

Full Council

27th March 2012

Coventry and Warwickshire Growing Places Fund

Recommendations

That Council:

- 1) Supports the strategy, scoring criteria, and process for the use of the Growing Places Fund as agreed by the CWLEP Board and as set out in the Prospectus in Appendix A;
- 2) Approves the addition of the capital element of the Growing Places Fund allocation (£8,497,970) to the 2012/ 2013 Capital Programme;
- 3) Authorises the Strategic Director for Communities to enter into relevant loan and other agreements for providing financial assistance under the Growing Places Fund on terms and conditions acceptable to the Strategic Director for Resources;
- 4) Approves the earmarking of receipts from the capital element of repayments for subsequent reinvestment into the Fund.

1.0 Background

- 1.1 Growing Places is a new £500 million scheme that is being jointly run by the Department for Communities and Local Government and the Department for Transport. The Fund has three overriding objectives:
 - To generate economic activity in the short term by addressing immediate infrastructure and site constraints and promoting the delivery of jobs and housing;
 - To allow local enterprise partnerships 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 investment.
- 1.2 There is an emphasis on the third objective, and an expectation that the Fund will be used to pump-prime infrastructure funds managed by the LEPs that will recycle funding by making repayable investments in projects, and reinvesting when money is returned to the Fund. For this reason, Council are asked to earmark all future receipts from the capital element of repayments to be re-invested into the Fund.
- 1.3 Following a submission of a Pre-Qualification Questionnaire in December, the Coventry and Warwickshire Local Enterprise Partnership (CWLEP) has now been allocated a one-off payment of **£8.671 million** through the Growing

Places Programme. A lead local authority is required to act as accountable body for the funding on behalf of the LEP and the Council will perform this role for Coventry and Warwickshire. Of the £8.671 million, up to 2% can be used as revenue grant to manage the Fund. Council are asked to approve the addition of the remaining 98% (£8.498 million).

- 1.4 Funding is un-ringfenced, and the only condition is that capital allocations are spent on capital projects. The Council will be responsible for submitting a statement to Government by 31 December 2012 confirming that this condition has been, or will be, adhered to. Up to 2% of the funding may also be used as resource (revenue) funding to help manage the Fund. Warwickshire County Council (as Accountable Body for the Fund) has also been asked to provide 6-monthly high level update reports to Government.
- 1.5 Council approval is needed for capital spending decisions in excess of £1.5 million. Approval was granted through Portfolio-Holder Decision Making on 19th December 2011 to submit the PQQ, and Cabinet (26th January 2012) authorised the Strategic Director for Communities to enter into relevant loan and other agreements for providing financial assistance under the Growing Places Fund on terms and conditions acceptable to the Strategic Director for Resources for decisions less than £1.5m.

2.0 Aim and Focus of the Coventry & Warwickshire Growing Places Fund

- 2.1 The Coventry & Warwickshire Growing Places Fund will seek to provide capital, repayable investment funding to stalled development projects that, with additional resources allocated through the Fund, have the ability to quickly generate jobs and economic growth. All types of land and property projects will be supported including infrastructure (highway improvements, site access, utilities, flood defence, etc), commercial/ industrial space, and new homes as part of mixed use developments.
- 2.2 The CWLEP Board (on 30th January 2012) agreed the following key criteria for the Coventry & Warwickshire Growing Places Fund, which sets the priorities and focus for the Fund:
 - Projects must be “shovel-ready” and able to generate sustainable employment quickly
 - Projects should be located in, or significantly contribute to, the Coventry and Warwickshire area
 - Projects should have outline planning consent and/or a reasonable expectation that full planning consent will be granted within 6 months (i.e. by the end September 2012). This will be checked with the relevant Local Planning Authority
 - To maximise economic impact from the Fund, projects should be looking for a minimum of £1m capital from the Growing Places Fund, and have total minimum spend in excess of £5m
- 2.3 The CWLEP’s preference is to provide either loans to developers (set at commercial rates so as to avoid breaching European State Aid regulations), or

to Forward Fund public infrastructure works by providing investment funding to the Local Planning Authority to undertake work in advance of receiving future funding from planning obligations from developers (or other sources). However, the Coventry & Warwickshire Growing Places Fund will also consider providing equity funding on a development and, in exceptional circumstances only, grant (non-repayable) funding.

