EX-ANTE ASSESSMENT

Cheshire & Warrington Local Enterprise Partnership

Final Draft

February 2018

Updated March 19

Cheshire and Warrington
Local Enterprise Partnership

CONTENTS

1.0 Introduction

1.1 CBRE has been commissioned by the Cheshire & Warrington Local Enterprise Partnership ("CWLEP") to undertake a follow-on Ex-Ante Assessment of the case for 2014-20 European Regional Development Fund ("ERDF") investment into an established or potential new Urban Development Fund ("UDF") established under the European Commission's ("EC") Joint European Support for Sustainable Investment in City Areas ("JESSICA") initiative.

1.2 A North West JESSICA Holding Fund was established by the Northwest Development Agency in 2009, utilising ERDF resources from the North West Operational Programme. This North West Urban Investment Fund ("NWUIF") oversaw the investment of the ERDF and matched resources in projects in the region via two urban development funds (UDFs) established in:

- Merseyside; and
- The rest of the North West (Cheshire, Cumbria, Greater Manchester and Lancashire), branded the Evergreen Fund in 2011, which has progressed 11 investments involving over £70m of ERDF resources (8 in Greater Manchester and 3 in Cheshire).

1.3 This assessment builds on to the Block 1 analysis undertaken as part of the Ex-Ante Assessment prepared by Regeneris Consulting in February 2017, which related to Cheshire & Warrington and Lancashire LEPs, and should be read in conjunction with this document. It utilises existing baseline information and discussions with key stakeholders to provide the evidence required to set out a potential Block 2 investment strategy for the to support the assessment. In summary, this assessment provides:

- A review of the ex-ante methodology;
- A review of the strategic priorities for investment for the CWLEP spatial area;
- Review of the potential market failures in Cheshire & Warrington;
- Analysis of the current project pipeline against strategic priorities and eligibility to become considered for funding;
- A review of the lessons learnt from other UDF's;
- A critical analysis of potential investment models; and
- Conclusions on the most appropriate route in which to channel CWLEP funding resources (either collectively or individually).

1.4 This report has been further update in March 19 to take account of refreshed legal advice regarding structure, changing fund size and priorities funding will be drawn from. Additional work has been carried to look at potential pipeline projects.

2.0 Ex-Ante Assessment

2.1 For the 2014-2020 programming period, European Structural and Investment Funds ("ESIF") Policy plays a decisive role in reaching the objectives set up in the Europe 2020 strategy for a smart, sustainable and inclusive growth. In this context, Financial Instruments ("FIs"), such as Urban Development Funds ("UDF's"), can play a key role in the achievement of ESIF Policy objectives. According to the Financial Regulation, FIs are defined as:

> *"Union measures of financial support provided on a complementary basis from the budget in order to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk sharing instruments, and may, where appropriate, be combined with grants."*

2.2 For the 2014-2020 programming period, the relevant regulatory provisions for FIs are listed in the Common Provisions Regulation ("CPR") which contains a distinct section on the specificities governing the use of FIs. The EC has committed to the increased use of FI's to deliver its policy objectives across a range of sectors.

2.3 UDF's are a distinct category of FI (such as the Evergreen fund and its successor) which focus on tangible physical and development led results, such as commercial development, employment generation and regeneration/urban renewal. The rationale for the increased use of FI's includes providing benefits such as:

- Better meeting the need of investors;
- Securing private sector leverage;
- Delivering greater economic benefit, financial returns and value for money;
- Encouraging behavioural change (from grant funding); and
- Supporting development in markets where finance is weak.

EX-ANTE METHODOLOGY

2.4 The Ex-Ante Assessment is a formal requirement to permit ERDF investment to be made through a UDF. The objective of the ex-ante assessment is to provide a sound evidence base on which managing authorities can make investment decisions when designing and implementing FI's such as a UDF or equivalent fund.

2.5 This follows the Ex-Ante Assessment methodology for FI's in the 2014-2020 Programming Period: Financial Instruments for 'Urban and Territorial Development'. Ex-Ante Assessments are structured around two distinct strands and seven topics which are set out below. This assessment builds on the Block 1 Ex-Ante Assessment, undertaken by Regeneris Consulting in February 2017, and provides a more detailed analysis of the Block 2 investment strategy.

Block 1

2.6 Block 1 of the Ex-Ante Assessment provides the evidence base necessary to underpin an assessment of the investment vehicles that could be used. The key elements of Building Block 1 include:

2.0 Ex-Ante Assessment

1. ***Evidence of market failure, sub-optimal investment situations and investment needs*** – including identification of the reasons, type and size of market failure and suboptimal investment situations, where the FI needs to contribute to the strategy and to the expected results of the market failure by bridging a viability gap or a financing gap.
2. ***Value added*** - assessing the value added of the FI, including consistency with other forms of public intervention, addressing the same market failure to limit overlap and avoid conflicting targets, state aid implications and measures to minimise market distortion resulting from the FI.
3. ***Additional public and private sector resources*** – including an estimate of additional public and private resources to be potentially raised by the FI and expected leverage and remuneration.
4. ***Lessons learnt*** – providing an analysis of lessons learnt from similar models or instruments considered relevant in the past, including a review of success factors and performance enhancement.

