



# SEFUND - DESIGN PHASE

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South East LEP

March 2015

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# SEFUND – Background

CBRE has been appointed to undertake the feasibility and design stages of the SEFUND. CBRE submitted a Feasibility report during February 2015, and this Design stage report picks up on a number of the themes in that paper. The two documents should be read in conjunction with each other.

During the process, CBRE has presented at a wide range of meetings, from officer groups across the LEP area to meetings with chief executives and councillors. In general the concept of the Fund has been well received, and the principles of it at this stage are now widely understood across the LEP area.

The purpose of this report is to seek the recommendations to enable lawyers to create the Fund vehicles and to start the process of appointing a Fund Manager. The detail of the running of the Fund and the processes within it will be developed by the Fund Manager following the procurement process; however these two documents provide the framework for the Fund.

## Overview of Decisions to be Made

CBRE provides a number of recommendations throughout this document which need decisions to be taken upon. These can be summarised as follows:

Short Term Fund Management Appointment	To develop pipeline, manage and re-profile Growing Places investments
Adoption of Investment Strategy	Incorporating comments received, to be reviewed and developed by interim Fund Manager (and approved by SEFUND Investment Board) as project pipeline is developed
Fund is Constituted as an English Limited Partnership	With Essex CC as Limited Partner
General Partner Board to be made up of a finance officer and one other officer	GP Board requires the SEFUND Investment Board’s approval to take any significant or extraordinary decisions
SEFUND Investment Board to be appointed	To be reviewed in 12 months’ time; the LEP should be equally represented as the County and Unitary areas, each with one vote
County and Unitary Project Selection groups to be formed	It is expected that these groups may be those which are already formed and meet regularly.
Growing Places Fund to be vested in SEFUND and managed by the Interim Fund Manager	The Fund Manager will be expected to interrogate the Growing Places investments and committed projects, particularly where they aren’t drawing already or where they may not repay in time.

## Basic Premise for the Fund

The SEFUND is being set up as an instrument to support the South East LEP’s economic strategy, by providing finance for certain projects where bank funding is not available (referred to as “funding gap”, distinct from “grant funding” where a scheme is not viable). The Fund does not currently provide for grant funding, although SEFUND can be used alongside grant funding.

SEFUND will be one of a variety of tools available in the region to assist in delivering the LEP’s Strategic Economic Plan. It may be used alongside various local, national and European interventions which are regionally available.

The overarching ambition of the LEP’s economic strategy is to deliver:

## SEFUND – Background

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- 200,000 private sector jobs
- 100,000 new homes
- £10bn of investment

The Fund's Investment Strategy is designed to ensure that it contributes to these targets.

The underlying principle of selection of investments into developments by the Fund will be as follows:

- The development will assist in delivering one or more of the five key pan-LEP priorities, and the contribution to the overarching ambition of jobs, homes and investment.
- That the scheme is viable and carries appropriate risk - and where it isn't, engage with the local authority or project sponsor to consider how it could be assisted outside of the Fund.
- The proposed scheme's contribution to the economic strategy per £ of SEFUND investment (considering time value) is appropriate.

The Fund will evolve, as a better understanding of the type of projects in the region is garnered, the region's priorities change and as the private sector funding landscape changes. The Fund will also change in character as further funding pots are sourced, requiring the Investment Strategy to be varied to accommodate those sources of capital.

CBRE's Feasibility report found that there would be a market appetite from borrowers to use the SEFUND, and that the basic principle of investing capital that is allocated to the LEP through the proposed mechanism has a good chance of success. SEFUND will benefit from scale of investment over time as well as scalability of investment opportunity.

The Scope of Works for this commission targets an approval to proceed with SEFUND (including appointing a manager to take over the management of Growing Places capital) in March 2015. In order for the Fund to launch fully, there must be a procurement of the Fund Manager for a long term period. There also needs to be an interim appointment to further develop the Fund and its project pipeline, and to manage it until the main procurement is complete.

# Fund Design

## Overview

This section of the document deals with the following recommendations, which all require a decision:

- Investment Strategy – to adopt the current version at this stage, with the ability for the Fund Manager, once selected, to develop the proposal as projects are brought forwards.
- Legal Structure – Pinsent Masons has provided an overview and this has been discussed across Counties and Unitary authorities where possible.
- Description of both the SEFUND Investment Board and the General Partner Board, the make-up and the recommendation and voting processes.

In this section, CBRE presents the recommended approach to setting up and running the Fund, including the structures for decision making panels. In most instances, there are two levels to these recommendations; firstly, the actual structure and interaction between decision making groups, and secondly the make-up of those groups.

CBRE has provided a clear recommendation for the Fund design and structure, which the Board can vote on at the meeting on the 20<sup>th</sup> March. The actual make-up of these decision making boards may require further work in order to ensure that all stakeholders are represented.

## Investment Strategy

The draft Investment Strategy has been circulated across the LEP area for comments, which have been received and responses provided. This has enabled a finalised Investment Strategy to be produced.

