***STOKE-ON-TRENT AND STAFFORDSHIRE***

***LOCAL ENTERPRISE PARTNERSHIP LTD***

***BOARD MEETING 20 June 2019***

***CONFIDENTIAL***

***Report of the Chair of the Audit and Finance Committee***

***Growing Places Fund***

* ***Enforcement of security on loan – Keele University IC7***
* ***Approval of recommendation by GPF panel for application to go forward to contracting - Blythe Park, Cresswell Extension***
* ***Approval of recommendation by GPF panel for acceptance of risk around equity value – Canalside Farm***

1. **University of Keele – IC7**

1.1 A Business Case was submitted to the SSLEP by University of Keele in response to part 1 of an Open Call inviting organisations across the SSLEP area to submit applications which met the qualifying criteria for Growth Deal funding.

*£2.9m was identified as being immediately available for “shovel ready” projects that are fully worked up and able to submit a robust business case;*

1.2 The schemes applying to the fund were examined and debated by Programme Assurance Group (PAG), and consequently of the 33 applications for grant assistance, 6 schemes were shortlisted and their promoters invited to provide brief presentations to January SPMG. The 6 shortlisted schemed accounted for a total grant request of £7,340,000, against an available pot of £2.9m. One of these applications was University of Keele, with a request for £910,000 to contribute towards the design and development costs of Innovation Centre Seven.

As this was a competitive bidding process, University of Keele was denied Growth Deal grant in favour of other projects, with SPMG recommending to Executive Board that University of Keele should instead be offered a loan via Growing Places fund.

1.3 At the SSLEP Executive Board meeting on 14th February 2019, the application from University of Keele was directed to Growing Places fund for consideration of a loan for £910,000 **subject to due diligence**. Minutes from the SSLEP Executive Board Meeting state - *“The board agreed that … IC7 should go forward to GPF due diligence relating to an offer of loan funding”.* (Appendix 1)

As a result the Growing Places Fund manager began the process of conducting due diligence checks in accordance with the directive of the board. Since Growing Places Fund loan is a revolving fund, the fundamental element to the due diligence check is to ensure that there is adequate security in place to ensure the security of the loan. This is typically in the form of a commercial Bond; 1st or 2nd charge on a suitable asset or a Parent Company Guarantee. The applicant responded to this request as follows –

*“The University (or its subsidiaries) do not provide security to any of its' lenders and the lenders provide funding/investment on the basis of it being unsecured and that the University will not offer security to any other organisation”.* And that *“We were informed by the LEP following the panel on the 29th January that security would be against tenant income”.* (The secretariat held no discussions with the applicant in respect of terms and conditions of the GPF).

1.4 Whilst the application is in the name of University of Keele as the ultimate holding company, initial checks, following the issue of Experian reports indicate that there are 2 other trading companies as part of the Group Structure; KRF Holdings Ltd., and Keele University Science and Business Park Limited. The latter appears to hold assets to the value of around £3.1mn in land and buildings, and University of Keele is a majority shareholder in the former. There is also a parent company -  University Secretary's Office University Of Keele.  Growing Places fund loans can be secured with a parent company guarantee or against capital assets.

* Security against tenant revenue income stream **conditional upon the main works proceeding** would be insufficient to ensure adequate security is in place to safeguard the 910K loan.  On this basis, in effect, if the main works do not proceed, the loan would not be repaid.
* Growing Places Fund loans are stated in the call template as interest free over 2 years. Subject to timeframe on contracting, should a loan be issued Summer 2019, Innovation Centre Seven would not be completed and open for occupancy until earliest September 2021, therefore rental income to the value of £910K will not be generated to a sufficient level to allow repayment until well beyond the specified repayment period of Summer 2021, therefore tying up a large proportion of the Growing Places Fund loan for an extended period (potentially 5 years+), preventing other businesses from coming forward for support and therefore **limiting the scope for recording and reporting on additional outputs.**
* The Growing Places fund delivery team recently came under scrutiny at audit for failing to adopt a consistent criterion in the evaluation of project support.

1. **Recommendation**

2.1 The GPF Project Manager is keen to deliver on the criteria of the Growing Places fund and in the best interest of the SSLEP by ensuring that the revolving nature of the fund is maintained. This will ensure that the fund supports as many local businesses as possible to **maximise outputs and outcomes** for the SSLEP area. The terms specified under the scheme criteria should therefore be maintained.

The applicant appears to have sufficient means to offer security against the loan to ensure that this is repaid and utilised **as a loan** under the standard 2 year terms.

