEAM Rating Very Good
- Renewable energy
- R&D low carbon innovation
- Commercialisation of low carbon technology
- Utilisation of low carbon technology
- Carbon capture
- Energy/battery storage
- Carbon offsetting

8.2 The above measures are only an indication and the net zero measures will be included in each scheme for the board's consideration

8.3 The investment decision matrix can be used to attach a value to the net zero element of the scheme to assess it against other schemes.

# 9. Investment Matrix and Pricing applied to Previous Schemes

9.1 Using the tables in Sections 5 and 6, ten completed schemes are detailed in the table below.

9.2 Please note that the original criteria for the Fund was a stalled scheme in Lancashire and Net Zero and Social Value information were not requested from the borrower.

9.3 Using the scoring matrix as detailed in Section 5 it can be seen that all except two schemes would have been approved, despite the net zero and social value not being taken into account.

9.4 Using the pricing mechanism as detailed in Section 6 if can been seen that all of the rates have been set above the minimum, except for the first scheme. That is because the number of jobs was not collected and it was not initially a requirement of the funding.

9.5 The original pricing was on a fixed basis. This changed circa June 2018 to be plus LIBOR. LIBOR as a mechanism is being phased out so the Bank of England base rate is being used going forward to maintain the integrity of the loans.

| Development Scheme | Loan | Private Sector Leverage | Interest rate | Security | Sqm developed | Jobs created | Net Zero Impact | Social Value Impact | Sector Impact | Matrix score out of 70 | Minimum Interest rate + base rate |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1.Leisure | £2,000,000 | £1,580,000 | 5.1% fixed | 2 Second charges | 1,200 | 0 | ? | ? | Tourism Culture & Place improved offer | 22/70 | 4.75% |
| 2.Infrastructure to unlock employment site | £2,443,500 | £45,727,000 | 4.5% fixed | First charge over site | 66,519 | 778 | ? | ? | Advanced Manufacturing | 40/70 | 4% |
| 3.Retail | £2,750,000 | £6,000,000 | 5% fixed | Parent company guarantee | 3,279 | 60 | ? | ? | Tourism, Culture & Place improved offer | 30/70 | 3.25% |
| 4.Mixed use scheme - office, retail, hotel, restaurant and | £3,900,000 | £14,500,000 | 5% fixed | Parent company guarantee | 5,789 + 20,000 public realm | 357 | ? | ? | Tourism, Culture & Place improved offer | 40/70 | 3% |

| Development Scheme | Loan | Private Sector Leverage | Interest rate | Security | Sqm developed | Jobs created | Net Zero Impact | Social Value Impact | Sector Impact | Matrix score out of 70 | Minimum Interest rate + base rate |
|---|---|---|---|---|---|---|---|---|---|---|---|
| public realm improvements | | | | and signed pre-let | | | | | | | |
| 5.Land Remediation for future housing use | £4,000,000 | £12,000,000 | 4.5% fixed | First Charge | 70,000 | 600 construction jobs | ? | ? | Tourism, Culture & Place improved offer | 38/70 | 4% |
| 6.Housing | £2,900,000 | £2,800,000 | 5% fixed | First Charge and signed pre let | 3,693 | 0 | ? | ? | Tourism, Culture & Place improved offer | 26/70 | 3.75% |
| 7.Redevelopment of brownfield site | £2,500,000 | £6,000,000 | 4.5% fixed | First Charge and pre let | 24,076 | 69 construction jobs | ? | ? | Advanced manufacturing | 36/70 | 3.5% |
| 8.Mixed use scheme - office and housing | £2,500,000 | £6,100,000 | 4.5% fixed | First Charge and parent guarantee | 3,948 | 67 construction jobs | ? | ? | Tourism, Culture & Place improved offer | 33/70 | 3.5% |
| 9.mixed use scheme – office and housing | £2,100,000 | £497,000 | 4.5% fixed | First Charge | 1,124 | 15 | ? | ? | Tourism, Culture & Place improved offer | 31/70 | 4.25% |
| 10. Redevelopment of brownfield site | £2,600,000 | £2,705,152 | 3% + LIBOR | First Charge and 2 second charges | 3,995 | 31 | ? | ? | Tourism, Culture & Place improved offer | 36/70 | 3.75% |
| **Totals** | **£27,693,500** | **£97,909,152** | **4.56% average** | | **201,563** | **2,135** | **0** | **0** | **n/a** | | |

# 10. Approach to Risk

10.1 To assist decision making for investments the portfolio will be reviewed to establish how much risk the LEP Board is prepared to take when each proposal comes forward.

10.2 To manage the portfolio, the loans are RAG rated according to how they are performing as follows,

| RAG Rating | Description for classification purposes |
|---|---|
| Red | • New facility<br>• Unproven borrower or weak borrower creditworthiness<br>• Issues arising with the development<br>• Reliant on security valuations to cover amount drawn down<br>• Impact will be significant but risky proposition |
| Amber | • Facility not all drawn but development progressing in line with expectations<br>• Medium borrower creditworthiness<br>• Facility in process of repayment<br>• Security to cover the whole value of the loan from the start<br>• The benefit of Outputs and Impacts starting to be delivered |
| Green | • Facility being repaid to schedule<br>• Strong borrower creditworthiness<br>• Solid security from the start<br>• Outputs and impacts being delivered in line with expectations |

10.3 New loans will automatically be classed as Red, unless the borrower has a strong creditworthiness and security to cover the whole loan, in which case it will be classified as Amber. Otherwise, Red loans will over time move to Amber loans which will ultimately move to Green loans.