The main elements of the Investment Strategy that were challenged are as follows:

- Capitalisation of the Fund – questions surrounding when the Growing Places capital will be available and the timing of the proposed schemes to use the capital and there is a gap. We also discussed other potential sources to close this gap, which this report deals with.
- Wider sector investments – the commentary within the Investment Strategy was challenged for suggesting that the Fund may only invest in Grade A office space, which has now been amended to ‘appropriate for location’ office space. The challenge has also been made that the Fund should be investing in town centres (potentially mixed use type of schemes). This has been accepted, but all investments will need to show that they contribute to the economic growth of the LEP area and will be assessed alongside other schemes and selected on their merits.
- Minimum size – The minimum investment size has been reduced to £1m from £2m.
- % Loan to cost – There was some confusion that the Fund may only invest up to 20% of development costs into any scheme. This is a misinterpretation; the intent is that no more than 20% of the Fund is invested in any one scheme.
- Repayment period – The repayment period of 3 years is, in CBRE’s experience, appropriate for a development loan. Refinance at year 3 is often cheaper for the developer, and certainly more obtainable, as the development risk (and hopefully some letting risk) has passed. The alternative is that the Developer sells the scheme, which is

# Fund Design

often their model in any case. This can be reviewed by the Fund Manager selected to manage the Fund over the next period.

- Local Authority (LA) backing – this simply gives the local authority group the ability to veto a project in their area at an early stage. It is not expected that the LA necessarily funds the scheme, or undertakes any due diligence.

The final version of this stage of Investment Strategy can be found at Appendix [xx].

**Recommendation** – We recommend that this current version of the Investment Strategy is adopted at this stage, with the ability for the Fund Manager to review it, in agreement with the SEFUND Investment Board during the next phase of the Fund development and on a regular basis (annually) during the running of the Fund.

## Legal Structure

Pinsent Masons, during the Feasibility Stage, has made a number of recommendations, in its report. The following recommendations should be read in conjunction with that report.

*“There are a number of available legal structures that could work here (appendix 1 sets out the key features of each of these vehicles and their advantages and disadvantages). However the preferred option is to structure SEFUND as a Limited Partnership. In this type of structure, there are two types of partners; Limited Partners (with limited liability) and at least one General Partner (with unlimited liability for the debts of the partnership). The General Partner would have a nominal investment interest in the SEFUND (typically this is set around 0.1% -1%).*

*To retain limited liability, the Limited Partners cannot be involved in day to day fund management - this will be delegated to the General Partner who will have management control. The General Partner will have actual authority as the agent of SEFUND to bind the Limited Partners in arrangements that are within the ordinary course of SEFUND's business.*

*The SEFUND will need to be operated by an FCA authorised entity. If the General Partner is not so authorised, SEFUND will also need to engage a separate fund manager to which the General Partner will delegate the majority of its functions. The appointment of the General Partner/fund manager will need to be competitively procured in accordance with the Public Contracts Regulations 2006.*

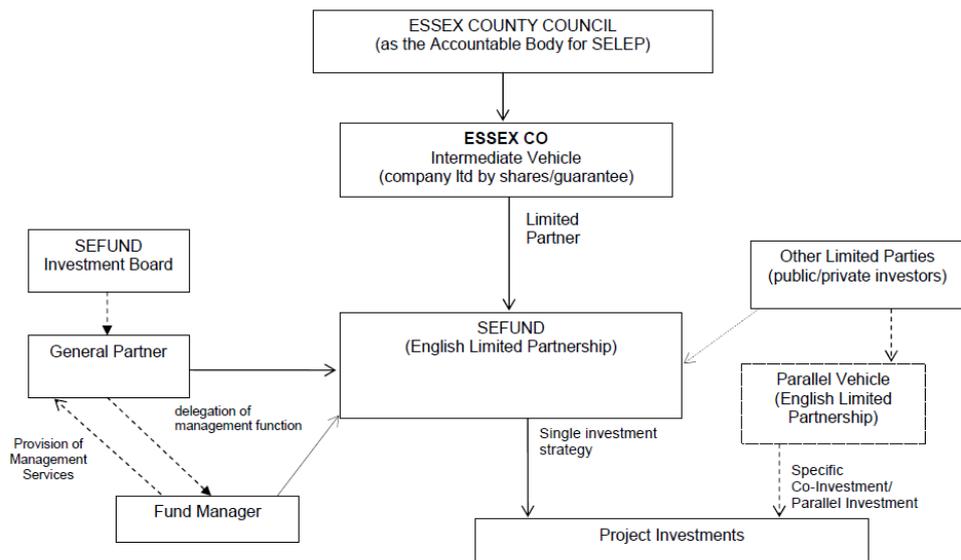
*The identity of the General Partner (and therefore whether or not there will be a separate fund manager) will be influenced by the tax analysis. The General Partner could either be:-*

- a. *a special purpose vehicle established solely to act as General Partner. The Partner(s) in SEFUND would also be shareholders of the General Partner (possibly through an intermediary vehicle). The General Partner could be set up as a company limited by shares (to afford its shareholders limited liability). In practice, to prevent General Partner governance arrangements becoming unwieldy (due to the number of shareholders), the General Partner would delegate the majority of its functions to the professional fund manager for operational efficiency. This also has the advantage of reducing Partner time commitments to SEFUND.*
- b. *the fund manager (or a member of its tax Group) for tax purposes. The Limited Partners would have a contractual nexus with the General Partner through the Partnership Agreement which would ensure appropriate governance mechanisms around operating SEFUND were in place. “*