3.0 Application and Appraisal Process

- 3.1 The Coventry & Warwickshire Growing Places Fund was launched on 19th March 2012 with an open call for projects. An application pack including a detailed prospectus for the Fund, the application form, a matrix of loan interest rates, and the standard funding agreements were published on the CWLEP website. The prospectus is available in **Appendix A**.
- 3.2 The Fund will operate a two-stage application process. The first stage is to submit the application form, which will then be subject to a basic eligibility check and then a more detailed assessment by the CWLEP Appraisal Panel. The CWLEP Appraisal Panel will have senior representatives from Warwickshire County Council, Coventry City Council, the District & Borough Councils, the Universities, the Chamber of Commerce, and the private sector. This appraisal panel will score projects against a range of criteria – including strategic fit; deliverability of the project; job outcomes; risk factors; timing of benefits; rate of return to the Fund; and wider economic, social and environmental benefits. Projects will be prioritised on the basis of these scores, and a shortlist of recommended projects drawn up.
- 3.3 Shortlisted projects will then enter a process of Due Dilligence, which will undertake a detailed financial appraisal of the project, an assessment of the financial standing of the applicant, and a review of the overall deliverability of the project. Upon successful completion of due diligence, Warwickshire County Council (as Accountable Body for the Fund) will then seek to enter into a contractual agreement with the applicant on terms acceptable to both parties and based on the Heads of Terms provided within the original Application Pack.
- 3.4 We hope to be in a position to begin to enter into our first funding agreements with applicants by late June/early July.

4.0 Issues and Risks for WCC

- 4.1 It should be noted that the Growing Places Fund is a resource made available to, and is directed by, the CWLEP. The strategy for the use of the Fund, the criteria against which projects will be approved and the subsequent recommendations for funding, are decided by the CWLEP Board. The Council is fully supportive of the CWLEP, and has two members on the Board (Cllr Alan Farnell and Cllr Alan Cockburn). In addition, senior officers are involved in the management and delivery of the CWLEP on a significant and ongoing basis.

- 4.2 The funding that has been allocated to Warwickshire County Council by Government is un-ringfenced, and the only requirement on us is that the capital allocation be spent on capital projects. There is no claw-back associated with the fund (so the Government cannot ask for the money back if developers are unable to repay the investments made by the Fund), and the risk of bad debt lies with the Fund, and not the Accountable Body (in other words, failure to recoup repayments back to the Fund simply reduces the size of the overall funding pot rather than placing any requirements on the County Council to replenish the resources).
- 4.3 The only financial risk on the Council is if the 2% revenue funding to support the management of the Fund is insufficient to cover our costs. However, initial modelling does not suggest that this will be a problem in the short-term, and in the longer-term it is expected that a proportion of interest repayments to Fund will be used to top-up the Programme Management revenue fund on an ongoing basis (as approved by Cabinet on 26th January 2012) . Complex and higher risk projects might place additional burdens on this Programme Management fund by requiring additional work and input, but the appraisal and due diligence process should effectively identify these projects and enable them to be properly risk-assessed. In addition, we are intending to charge successful applicants a small fee of £5,000 to help cover some of these costs and reduce the risk of insufficient resources for programme management. In the event of any such funding shortfall, it is expected that this would be met by Sustainable Communities Business Unit.
- 4.4 A detailed Risk Register is in place for the Fund, and an internal Project Board will be established to oversee its effective implementation.