2.2 **Subject to GPF panel consideration and subsequent board approval, should a loan offer be made, this should be subject to conditions requiring that the standard security is in place to ensure that the loan is repaid within the standard 2 year term specified by the fund, thus safeguarding the longevity of the fund and maintaining consistency in its terms of eligibility.**

**Appx 1 Extract of 14 February 2019 Confidential Minute:-**

**Notes of the LEP Executive Board Meeting**

**Drawing Room, County Buildings**

**Thursday 14th February 2019**

**Confidential Minutes**

**Group Members**

David Frost (Chairman)

Alun Rogers (Vice Chair) risual

Wendy Dean Strategi Solutions

Paul Farmer Wade Ceramics

Sarah Montgomery National Memorial Arboretum

Cllr Philip Atkins Staffordshire County Council

Cllr Patrick Farrington Stafford Borough Council

Cllr Abi Brown Deputy Leader, Stoke-on-Trent City Council

Cllr Brian Edwards South Staffordshire Council

Prof Liz Barnes Staffordshire University

David Sidaway Stoke-on-Trent City Council

**Advisory/Secretariat**

Jacqui Casey Stoke-on-Trent & Staffordshire LEP

Alison Thomas Stoke-on-Trent & Staffordshire LEP

John Devlin Consultant

**In Attendance**

Andrea Whitworth BEIS

Simon Ablewhite Staffordshire County Council

Sophie McFie-Hyland Staffordshire County Council

**Apologies**

Mohammed Ahmed Homeserve

James Leavesley Leavesley Group

John Henderson Staffordshire County Council

**7. City & Growth Programme Deal Programme**

***Confidential*** *Growth Deal open call***.** *The board agreed that the following projects should go forward to produce a full business case:*



1. **Blythe Business Park Extension**

3.1 The Growing Places Fund continues to develop and attract interest from projects that would otherwise find difficulty in securing full development funding. One of the main strengths of the manner the Growing Places Fund has been managed is the adoption of maximum flexibility so as not to impose unnecessary economic constraints on developing businesses.

3.2 This flexibility has helped a further project, Blythe Business Park Extension, Sandon Road, Cresswell (M J Barrett Group) to approach the budget-holders for funding.

3.3 The project successfully secured Growth Deal funding to the value of £1.25M from a request for 1.67M (Appendix 1) and initially approached the Growing Places Fund budget-holder for 300K to fund the gap. Since then the request has been increased to £1.4M due to the deal for the residential land with Galliford Try collapsing. Income from the land sale has therefore been pushed back.

4. **Recommendations**

4.1 The SSLEP Board is recommended to consider approval of Blythe Business Park Extension for a Growing Places Fund loan (subject to due diligence) and to give Staffordshire County Council, as accountable body for the funds, authority to issue a funding agreement to release the loan applied for by the project. SSLEP approval would be subject to the satisfactory completion of the final elements of the legal funding agreement which governs loan security.

**5. Background and scheme details**

* 1. Key details of the scheme are as follows:
* ***The proposal was recommended for approval at the Growing Places Fund Panel meeting held on 13th June 2019, subject to the following conditions –***
* ***A default interest rate of 8% over bank interest rate to be imposed after the 2 year interest-free period should the beneficiary fail to repay the loan***
* ***Any dividends paid during the interest-free loan period should be paid at an appropriate rate.***
* ***The loan amount requested is £1.4M (52% of the total infrastructure scheme costs of £2.65M), repayable after 2 years.***
* ***The remaining 48% (£1.25M) of the scheme costs will be met by way of Growth Deal grant.***
* ***Security for the loan will be offered via Parent Company Guarantee.***

**5.2 Scheme description**: Blythe Business Park Extension will ultimately create 350,000 sq ft of commercial buildings and 168 (55 affordable) homes through an expansion of their existing site.

The applicant is applying for a Growing Places Fund loan to fund the S278 off site works to address the immediate infrastructure requirements to unlock the site.

**Scheme outputs**: Expansion will create 350,000 sq ft commercial space, 168 (55 affordable) homes.

**Scheme outcomes**: Expansion will create upwards of 450 indirect FTEs.

**Requested GPF investment**: **£1.4M** (52% of total infrastructure phase of scheme)

1. **Canalside Farm Business Park Extension**
   1. On 13th December 2018, the LEP Executive Board approved the issue of a Growing Places fund loan for £300,000 to Canalside Farm, Great Haywood, subject to the satisfactory completion of the final elements of the legal funding agreements which govern loan security.
   2. In the course of establishing the security as dictated above, the property was valued in 2015 at £1,450,000. The lenders Lloyds bank originally requested priority of £1,500,000 which left insufficient equity to provide security for the second charge which GPF would register. Lloyds have since agreed to reduce their priority to £1,200,000. This leaves a shortfall of £50,000. On the request of the LEP chair, GPF panel member and chair James Leavesley and Mohammed Ahmed were asked for their view on the risk. Having carried out a site visit, the panel members have offered their recommendation to contract on the basis that there is sufficient latent value in the site (fixtures and fittings etc) to cover the £50,000 shortfall.
2. **Request for Authorisation**
   1. The budget-holder requests authorisation from the SSLEP board to support the recommendation of the GPF panel members that the value in the site is sufficient to cover the £50,000 shortfall in GPF loan to equity value to allow the completion of the contracting of the loan.