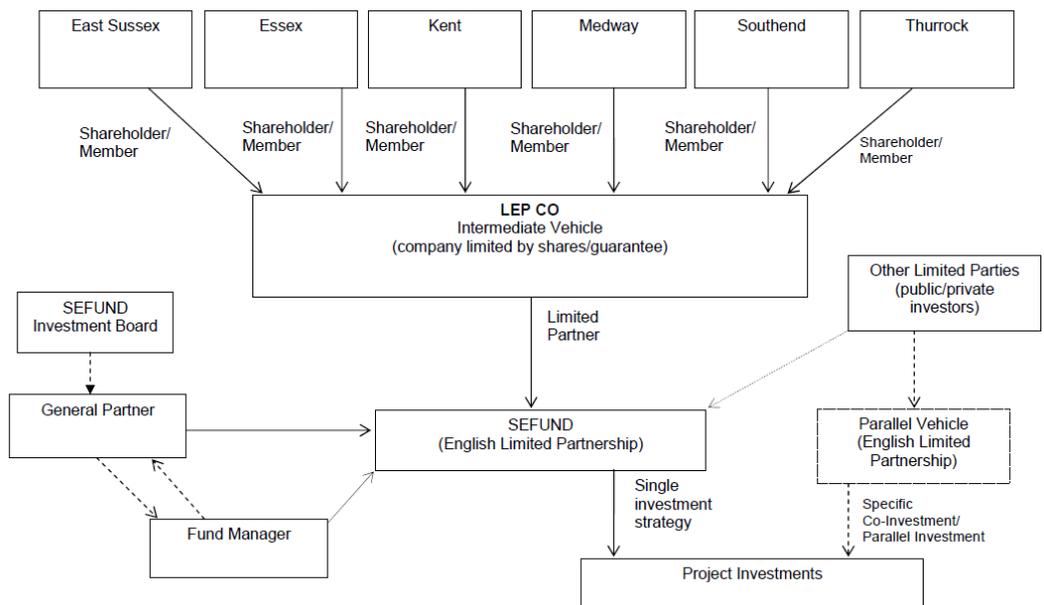
# Fund Design

Through Pinsent Masons work, the following two structures have been put forwards to the stakeholders which have been engaged through the process. The recommendation is that the Fund is operated as an English Limited Partnership, by either Essex County Council (as the accountable body for the LEP) (“Essex”) or all County and Unitary councils, through a limited company. The General Partner will make all operational decisions, based upon recommendations by the FCA regulated Fund Manager. The Limited Company (either owned by Essex or all Counties and Unitaries) will not be able to make any decisions as this would effect the limited liability status.

## Option 1



## Option 2



All capital within the Fund will belong to the Fund itself, and cannot be passed back to the Limited Partners; all interest and profit earned remains within the Fund, and any money

## Fund Design

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coming into the Fund for investment would ultimately revert to its original source if the Fund was broken up.

Because the Limited Partner cannot make decisions, and cannot benefit from any profit from the Fund, there is no advantage conveyed to the Fund "owner". The recommendation, for purposes of simplified admin, is that the Fund is administered through an Essex owned intermediary vehicle.

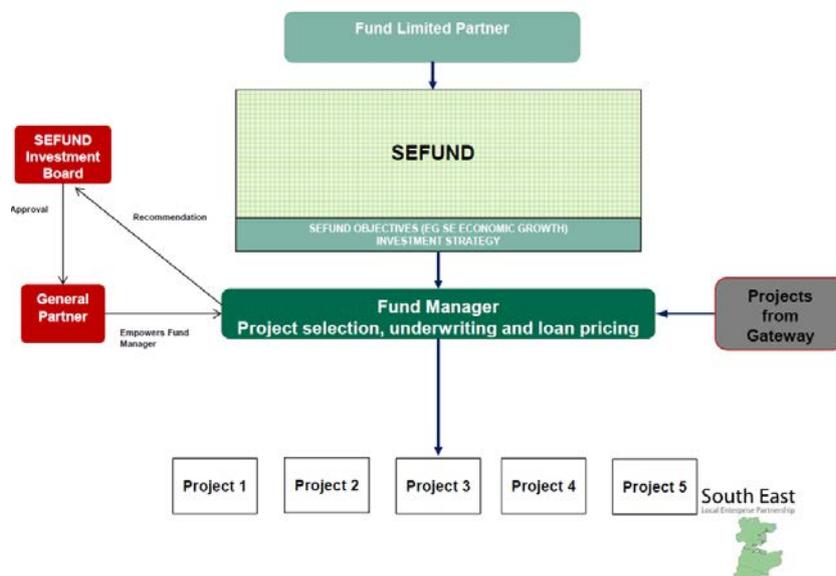
**Recommendation** –The Fund is constituted as an English Limited Partnership, in accordance with Pinsent Masons proposed structure, with Essex as the accountable body through an Essex owned intermediary vehicle. It is further recommended that Pinsent Masons is used to structure this Fund in order to continue reliance upon their advice.