Background Papers

1. Growing Places Fund Prospectus, Department for Communities and Local Government, November 2011
2. Coventry & Warwickshire Growing Places Fund Cabinet Paper (26th January 2012)

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Coventry & Warwickshire
GROWING PLACES FUND

Prospectus



Round 1 (20 March 2012)

COVENTRY & WARWICKSHIRE GROWING PLACES FUND - PROSPECTUS

1. INTRODUCTION

The Coventry & Warwickshire Local Enterprise Partnership (CWLEP) has launched an exciting new **£8.5m Investment Fund**, to help kick-start and accelerate economic growth and job creation in the local economy. The CWLEP are interested in development projects that require additional capital funding to enable them to come to fruition, and can quickly deliver tangible economic outcomes. It is expected that investments made by the CWLEP will be on a repayable basis, to enable a revolving fund to be established and provide significant on-going and long-term benefits to the Coventry & Warwickshire economy.

The CWLEP Board is now inviting applications from developers and other applicants. This prospectus provides more information on the fund and details of how to apply.

2. WHAT CAN BE FUNDED?

The CWLEP is seeking applications from stalled projects that will, following the injection of capital funding, be able to start or re-start quickly and unlock economic growth. All types of land and property projects will be supported including infrastructure (highway improvements, site access, utilities, flood defence, etc), commercial/ industrial space, and new homes as part of mixed use developments.

The CWLEP Board has set the following eligibility criteria for all projects seeking investment funding:

- Projects must be capital schemes that are ready to go and are able to generate sustainable employment quickly;
- Projects should be located in, or significantly contribute to the economy of, Coventry and Warwickshire;
- Projects should have outline planning consent and/or a reasonable expectation that full planning consent will be granted within 6 months (i.e. by the end September 2012). This will be checked with the relevant Local Planning Authority;
- To maximise economic impact from the Fund, projects should be looking for a minimum of £1m capital from the Growing Places Fund, and have total minimum spend in excess of £5m.

Projects that meet these criteria will then be assessed using the process detailed in Section 6 below.

3. WHAT FUNDING IS AVAILABLE?

Four types of funding are available. The CWLEP has a preference for loans and forward funding followed by equity. Gap (non-repayable grants) will only be considered in exceptional circumstances.

1. **Loans** – at market rates to developers/ landowners to be repaid on a basis agreed during any due diligence stage with a longstop date of March 2018. The interest will be calculated using the EC Reference Rate plus a margin calculated on the basis of an assessment, by the CWLEP as part of the due diligence process, of creditworthiness and collateralisation. An interest rate matrix using the latest EC Reference Rate is published separately, and is available on the CWLEP website.
2. **Forward funding** – Where the CWLEP provides funding against planning obligations that developers/ landowners have agreed to make toward the provision of infrastructure needed to unlock development. The funding agreement would be with the Local Planning Authority who would recoup the investment through the planning obligations process and re-pay the CWLEP. This model is only possible (due to State Aid) in some circumstances. For more information, see Section 8.
3. **Equity** – Where the CWLEP invests alongside the developer's equity investment. The CWLEP will not invest more than the developer. Once any loans are repaid, project receipts will be shared proportionately between the CWLEP and the developer (and other investors) in proportion to the level of initial investment. There would be a longstop repayment date of March 2018, although the CWLEP reserves the right to receive additional recovery after this date.
4. **Gap** – The CWLEP may, on an exceptional basis only, agree to issue (non-repayable) grants. Projects seeking gap funding must be able to demonstrate that all other funding models are not feasible and that they deliver significant economic benefits. Grants would be subject to the delivery of agreed outputs and clawback arrangements would apply. The CWLEP also reserves the right to negotiate overage arrangements.

The amount and type of funding ultimately offered to any project will reflect the CWLEP's assessment of the minimum support needed for the project to proceed and the level of risk involved.

The CWLEP's liability will always be limited to the value of its agreed investment.

