

Enterprise M3 Programme Management Group

17 March 2022

Enterprise M3 Future Capital Fund Update – Item 7

The Enterprise M3 Programme Management Group is asked to:

NOTE: The progress made in the development of the proposition for the future fund

AGREE: To recommend to the Board the aim and objectives of the fund and the approach to management

1. Background - Capital programme

1.1. We do not think that the LEP will hold a capital fund funded through government “deals” as it has done in the past. We will hold a Future Fund of around £30m that has been created through repayment of loans, around £5m will be available from April 2022. On average £3m will be available each year for the next 10 years for capital projects, although we may seek to negotiate a further capital to revenue swap with our Accountable Body. We will have the freedom to set policy directives for the fund, set criteria and any time constraints. This will allow us to operate the fund differently from previous years to benefit the local economy in line with the future vision of the LEP.

2. Approach to development

2.1. At the September 2021 PMG agreed a broad set of principles for the capital fund – see appendix 1. In summary we agreed to deliver fewer, but high-impact projects, develop projects in line with policy and business needs with a greater element of commissioning and joint development of projects. The agreed next steps were to develop the fund further, bringing to life what it could mean in practice and consult with partners.

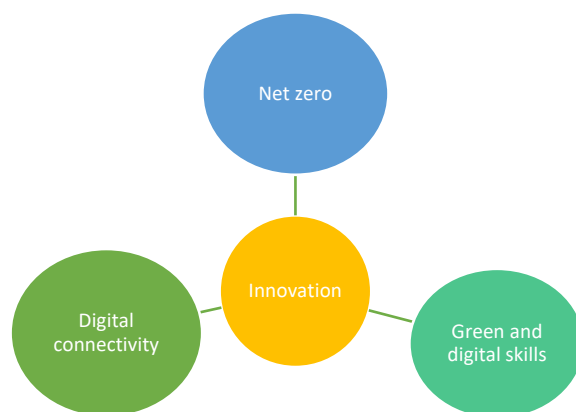
3. Engagement with partners

3.1. Over the past months, the team have been listening to a range of partners to hear their views on where the LEP adds value and where it should focus its smaller capital funds. Stakeholders have endorsed the criteria proposed, highlighting the following points:

- Support for net zero projects (this was consistently highlighted)
- Focus on skills is needed
- Focus should be on where the biggest impact can be seen – net zero / high street regeneration – ideally demonstrator / innovation projects for proof of concept
- Plug gaps where other funding sources aren't provided.
- Given the smaller amount of funding available, the need to be more selective in its use i.e. either fund one big project (eg Fibre spine) or smaller contributions to a few projects developed in partnership
- The fund is different to private investment as it should not be about profit. The fund can have much more public value ethos (eg Fibre spine)
- Use the fund to 'crowd in' other funding (LEP provides capital, partners provide revenue)
- Investment by the LEP to unlock project deliverability due to the confidence that investment by public sector brings
- Use the fund to work at scale and across boundaries encouraging collaboration between partners.

4. Proposition for the Future Fund

- 4.1. The proposition is based on economic analysis and board and stakeholder feedback. Economic analysis over the last few months has consistently highlighted the need for skilled workers in the green and digital industries. Also, digital connectivity remains an issue for business across much of the region – as is demonstrated in the Fibre Spine demand analysis. Stakeholders consistent view on the focus of the fund is that the LEP funding should foster innovation and give confidence to other funders for innovative projects. This has and continues to be a key strength of the LEP. Businesses require support to help their transition to net zero – this is evident in the data analysis and from listening to our stakeholders.
- 4.2. The proposition is to provide a capital investment fund that is tightly focussed on EM3's strategic priorities of clean growth, supporting the region's transition to net zero and to support our businesses to grow.
- 4.3. The main outcome from the fund will be to produce CO2 savings, to increase adoption by business in low carbon measures and to support growth and innovation in businesses.
- 4.4. The fund will have a tight focus on innovation; net zero; digital connectivity and the skills required to support these areas:



- 4.5. There are four themes, and projects must tick at least one of these boxes to progress (i.e. we would consider an exciting innovation project even if it wasn't particularly focused on clean growth/net zero).
- 4.6. As the fund is relatively small compared to previous years, it needs to work hard to ensure there is funding in future years. Instead of a largely grant-based programme, funding projects should be on the basis of seeking a return, either through loans (repayable with interest), equity, profit share or other forms of income generation. A key expectation will be to leverage as much match funding as possible from partners, private investment and other public sector grants or loans. An expectation could be specified within the requirements of the fund.
- 4.7. The desired outputs of the fund will be new and safeguarded jobs, CO2 savings, businesses supported, inward investment, and learners. Criteria for which projects will be assessed is proposed in appendix 2.

5. Fund management

- 5.1. We propose to manage the fund differently from previous years given the limited size of the fund. The LEP will launch with a series of conversation with partners. A theme throughout this development stage has been "commissioning" therefore to do this most effectively, early engagement and conversations with businesses, local authorities, 3rd Sector and FE/HE providers is essential in understanding possible projects to be funded and where this fund can be utilised against other available funds such as the UK Shared Prosperity Fund. Innovation is a strong theme for the LEP therefore developing 'proof of concept' or 'pilot'

projects with partners is now much more of a possibility than in previous Local Growth Fund rounds.

- 5.2. A small amount of funding requires a set of robust criteria to ensure only a small amount of quality bids are submitted or developed.
- 5.3. As there are no time constraints on the funding, it is not envisaged that there should be a deadline for the proposals to be submitted. Discussions will start with partners in the new financial year and project business cases developed accordingly. It is envisaged that the fund will be allocated to between 1 and 4 projects this financial year.
- 5.4. The Future Fund focus and approach should be reviewed periodically, and the guidance updated based on lessons learned from the previous year(s). This ensures that the fund remains agile and relevant.

6. Next steps

- 6.1. The proposition will need to be agreed by the Board, based on recommendations from PMG.
- 6.2. After approval, the discussions with partners will commence. The Pipeline of projects that is held by the LEP can be reviewed as part of these discussions, but this does not preclude the development of new or embryonic projects.

Lee Danson
Head of Planning, Programmes and Performance
10 March 2022

Appendix 1 – Principles of the fund

1. Make less money go further

- Need to make limited funds work harder – greater match funding and prioritise schemes with income generating potential

2. Focus on Innovation

- Focus on pilots and innovation that can lead to commercial schemes in the future
- Flexibility around timing enables support for projects requiring development time i.e. not just shovel-ready projects

3. Smaller numbers of larger-scale projects

- This will maximise impact of the funding and also reduce the processing costs associated with contracting and monitoring

4. Flow from strategic priorities

- Ensures any use really supports our increasing focus on business
- Revive & Renew: net zero at scale with strong links to business, and digital focus
- Focus can be on the priorities for the region – rather than prescribed on a national basis

5. Working in partnership / collaboration

- Working with partners to develop projects
- Develop emerging sectors and work with universities at securing deals/centres of activity
- Approach needs to be on co-development of schemes with a strong business focus

6. Commissioning approach

- Actively promote projects rather than asking for bids
- LEP having more ownership

Appendix 2 – Criteria for the fund

1.	Recyclable fund: There must be a return on all investments - eg through loan repayments/ return on investment or other. Allocation of grants will be for exceptional business cases. <i>pass/fail</i>
2.	Strategic focus: the extent to which the project will deliver the actions within the LIS and Revive & Renew. The project must demonstrate impact on at least 1 of the areas of focus - Green Skills, [Green places], Net zero, Digital. <i>pass/fail</i>
3.	Match funding: This is either capital or revenue and must be greater than 50% of the project value, unless exceptional circumstances <i>pass/fail</i>
4.	Level of funding: Funds available for projects between £1m and £5m
5.	Innovation: the extent to which proposals provide an innovative approach to maximising economic growth and explore new opportunities in particular where this involves co-investment with the private sector. Demonstrator project or pilot projects are
6.	Impact: Low carbon – high growth. Delivered through increased / safeguarded Jobs, new skills provision, GVA, CO2 savings, inward investment