# Decision Making Bodies

The Fund, as structured above, has three potential decision making bodies:

- Limited Partner – the Limited Partner is anticipated to be Essex County Council, acting through an intermediary company. Other than the usual extraordinary investor protection rights within the Fund (such as the right to remove the General Partner or fund manager) Essex will not be making decisions.
- SEFUND Investment Board – the SEFUND Investment Board will provide advice and recommendations to the General Partner. The General Partner will only be able to act on extraordinary or significant matters with the approval of the SEFUND Investment Board, in effect making the SEFUND Investment Board the key governance control, although it will have no legal status.
- General Partner – the General Partner will legally be the main decision making body, however it will only make decisions that it is permitted to do so under the terms of SEFUND’s constitutional documents and/or the Investment Strategy. This has the effect of making it administrative in function. In order that the Fund remains nimble, it is recommended that the General Partner Board has a small participation of say two officers, who are only able to act as follows:
  - Investment decisions may only be made following a recommendation by the Fund Manager, which has been ratified by the SEFUND Investment Board.
  - Strategic Fund Management decisions, such as revision of Investment Strategy, must be made following a recommendation by the Fund Manager, which has been ratified by the SEFUND Investment Board.
  - Tactical Fund Management decisions, such as payment of invoices for budgeted costs, may either be taken by the General Partner or delegated to the Fund Manager. The Fund Manager will appoint a Fund Administrator to undertake some of these administrative functions.
  - These restrictions effectively ensure that the GP role is simply an administrative role, and that the SEFUND Investment Board acts as a key governance control.

Relationship between the Limited Partner, General Partner and Fund Manager:



# Decision Making Bodies

**Recommendation** - The members of the General Partner Board are a finance officer and a development officer from ECC. The General Partner Board may only make extraordinary or significant decisions based upon recommendation by the SEFUND Investment Board.

## Decision Making Process

The basis of the decisions taken by the Fund will be in the Business Plan (incorporating the Investment Strategy and to be developed as part of the Fund Manager appointment process), which will set the overall principles of how it will be run for the year. This will be prepared by the Fund Manager in conjunction with the SEFUND Investment Board, and approved by the General Partner Board.

Individual investment decisions will be taken by the General Partner based upon recommendations provided by the Fund Manager.

Management decisions outside of individual project investments and the Business Plan will be taken by the General Partner Board on behalf of the Limited Partners.

Although the SEFUND Investment Board has no legal status within the SEFUND governance structure, the SEFUND Investment Board will provide the General Partner with a strategic overview of SEFUND.

The SEFUND Investment Board will review the Fund Manager’s Business Plan and will advise the GP on the evolution of the Investment Strategy at the specified intervals. The SEFUND Investment Board will also advise the GP whether projects accord with the Investment Strategy and fulfil certain gateway criteria before they enter initial and detailed due diligence stages. The General Partner will provide the final signed approval to invest in a project.

It is recommended that the composition of the SEFUND Investment Board consists of:

- One member from each of the County and Unitary Authorities, to be selected by the individual authorities.
- Six private sector LEP members, to be selected by the LEP.
- The Chair of the SEFUND Investment Board to be the Chair of the LEP.
- Observer positions on the Board may be offered to other stakeholders, for example Cabinet Office.

The SEFUND Investment Board will provide a conduit for strategic involvement in the fund at SELEP member level through the Chief Executives, Leaders and LEP Boards.

## SEFUND Investment Board Terms of Reference

The broad terms of reference for the SEFUND Investment Board are:

1. To provide a sifting mechanism for the projects that are brought to the Fund (be it by the Fund Manager, from the LEP, Local Authorities etc) to ensure that the projects are aligned with the wider objectives of the region.
2. To provide challenge to the Fund Manager’s funding proposals and to assist in developing a proposition that is appropriate for the Fund (based upon the Investment Strategy and Business Plan).
3. To provide a strategic view to the GP Board on the Fund.

# Decision Making Bodies

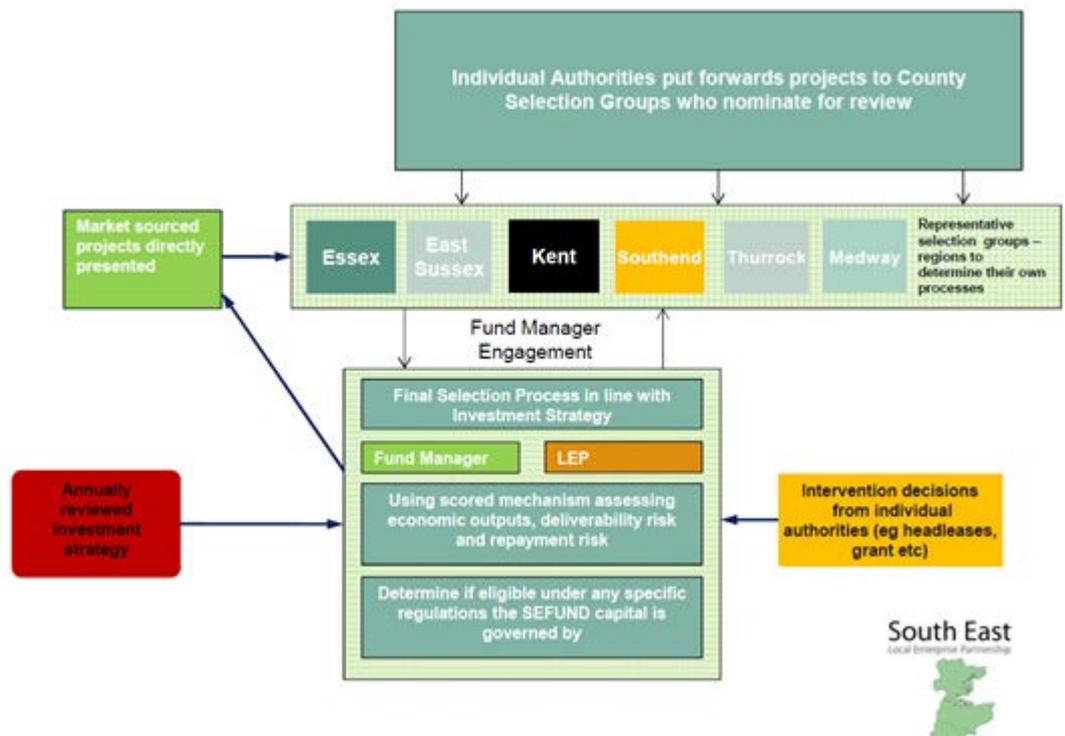
4. To provide comment and approval to the GP Board that recommendations made in initial and detailed due diligence stages of the investment process by the Fund Manager are appropriate to sign off.
5. There will be specific eligibility criteria for private sector LEP board members to avoid potential conflicts of interest.