4. FUND RECOVERY

Developer and partners will be expected to deliver the full project outputs and outcomes by an agreed date. All schemes will be managed on an open book basis. Contracted developers and other organisations will be required to provide quarterly reports covering construction progress and project cash flow updates. The project monitoring forms will be made available to shortlisted projects during the due diligence stage.

It is anticipated that re-payment will be required by the sooner of when the project is fully completed or a pre-agreed longstop date.

Developers and other organisations can opt to repay loans (including any accrued at the end of the agreement) or agree earlier phased repayment of loans. Any early repayment of loans will not incur an early settlement charge and any agreed interest payments will be adjusted in line with the revised repayment date.

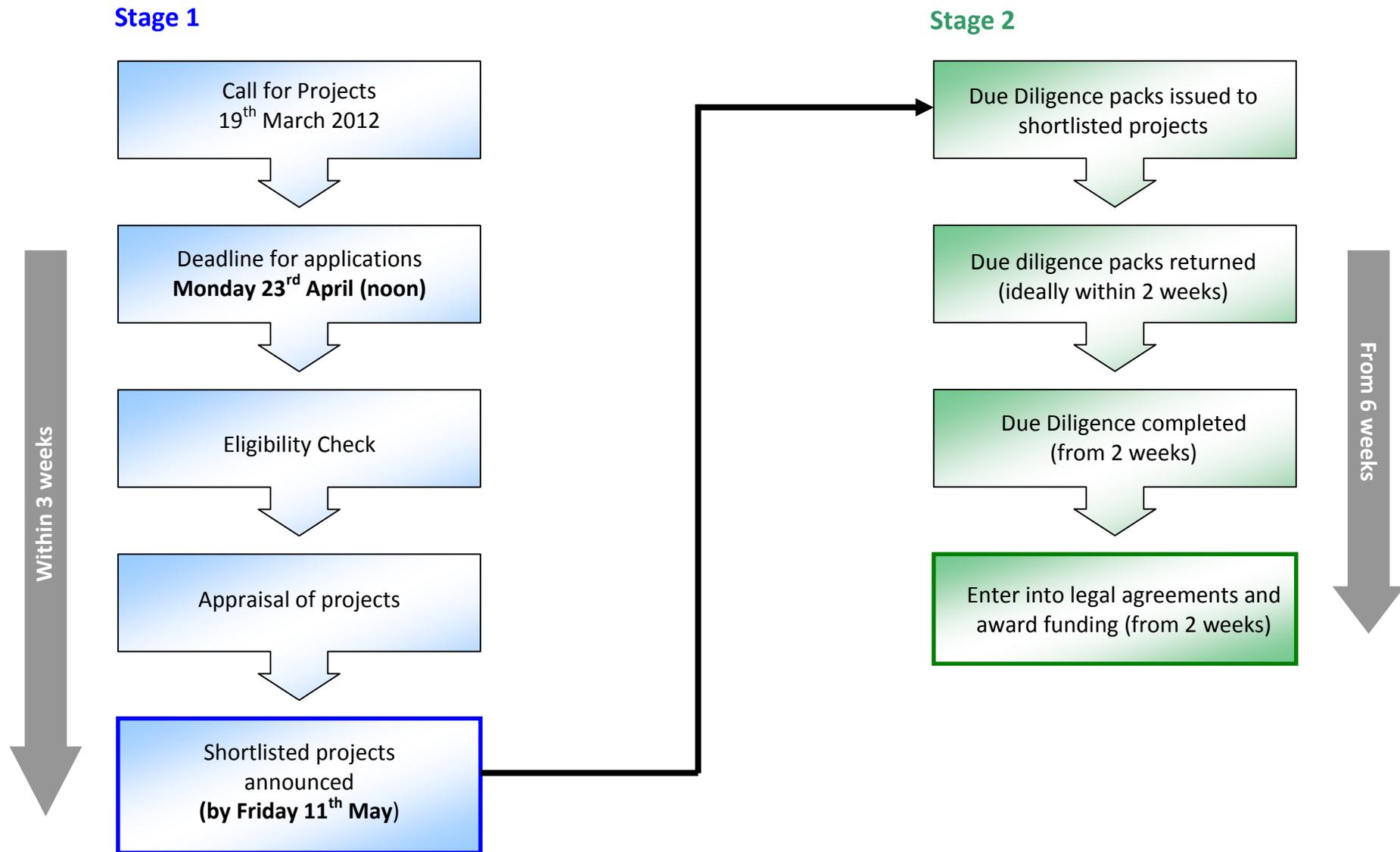
5. HOW TO APPLY?