10.4 Going forward the spread of risk is based on a relatively equal split as follows,

30 % Red
40 % Amber
30 % Green

10.5 The spread of risk will be reviewed on an annual basis so that the Fund can respond to market forces.10.6 The current portfolio is rates as follows, 10.6 The current portfolio is rates as follows,

| Scheme | Value | Actually Drawn | Percentage of Fund | RAG Rating |
|---|---|---|---|---|
| | £2,000,000 | £2,000,000 | 10.3%/10.3% | |
| Cash | £17,378,944 | £2,000,000 | 89.7%/10.3% | |
| Pipeline schemes | | | | |
| | £1,600,000 | 0 | 8.3% | |
| | £1,500,000 | 0 | 7.7% | |
| | £750,000 | 0 | 3.9% | |
| Cash when funds drawn | £13,528,944 | | 69.8% | |

10.7 Currently 100% of the GPF is rated as green which is a secure position but it is not fulfilling the potential to create maximum impact.

10.8 When the pipeline schemes are drawn then the portfolio will look as follows,

30.2% Red
69.8% Green

# 11. Conclusion

11.1 GPF is the most significant resource that the LEP has available to unlock and support projects and going forward it will support a wide range of schemes that will contribute to the growth the Lancashire economy and close the economic performance gap through capital and revenue loan funding.

11.2 GPF now has the flexibility to extend beyond its current parameters and will support the Strategic Framework through a range of projects including,

- Continued capital development loan funding,
- Inward investment capital and revenue loan funding,
- Enterprise Zone capital funding
- Revenue funding to provide equity or loans through a Fund Manager as part of a collaboration of partners
- Closer alignment with LEP sectoral priorities, sector action plans and other public sector priorities

11.4 GPF has the potential to be more impactful by supporting other public sector initiatives such as Growth Deal, Getting Building Fund, Levelling Up Fund, UK shared Prosperity, Towns Fund along with any Local Authority schemes that address local needs. These schemes are also likely to support the LEP's sector groups and Strategic Framework in one way or another.

11.6 Public sector interventions have an impact on local areas which can often result in private sector activity thereby increasing the impact of the initial intervention.

11.5 The investment decision matrix will be used to score schemes to ensure consistency and confidence that schemes will support the Strategic Framework, sectoral priorities and wider public sector interventions. This matrix should deliver the outcomes that the LEP board are looking to achieve.

11.6 The pricing framework indicates the minimum interest rates that need to be applied plus the Bank of England base rate. The board may want to increase the rate if it wants to maximise income and if the investment could support a higher interest rate, mindful of the changing base rate.

11.7 The Investment Strategy takes into consideration the competing needs for funding to deliver the impacts that will contribute to closing the economic performance gap.

11.8 It is important that GPF is invested in schemes and working hard to improve the Lancashire economy rather than waiting for ideal projects to come along. When GPF is invested in schemes it is earning interest which can then be ploughed into other economy activity.

# Appendix A – GPF Flowchart

1. Expression of interest via website or email

2. Meet/call with applicant discuss funding need. Does proposal fit with Growing Places criteria? Advise what information is required.

3. Inform LEP Chief Executive. Advise Finance and Legal of interest.

4. Work with applicant to provide information for paper to board. Board to agree in principle loan. Draw up Heads of Terms; agree with Developer subject to Board approval.

5. Heads of Terms approved by LEP Board with instruction as to final approval before entering in the facility agreement.

6. Heads of Terms agreed and document signed.

7. Appoint legal, valuation and monitoring surveyor to draw up Growing Places documents and provide client with quote for fees.

8. Work with applicant to deliver Facility Agreement agreed by both parties.

9. Facility Agreement agreed through delegated authority approved by the board. Authorisation recorded.

10. Facility Agreement signed and sealed. Development and draw down of funds commence. Liaise with Borrower over challenges to build programme.

11. Monitor the development via monitoring surveyor's reports, site visits and draw down requests. Ensure that developer abides by the terms of the Facility Agreement.

12. Liaise with Borrower, Finance and Legal to ensure Borrower keeps to the terms of the Facility Agreement. Raise interest invoices, ensure Annual Accounts received from borrowers and send to Finance for comments. If any issues raised, address with Borrower.

**13. Loan Repaid**

**KEY**

GPF Team | External Legal Team | Developer | LEP Board

# Overview of application process

1. Applications come to the LEP via various means such as emails, telephone conversations, referrals from business support activities and website Expression of Interest.

2. Conversation between the applicant and the Commercial and Business Support Manager discuss scheme and check that it fits with the criteria of the Fund.

3. The Commercial and Business Support Manager works with the applicant to develop a business case for the LEP CEO.

4. Once CEO satisfied with quality of the proposal, work with the applicant and take a paper to board for agreement in principle to the loan. Finance (including section 151 officer) and legal to sign off board paper.

5. Work with applicant to agree Heads of Terms subject to LEP board approval. The board may delegate authority to the CEO, Company Secretary and Section 151 officer to sign off the Facility Agreement.

6. Both parties sign the Heads of Terms.

7. Appoint a valuer and monitoring surveyor and legal firm to draw up the Facility Agreement and do the Due Diligence. Do credit checks in house.

8. Work with the applicant, monitoring surveyor, valuer, internal and external legal teams to get the construction documents agreed.

9. Work with applicant, internal and external legal teams and finance to agree Facility Agreement. Once Conditions Precedent completed, the Facility Agreement and other security documents presented to the delegated authority for signature.

10. Facility Agreement signed/sealed. External lawyers to provide the Bible of documents. Development phase can commence and drawdowns as per the terms of the Facility Agreement.

11. Monitoring of the scheme commences with monthly reports from the monitoring surveyor and drawdown of funds. Any issues identified brought up with the borrower.

12. Annual interest invoices raised, annual accounts and any other terms of the facility agreement monitored to ensure compliance with the Facility Agreement.

13. Liaise with Finance and internal Legal team in relation to partial and full repayment of the loan.