**Recommendation** - that the SEFUND Investment Board is to be made up of a representative of each Unitary and County Authority, individuals to be elected by them, and a number of private sector LEP representatives, elected by the LEP. The Chair of the LEP to be the Chair of the SEFUND Investment Board. It is further recommended that there is a quorum of 8 (i.e. a vote must be made of at least 8 members) and that a minimum 75% majority of those voting must be in favour.

## Project Appraisal Process

The Fund Manager will source projects through the course of their business and directly through marketing of the Fund, however for the Fund to be a success it is important that the local authorities take ownership of and are challenged to bring forwards projects that are important to their regions. It is also important that the LEP area authorities retain control over the type of projects that are being put forwards.

This project gateway is well defined in the Feasibility study, and it is summarised as below:



**Recommendation** – the County and Unitary Authorities are tasked with nominating their representative groups. It is expected that groups which already exist and meet regularly will be used for this process.

## Sources of Capital and Seeding the Fund

During its initial phase, the Fund is to be capitalised by the Growing Places money that is currently being invested across the region. The repayment schedule is detailed below. The Fund Manager will be expected to take over the management of those investments, and re-prioritise investment as required. At present, the capital returns from the Growing Places Fund for the LEP area is as follows (as provided by Essex County Council):

<b>South East LEP Growing Places Fund</b>	
Repayments due by financial year (April to March)	
	£000
2014/15	500
2015/16	3,275
2016/17	3,085
2017/18	3,480
2018/19	8,249
2019/20	10,120
2020/21	7,350
2021/22	3,700
<b>Total</b>	<b>39,759</b>
Amounts yet to be profiled	8,430
Grants not be repaid	1,021
<b>Total</b>	<b>49,210</b>

The Fund Manager is expected to seek to improve this profile. This approach will be required to ensure that the Fund has sufficient capital to be viable.

### ERDF

CBRE has reviewed the potential for some ERDF contribution to this Fund from the LEP area allocation. Whilst the Fund will be structured such that this is possible, a critical mass of capital will be required to ensure that all the set up and management requirements are worth processing. It is considered that the “matched” size of the Fund would need to be in excess of £20m for this to be appropriate. This could potentially be achieved by using Growing Places money to match Access to Finance ERDF capital; however there appear to be calls on the available cash across the LEP area for other projects. The Fund is to remain open minded in this regard, as it may be that the timescales to defray that ERDF money become challenging for the existing schemes, and in which case the money should be diverted to the Fund to invest it.

# Sources of Capital and Seeding the Fund

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## University Investment

The nine universities in the LEP region have notionally allocated £100m, which can be accessed by SEFUND projects. Over time, this type of public/private capital could make use of the Fund and its investment and decision making infrastructure as a vehicle to make its investments.

## Other Private Sector Capital

As we have reported in the feasibility, the Fund is unlikely to either be able to or wish to attract Fund level investment at this stage. The structure of the Fund is such that it is designed to be able to work alongside another investor, and so that project level investment is encouraged.

## HCA and Housing Capital

The Fund has no housing investment capital at present. The interim Fund Manager is encouraged to work with the HCA to try and attract some of the recyclable investment fund capital from the HCA. Greater Manchester recently secured £300m of HCA capital which will be invested by a fund similar to SEFUND. This model could be very attractive to the SELEP region.

## Local Authority Investment

Local Authorities will be welcomed to use the SEFUND framework, once it has been developed, to deploy its own capital. It may be that sub funds, or a ring fenced funds will need to be created in order to protect their capital, but the Fund Manager should be procured so that this is possible. The Local Authorities would then have access to proven fund management capacity, with relative low cost to entry to use the due diligence structure and project support, and the ability to ring fence their own capital.

The SEFUND scope for the commission of this work notes that local authority support continues to be critical and member councils have already in principle jointly committed £250m of investment at project level to SEFUND schemes.