The CWLEP has a straightforward two-stage application process. The first stage is the submission of a short application form by **Monday 23rd April 2012 (noon)**. This Application Form is published separately, and is available on the CWLEP website.

Applications will then have a quick eligibility check against the CWLEP criteria set out in Section 2 above. Applications that pass this stage will then undergo a more detailed first stage project appraisal to enable the CWLEP to score individual projects and shortlist the highest rated projects for due diligence. We intend to inform applicants of the outcome of this shortlisting process **within three weeks of the deadline (i.e. by Friday 11th May 2012)**.

The process and timetable for the appraisal of projects is detailed in Figure 1 below.

FIGURE 1: Appraisal Process for Applications to the C&W Growing Places Fund



6. DETAILS OF THE APPRAISAL PROCESS

6.1 Eligibility Check

All applications will go through a basic eligibility check against the following criteria set by the CWLEP Board:

- Projects must be capital schemes that are ready to go and are able to generate sustainable employment quickly;
- Projects should be located in, or significantly contribute to the economy of, Coventry and Warwickshire;
- Projects should be predominantly employment focussed. Mixed use schemes will be considered, but the CWLEP expects housing only developers to be applying to the separate “Get Britain Building” programme:
<http://www.homesandcommunities.co.uk/get-britain-building>;
- Projects should have outline planning consent and/or a reasonable expectation that full planning consent will be granted within 6 months (i.e. by the end September 2012). This will be checked with the relevant Local Planning Authority;
- To maximise economic impact from the Fund, projects should be looking for a minimum of £1m capital from the Growing Places Fund, and have total minimum spend in excess of £5m.

Project must be demonstrably capital, meaning that an investment:

- Must be used for the acquisition or enhancement of an identifiable asset with a life of more than one year;
- Can include the costs (excluding interest) of assets acquired under a finance lease;
- Cannot be used to fund assets where there is an expectation of immediate re-sale.

6.2 Project Appraisal

Eligible projects will then be objectively assessed and scored by a CWLEP Appraisal Panel, against the following criteria:

- **Strategic fit** – The extent to which a project supports one or more of the Key Ambitions in the CWLEP 5-Year Strategy and other local strategies & plans;
- **Deliverability** – The ability to demonstrate that a project is deliverable including the extent to which it has planning permissions and other legal consents in place, the adequacy of the funding package, and the risks to timely and successful delivery;
- **Start date** – Priority will be given to projects that are able to (re)start early. Particular priority will be given to projects that are able to re-start on site by 31 December 2012;

- **Timing of the benefits** – Priority will be given to projects that are able to deliver early economic benefits. Particular priority will be given to projects that are able to deliver the majority of their economic benefits within three years;
- **Private sector leverage** – The ability to lever other funding, in particular, private sector funding and the scale of the investment;
- **Jobs** – The cost per job created (in terms of funding from Growing Places), and the value (quality) of the jobs created;
- **Additionality** – The extent to which a project’s benefits will be realised without Growing Places (known as deadweight), the impact of Growing Places on the speed of the delivery of the economic benefits, and the extent to which the funding will shift economic activity from other areas (known as displacement);
- **Wider economic impact** – The project’s wider impact on the economy of the CWLEP area (i.e. will it help unlock or bring forward other development sites or economic activity, will it help grow a particular sector of the economy, knock-on impacts to other companies in a supply-chain, etc.);
- **Social impact** – The extent to which the project will have wider social or environmental benefits to the Coventry & Warwickshire area (e.g. providing employment opportunities in deprived areas, supporting people into work through apprenticeships, environmental sustainability, etc.);
- **Fund recycling** – The extent to which a project supports the CWLEP’s objective of establishing a sustainable revolving fund and the speed of the return to the Fund. Projects which can re-pay quickly will be given a higher priority.

