Cheshire and Warrington
Local Enterprise Partnership

Paper for: Strategy Programme Board

Date: 11th October 2022

Agenda Item: Growing Places Fund

Request: To review the current approaches for the GPF and agree if any changes should be introduced.

Introduction

Following repayments to the fund by Cheshire Green and the EZ loan drawdowns, we are currently in a position where all GPF funds have been repaid. There is an opportunity to take stock and re-assess the role we want GPF to play before assessing recent applications. We should also consider the cash flow requirement to cover operating costs now that general government grants are reducing and LGF/GBF management fees have ceased.

Background

The Growing Places Fund was a £12.1M capital investment fund allocated to the LEP in 2012 by Government. It was released at a time of Government austerity and while banks were rebuilding balance sheets after the financial crisis and could be used flexibly, other than the restriction on capital, including as loans, grants or equity investments, although a strong steer was given to generate a revolving funding instrument. Within Cheshire and Warrington, the fund has been used for projects in the sub-region where the commercial lending market has either rejected the opportunity or offered terms which could not be agreed. Initially the support was for housing developments. Subsequently it supported infrastructure development e.g., access roads at Omega and Cheshire Green.

More recently the fund provided a temporary facility to accelerate grants to projects in the Enterprise Zone, whilst we finalised the loan agreements with the local authorities. Finally, in response to the covid pandemic, the board agreed use of the fund to provide small grants programmes to assist business adapting to new ways of operating and to facilitate the funding of Accelerate and business cases. These grant commitments have reduced the size of the available GPF fund to £9.7M.

In making use of the fund, we are mindful to cover the costs of operating the fund and of subsidy controls. The minimum rates of interest we can charge, provide a revenue income stream which contributes towards the costs of running the programme, including programme management, legal fees, due diligence and monitoring costs and accountable body charges. The timing of the receipts has therefore followed the expenditure incurred, often some considerable time later.

Future Uses

Historically our approach to the GPF has been on transacting relatively few deals in the range £0.5-£4M. We have not specified a minimum or maximum deal size, preferring to treat each application reactively on receipt and on a case-by-case basis. The fund has also never been fully deployed and opportunities have not been lost for reason of lack of funds.

Current Commitments

The only firm commitment on the GPF arises from the board's agreement for the LEP to contribute a minimum of £5M to a second life sciences fund (LSF2). The intention has been to meet that commitment from the returns expected from the first life sciences fund (LSF1) but in the event of timing differences between returns from LSF1 and investments into LSF2, or a shortfall in returns from LSF1, to underwrite the commitment from the GPF. Recent developments with LSF2 may require the £5M contribution to be made earlier than anticipated to secure additional investment into the LSF2.

In practice, this means we have £4.7M available and the question is how we should use it.

Options for discussion

- Should we be more explicit regarding the purposes we wish to fund, e.g.,
    - Vision focussed – Healthy, Sustainable, Inclusive, Growth
    - Output focussed - accelerate growth, create/retain jobs, numbers of houses, commercial floor space, support underperforming areas?
    - Sector focussed - Life Sciences, advanced manufacturing, carbon reduction, infrastructure?
- How will we identify projects? The options are (i) opportunistically (as is the case now) or (ii) to put out a call for projects. While a call might broaden the range of possible projects, it risks having to evaluate many more Expressions of Interest before determining which projects we wish to fund placing a burden on resources to complete several deals in a short time scale.
- What do we want to use GPF for?
    - Loan – has the advantage of security, known timescales and returns. Thus, generates an income to fund the operating costs of managing the fund. Once repaid, the funds are available for further deployment.
    - Equity – more likely to apply to early-stage businesses which cannot offer security. Returns and their timing cannot be guaranteed. Therefore, inherently higher risk transactions (than loans). The typical approach to manage equity investment risk is to invest in a portfolio which, with an available fund of £4.7M limits the number of investments which could be made. Some retention of funds is prudent to fund follow on raises of finance. Equity investment requires a greater expertise, understanding of the business and closer monitoring.
    - Grant – grant administration is relatively simple but can be challenging to monitor whether the associated outputs have been delivered. Once paid grants deplete the overall capacity of the fund. They also fail to generate a return to cover administrative costs.
- Should we set minimum / maximum levels for project or sector investment? Considerations are that deal costs can represent a significant % especially for smaller transactions. A maximum value limits our exposure risk to any one project.
- On the basis that the fund must cover its operating costs, we have the options to:
    - Rely solely on interest payments (which leaves the LEP to cover transaction costs up front)
    - Seek to cover transaction costs from prospective borrowers and (possibly) charge a lower interest rate? Transaction costs may be added to the loan.

    - Set rates which ensure the LEP recovers the interest lost by not holding the funds on deposit, the fund operating costs and does not constitute a subsidy.
- Our EoI / current criteria does not specifically address Sustainability, Inclusivity or Social Value. Should we add these to our evaluation?

<u>Current Expressions of Interest</u>

In recent weeks two expressions of interest for GPF borrowing have been received:

- Recresco - £1.5M (of £2.5M project) site refurbishment and energy efficiency.
- Cheshire Green Industrial Park - undefined of £7.5M project phase 2 development of access road and infrastructure. Seeking funding based on Loan to Cost or Loan to Value.

These first of these applications is addressed in a separate part B paper.