## Future Central Government Funding

Government policy has long reflected that financial instruments such as SEFUND are to be encouraged, and once the Fund vehicle has been created, it will be used when making bids to Central Government for additional funding; for example Local Growth Fund or whatever the next iteration under the next Government will be is to be targeted.

**Recommendation** – An interim Fund Management appointment is made to manage the Fund during the procurement process for the long term Fund Manager. This appointment is to be for 12-24 months, and to include developing a pipeline, develop potential other sources of finance, and undertaking a review of the Growing Places investments, and to manage those investments. The interim Fund Manager will be required to provide professional financing support for projects in the SELEP region.

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# APPENDICES

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# Appendix 1 - Investment Strategy – SEFUND

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## INVESTMENT STRATEGY – SEFUND

### Foreword

This investment strategy is the second iteration produced by CBRE, and is intended to support the SEFUND Design recommendations submitted to the South East LEP board on the 20<sup>th</sup> March 2015. As explicit in the Design recommendations, the recommendation is that this Investment Strategy is the final version that the interim Fund Manager will work to; the Fund Manager will have the opportunity to recommend revisions to the Investment Strategy to the SEFUND board towards the end of their commission, which is expected to be in December 2015.

This revision point will be important as the interim Fund Manager has the opportunity to develop the pipeline. The Fund Manager may have access to other sources of capital over the period, and this may also necessitate a review of the Investment Strategy.

### Background

The SEFUND is being set up as an instrument to support the South East LEP's economic strategy, by providing finance for certain projects where bank funding is not available (referred to as "funding gap", distinct from "grant funding" where a scheme is not viable). The mandate does not currently provide for grant funding, although SEFUND can be used alongside grant funding.

SEFUND will be one of a variety of tools available in the region to assist in delivering the LEP's Strategic Economic Plan. It may be used alongside various local, national and European interventions that are regionally available.

The overarching ambition of the LEP's economic strategy is to deliver:

- 200,000 private sector jobs
- 100,000 new homes
- £10bn of investment

The purpose of the Investment Strategy is to provide a tool for the Fund Manager to assess projects and make recommendations for investments contributing to this, and for the SEFUND board to use as a reference document when approving those recommendations.

The Fund is to be structured with the purpose of delivering this economic strategy, not to make a profit for individual local government participants. Because of this, the Fund is to be structured for ten years, with the ability to renew for ten years an indefinite number of times. All profit is to be retained by the Fund.

The exit strategy for the Fund will be that the money is returned in accordance with the regulation for the individual sources. For example this may be retaining it within the LEP as per Growing Places loans that are repaid, or back to DCLG if it is ERDF capital.

This does not stop any local authorities participating in a scheme alongside the SEFUND and making profit, but that remains a matter for that authority and SEFUND will be independent from that scheme other than as a lender.

This is important for the legal structuring the Fund itself, the reasons for which will be reviewed in more detail elsewhere during the viability process.

### Purpose of the Investment Strategy

The Investment Strategy exists in basic terms to measure projects against and to ensure that they are appropriate for the Fund to invest in. The Investment Strategy will be reviewed annually.

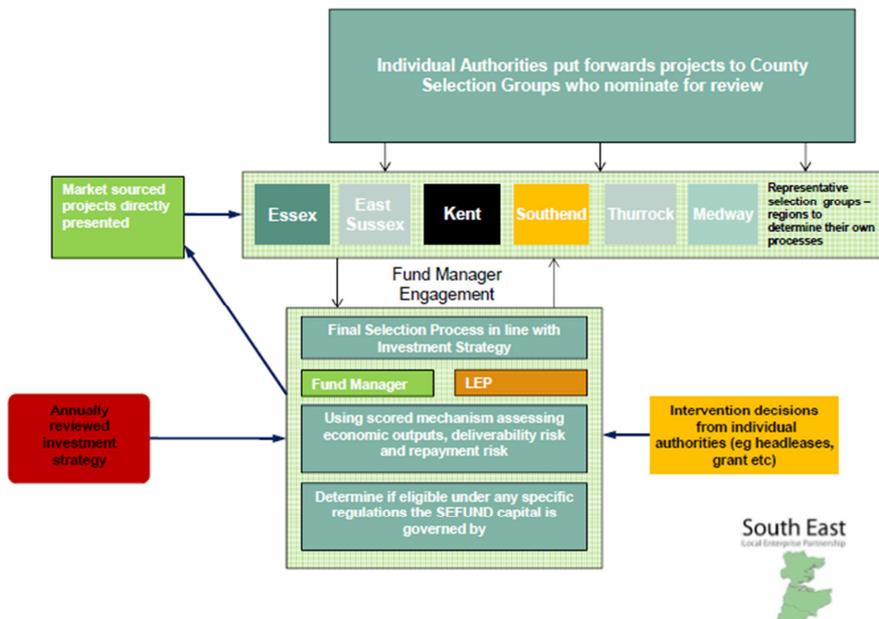
The underlying principle of selection of investments by the Fund will be as follows:

- Determine how the development will assist in delivering one or more of the five key pan-LEP priorities, and the contribution to the overarching ambition of jobs, homes and investment.
- Ensure that the scheme is viable and carries appropriate risk - and where it is not viable, to engage with the local authority or project sponsor to consider how it could be assisted outside of the Fund.
- Provide comparison of the proposed investment against other potential investments; including the proposed scheme’s contribution to the economic strategy per £ of SEFUND investment (considering time value as well); and the comparative risks of delivery and repayment.