The Coventry & Warwickshire Growing Places Fund application form has been designed to capture information on all these criteria, and will be used as the basis for any funding agreements subsequently offered by the Growing Places Fund.

The CWLEP Appraisal Panel will also consider shortlisted projects in respect of the overall funding available, the balance of risk of the portfolio, and the likely impact on the future use and sustainability of the Fund.

6.3 Due Diligence

Shortlisted projects will undergo a technical due diligence review by the CWLEP (and its advisors). Projects will need to satisfactorily complete the process before funding is awarded subject to contract. There will be three stages to the process:

Financial appraisal

The CWLEP will not fund projects which would still be funded and be able to ahead without investment from the Growing Places Fund. In other words, Growing Places Funding must not replace other funding options, and applicants must demonstrate

the need they have for investment from this fund. The CWLEP will also provide only the minimum funding required to allow the project to progress. The financial appraisal stage, therefore, will seek to:

- Appraise the project financial position and test underlying assumptions;
- Identify the minimum funding needed to unlock the development;
- Consider the most appropriate form of investment (loan, forward funding, equity, or grant);
- Evaluate the potential for recovery of the CWLEP's investment through loan repayment, interest, share of returns, overage, or other models;
- Independently value the developer's equity where an equity investment is being sought based on current market values;
- Understand pricing and marketing strategies for the project; and
- Understand and consider the financial, commercial and market risks associated with the project;

The CWLEP reserves the right to request additional financial information. The CWLEP will also, where appropriate, enter into a three-way dialogue with the applicant and other parties in order to discuss the viability of a project. For example, with the local planning authority, where the viability of a scheme is impacted by the scale of the planning obligations.

Financial standing

Applicants will be required to undergo a thorough review of their financial standing. The CWLEP will also consider the most appropriate form of security for the CWLEP's investment. This may involve the use of charges and guarantees as well as negotiation with existing financiers.

An assessment of credit worthiness and collateralisation will be required for all loan applications.

The CWLEP reserves the right to request additional financial information from any applicant. The CWLEP also reserves the right to take account of an applicant's track record on investment recovery

Deliverability

The CWLEP will undertake a risk assessment for each shortlisted project. This will review risks in relation to:

- The ability to (re)start on site including a review of title, planning and site constraints;
- The development programme and underlying assumptions; and
- The sales programme and underlying assumptions.

Due diligence pack

A due diligence pack will be issued to all shortlisted projects. Applicants will be expected to provide the following additional information and evidence:

- A detailed programme showing key milestones;
- Evidence of Section 106 agreements and other relevant consents;
- Finance plan (including any other public funding for the project);
- Evidence of bank (and other loan or equity investor) finance and the terms;
- Copy of the most recent published accounts and management accounts;
- Layout plan;
- Scheme drawings;
- Most recent site valuation; and
- A copy of their equal opportunities statement or policy.

The CWLEP also reserves the right to request further information or evidence from any applicant.

Due diligence costs

Projects which satisfactorily complete the process and are awarded funding will be required to make a fixed contribution of £5,000 towards the costs of the due diligence.

7. STANDARD FUNDING AGREEMENTS

The following standard funding agreements are available separately on the CWLEP web site.