The Investment Strategy will evolve through the Fund lifecycle, as a better understanding of the type of projects in the region is garnered, the regions priorities vary and as the private sector funding landscape changes over time.

### Sourcing of Projects

The Fund Manager will source projects through the course of their business and directly through marketing of the Fund, however for the Fund to be a success it is important that the local authorities take ownership of project sourcing in their areas, and are challenged to bring forwards projects that are important to their regions. It is also important that the LEP area authorities retain control over the type of projects that are being put forwards, and this approach enables this.



## SE LEP Five Priorities

The Strategic Economic Plan for the LEP identifies five key pan-LEP priorities:

### 1. Accelerating Growth: Enterprise and Innovation

The LEP has a high proportion of people employed working in public services, education and health and one of the priorities for the LEP will be to support growth in high value sectors. Particular sectors to note are; a) Life sciences and medical technology, b) Advanced manufacturing, c) Logistics and d) The low carbon economy.

### 2. Creating Competitive Locations: Infrastructure and Property

In the Economic Strategy the LEP identifies that “there is a real problem, particularly in town centres, of obsolete commercial buildings and a shortage of Grade A office space. This is a real barrier to the expansion of the knowledge economy and also undermines the economic health of many town centres.”

The SE LEP area has less office space per resident than the national average and the LEP area has seen a decline in industrial floor space (not as fast as the national average) while conversely the office floor space has increased but not as fast as the national average.

Coastal areas in particular suffer from poor transport links. The Strategic Economic Plan sets out the requirements for strengthening transport infrastructure to unlock development and economic growth of the LEP area as well the London economy.

The LEP sea ports contribute significantly to the import and export of goods to the UK (nationally 95% of the UK’s imports and exports pass through the country’s ports, representing 75% of trade by value) and the LEP places priority on the ongoing investment into the infrastructure networks that support the sea ports in the LEP. CBRE considers that airports should be considered in parallel.

Enterprise zones in Harlow and Discovery park are identified as opportunities to support the SE LEP growth plans and the provision of high quality, modern business space to attract inward investment and the ‘21st century workforce’.

### 3. Building a 21st Century Workforce

A skills gap exists in the SE LEP area and reducing this gap will be “vital to enable companies in the LEP area to grow”. The economic strategy outlines the importance of increasing apprenticeships through incentivising employers and focussing on higher apprenticeships and internships.

### 4. Enabling Housing Growth

Ensuring sufficient land is provided for in local plans and how best to bring forward public land for development.

### 5. Investing in Transport Growth Corridor

Focusing growth on 12 growth areas – this is excluded in the submission for ESIF and therefore will be viewed as a cross cutting ambition.

## Type of Investment Projects

Within the scope of the Fund as it is currently proposed, and following tried and tested investment approaches that have proven successful elsewhere, there are clear areas where the SEFUND can be sensibly focused.

Individual ideas for strategic investments are for the LEP to bring forwards through the Project Sourcing process, building on work that has been done for the Strategic Economic Plan.

- Accelerating Growth and Supporting High Value Sectors
  - Early stage investment in real estate infrastructure to support these sectors. Schemes including life science and medical facilities, advanced manufacturing premises, logistics and low carbon have all been invested in other regions by similar funds; these types of investment have been shown to be deliverable and accretive to the economies surrounding their locations.
- Competitive Locations
  - Placemaking is an essential part of making locations competitive. This is often an early part of an investment strategy for a location, and creates the environment to deliver the appropriate business space.
  - We have evidenced elsewhere that the part speculative provision of Grade A office space in appropriate locations (and associated placemaking) has led to major employers being attracted to those locations and retained to the region; equally the provision of industrial floor space, or infrastructure to service plots, within manufacturing parks has enabled new suppliers to mobilise on the parks quickly as market conditions have changed, thus encouraging the pick up in local economies.
  - As important as Grade A office space is employment space that is appropriate for that location, to enable sectors and business types strong in that region to prosper.
  - Real estate infrastructure surrounding sea and air ports, enabling business to access the associated benefits more easily and to maintain the region’s market share of import and export.
  - Enterprise Zones – should be targeted for potential projects.
- Building a 21st Century Workforce
  - The economic strategy outlines the importance of increasing apprenticeships through incentivising employers and focusing on higher apprenticeships and internships, and the Fund must support this by every borrower requiring that suitable apprenticeship and upskilling training scheme is put in place by its contractors.
- Housing Growth
  - A parallel and complementary strategy required to deliver the objectives of SEFUND, potentially ringfenced and focusing on Housing Companies, interaction with public owned land and any HCA funding that could be devolved to deliver housing requirements.
  - Public sector investment minimized and all schemes to support regional housing policy requirements (ie more focused and controlled by the region).
  - Town centre and placemaking to be influenced as part of this strategy. Interdependence with London to be considered.
  - This limb of the Fund is to be developed as discussions with the HCA progress.
- Investing in Transport Growth Corridor

- As for skills growth, this is an overarching position that becomes a Cross Cutting Theme and is to be viewed as desirable across all projects.

Investment types are therefore likely to be as follows (for discussion):

Investment Type	Economic Strategy Key Area	Cross Cutting Theme
Appropriate for location Office space	Competitive Locations	Placemaking Town Centres
Site Servicing for Logistics, Advanced Manufacturing, etc	Accelerating Growth; Competitive Locations.	21 <sup>st</sup> Century Workforce - Across all investments, contractors should be required to have appropriate apprenticeship schemes  Leverage of private sector investment to reach £6bn target
Logistics and Manufacturing Units	Accelerating Growth; Competitive Locations.	
Logistics, Manufacturing Units and Office supporting/supported by sea and air ports	Accelerating Growth; Competitive Locations.	
Low Carbon schemes	Accelerating Growth	
Real estate to support High Value Sectors	Accelerating Growth	Investing in the Transport Growth Corridor
Housing delivery	Housing delivery	

Therefore the contribution of projects to the above priorities could be measured by creating Fund level “Output” targets for the Fund, with varying targets depending upon the importance of the specific Output to the SE LEP area. These will be as follows, and are to be quantified as part of the feasibility process:

Output	Target
Jobs created and supported by provision of real estate	TBC
Homes delivered	[this will depend upon whether any housing focused capital is attracted into the Fund]
Amount of potential Grade A or appropriate for location work space provided (including enabling)	TBC
% Leverage of third party investment	TBC
Brownfield land reuse	TBC

These can then be used to drive a selection process. This will be dealt with in more detail, however the matrix below shows how the selection process can be used to select projects that offer the most in terms of outputs, but are still appropriate for the Fund. This matrix is

an example, and will need to be worked up properly by the interim Fund Manager as the pipeline is developed.

This shows the importance that outputs can be given in comparison to the other factors that a Fund Manager may consider when pricing a loan. The weighting could be varied, but it would potentially be undesirable in risk terms to increase the Employment and Regen section to greater than 35%. The table is indicative, and would ultimately need to be cross checked against the rate available in the market to ensure State Aid compliance (or proxy rates, as to be strictly in line with strategy it is likely to be the case that market lending is not to be displaced, therefore there would be no market comparison available.)

Area	Considerations (but not limited to)	Score (1 - 5)	Weighting	Weighted Score
Employment and Regeneration (outputs)	<ul style="list-style-type: none"> <li>Placemaking</li> <li>Output numbers in required areas (Grade A space, jobs etc)</li> <li>Ability for urban regeneration with a specific focus on support for entrepreneurship, local employment generation and community economic development.</li> <li>Brownfield site regeneration.</li> <li>Geographic and sector balance (end user job creation).</li> <li>Timing and ability to recycle loan into additional regeneration and job creating projects</li> <li>Demonstration of contribution to skills training</li> </ul>		TBD	
Scheme Feasibility	<ul style="list-style-type: none"> <li>Experience generally and specifically relating to the proposed project.</li> <li>Integrity of the borrower.</li> <li>Resource capability, quality and commitment.</li> <li>How many other projects are being undertaken and what is the time line of these.</li> <li>Financial status and analysis of key balance sheet, P&amp;L and cash ratios.</li> </ul>		TBD	
Construction & Market Characteristics	<ul style="list-style-type: none"> <li>Location – development being delivered into a liquid market with good tenant demand.</li> <li>Building quality – suitability for end users, BREEAM rating etc.</li> <li>Project Team - Quality of the project team, including the main and sub contractors. Availabilities of warranties and duties of care for the team.</li> <li>Type of building contract being employed.</li> </ul>		TBD	
Capital and Leverage	<ul style="list-style-type: none"> <li>Quantum</li> <li>Financial leverage</li> <li>Additionality</li> <li>Feasibility</li> </ul>		TBD	
<b>Total</b>				

**Basis for Investment**

- Never to supplant private finance.
- To support and leverage private sector and local authority investment.

- State Aid compliant (ie market rate with potential to use a State Aid scheme in the future if required).
- No more than 20% of the total Fund capital in each project (eg if the Fund size is £50m, the maximum loan size would be £10m).
- No more than 30% of the Fund lent to one borrower or group of borrowers (eg if the Fund size is £50m, the maximum loan size would be £15m).
- Schemes must be approved by their Local Authority.
- Investment minimum size to be c.£1m.
- Maximum investment period 3 years (to be reviewed by Fund Manager as pipeline is developed).

### **Match Funding**

We will need to consider whether there is a maximum % Fund investment in any scheme to ensure leverage. This is to be reviewed against sample projects to determine if appropriate, and will in any case be a metric by which projects can be prioritised.

### **Where Schemes have a Viability Gap**

The Fund is structured to provide lending where schemes cannot source finance, rather than where there is a viability gap. It is anticipated that where schemes have a viability gap, the project sponsor will need to consider complementary methods of approving the viability; there are various interventions that could be considered alongside the SEFUND (which will still be required to provide finance where a traditional lender would not.) The Fund Manager should be involved as early as possible with these discussions to ensure that the minimum intervention necessary is employed. These have included elsewhere:

- ERDF grant.
- Central Government grant (Pinch Point etc).
- Council providing a Put Option to the developer at the loan level, thus providing security of exit.
- Council pre purchasing or pre letting.
- Council guaranteeing a rental level for a short period.
- Local Growth Fund, Growing Places (and successors to those schemes) intervention.