Public to Public Funding

- Funding Agreement

Public to Private Funding

- Funding Agreement
- Inter-creditor Agreement
- Legal Charge
- Performance Bond

Equity Share Arrangements

- Schedule to Funding Agreement to deal with Equity Share Arrangements

Applicants are asked in the application form to indicate the amount of funding they are seeking under each of the investment types and also to confirm that if successful they are willing to enter into the relevant standard funding agreements.

A standard funding agreement relevant to gap funding projects will be made available, during the due diligence process, to any shortlisted projects seeking gap funding.

Warwickshire County Council, as accountable body for the Coventry & Warwickshire Growing Places Fund, will enter into all funding agreements on behalf of the CWLEP.

8. STATE AID

The CWLEP has to ensure that all financial arrangements under the Growing Places Fund comply with State Aid requirements.

Loans

In order to avoid direct arrangements with landowners/ developers constituting a State Aid, the CWLEP has decided that a commercial rate of interest will be payable on any loans provided. Interest rates will be calculated using the EC Reference Rate plus a margin calculated on the basis of an assessment, by the CWLEP as part of the due diligence process, of creditworthiness and collateralisation.

Forward funding

The state aid rules do not apply if financial support is from one public body to another public body to undertake activity that is for public benefit. Forward funding for infrastructure works to a Local Planning Authority through Growing Places Funding would not, in principle, be classed as State Aid if the aid is not to assist with an economic activity, it does not confer an advantage on a particular economic undertaking nor does it distort competition. These tests will be considered when the CWLEP is considering applications for forward funding.

Equity

In order for any equity investment to be compatible with State Aid, the general rule is that public investment should be on equal terms with the private sector investor. This means that any funding will be on genuinely commercial terms and the CWLEP will ensure that it is accepting the same risks and returns as the private sector.

Gap

Gap funding projects will need to comply with State Aid requirements (under either the General Block Exemption Regulation or a specific UK scheme). The Regulations give more information about geographical coverage, sectoral restrictions, eligibility in terms of the size of organisation (large, medium or small enterprises), and costs. Aid is likely to be limited to regional investment aid (only available in “assisted areas”) or SME investment aid (available in all areas). For specific details – including aid intensities, the ‘incentive effect’, and eligible costs – applicants must refer to the relevant part of the Regulations.

9. PUBLICITY REQUIREMENTS

Projects funded by the Coventry and Warwickshire Growing Places Fund will be required to acknowledge support from the CWLEP in all written material including press releases and public presentations.

10. DEADLINE FOR APPLICATIONS

The closing date for applications is **Monday 23rd April 2012 (noon)**. Applications must be submitted using the short application form available separately on the CWLEP web site. Applications should be submitted by email to: cwlepgrowingplaces@warwickshire.gov.uk.

11. ADDITIONAL INFORMATION

More information about the CWLEP and its 5-Year Strategy is available on the CWLEP web site: <http://www.cwlep.com>.

The Strategy is focused on three Key Ambitions:

1. Create an environment where it is easy for businesses to start, locate and thrive;
2. Accelerate the growth of our economy through targeted support in our key strategic sectors; and
3. Tackle the skills problem by aligning supply and demand.

Within Key Ambition 1, the Strategy highlights the importance of a clear, market-focused plan for infrastructure delivery to support economic growth and focus future inward investment activity. Work is currently ongoing to map current and future strategic sites, identify the barriers to bringing these sites forward, and to develop an economically-led transport strategy. Key Ambition 2 focuses CWLEP activity on helping grow those sectors in which Coventry and Warwickshire has clear strengths & specialisms and, therefore, real competitive advantages. This includes ensuring that we have the relevant sites, premises and infrastructure.

The Growing Places pages on the CWLEP web site will be regularly updated during the application process and applicants should check for any updates.

Any queries should be sent to the Growing Places mailbox. The email address is: cwlepgrowingplaces@warwickshire.gov.uk.

If this information is difficult to understand, we can provide it in another format, for example, in large print, on audio tape, or in another language. Please call us on 01926 412837 or email: cwlepgrowingplaces@warwickshire.gov.uk.