Block 2

2.7 Block 2 centres on the development of an investment strategy for a UDF which should specify the requirement for investment and how its delivery will be coordinated and managed. Key elements of Block 2 include:

5. ***Proposed investment strategy*** – including recommendations on:
   - The thematic and geographical coverage of the FI;
   - Ensure that within the meaning of Article 38, the most appropriate implementation option is chosen in regard to the country/regional situation;
   - Financial products to be offered to ensure an adequate response to market needs;
   - Final recipients targeted;
   - If relevant, envisaged combination with grant support to maximise efficiency and ensure minimum intensity of the support element/element of subsidy.
6. ***Expected results*** - specifying the expected results and outputs of the FI within the priority of the Programme and defining target values based on the specific contribution of the FI to the priority of the programme results and outputs indicators.
7. ***Provisions allowing ex-ante assessment to be reviewed*** - including rationale for the revision of the ex-ante assessment, practical and methodological procedures to update the ex-ante assessment and steps to adapt the FI implementation.

CWLEP Ex-Ante Assessment

2.8 This ex-ante assessment builds on the Block 1 assessment work undertaken by Regeneris in their 'Ex-Ante Assessment of UDF Investment in Cheshire & Warrington

2.0 Ex-Ante Assessment

and Lancashire (February 2017)'; and the wealth of existing desktop, policy and strategic information available. To complete the requirements of this part of the ex-ante assessment, this report undertakes the following:

1. A desktop assessment of existing information;
2. A review of strategic policy;
3. Discussions with CWLEP; and
4. Engagement with other key stakeholders (Local Authorities, Public Sector Bodies, Lenders and the Development Industries.

3.0 Strategic Priorities

3.1 This section provides a detailed review of the strategic priorities and wider strategic context within which decisions on potential projects that could be funded by an existing or potential UDF can be made. In summary, it provides a review of:

1. The overarching European and National strategies that underpin regional, local and ESIF strategies, including the objectives of the ERDF programme;
2. ESIF Strategy for CWLEP which articulates the key priorities that are considered in project selection;
3. The CWLEP Strategic Economic Plan, which will drive investment decisions in the region;
4. Other local strategic policies and priorities that underpin strategic decision making; and
5. A summary of the strategic priorities the LEP area, including the key strategic growth priorities and projects that have emerged as part of the strategic review.

EUROPEAN AND NATIONAL CONTEXT

European Union Strategy

3.2 It is important for national and sub-national ERDF programmes to be consistent with the priorities identified in European Union policy. In the context of the 2014-20 ERDF programme, the EU's 2020 growth strategy sets targets for employment, innovation, education, social inclusion and climate/energy, which drives the selection of ERDF projects. The following European policy and strategy objectives provide the context within which to assess the strategic fit of potential pipeline projects and a European level:

- ***Smart Growth*** - the EU targets 3% of GDP to be invested in research & development and technological innovation by 2020, seeking to improve levels of employment and education. The Smart Growth strategy includes 3 key initiatives, including digital (increasing high speed broadband access), innovation union (focusing R&D and innovation activity on major societal challenges), and mobilising young people in education.
- ***Enhancing the Competitiveness of SMEs, the Agricultural Sector and the Fisheries and Aquaculture Sector*** - the need to enhance SME competitiveness is identified by the EU as integral to its targets for jobs growth and is one of the 10 thematic objectives identified for EU cohesion policy. The UK Partnership Agreement identifies a series of barriers to growth at which EU funds are targeted, including accessing finance, business advice, business incubator provision, supply chain development and sectoral support (including for agriculture, fisheries and aquaculture).
- ***Sustainable Growth*** - EU2020 sets a series of targets relating to carbon emissions and sustainability. These include a 20% reduction in CO_2 emissions compared with 1990 levels by 2020, increasing the share of renewables in energy consumption to 20% and moving towards a target for a 20% increase in energy

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efficiency. The 2020 strategy recognises both the imperative to tackle climate change and the benefits to the EU of being competitive in low carbon technologies. The UK Partnership Agreement focuses on developing infrastructure, promoting innovation and encouraging demand for low carbon goods and services. It describes the potential to use the funds both to invest in renewable energy generation, to support the take up of low carbon technologies by businesses and to improve resource efficiency.

The UK's Industrial Strategy (2017)

3.3 The Industrial Strategy sets out a long-term plan to boost the productivity and earning power of people throughout the UK. It sets out how the UK will help businesses create better, higher-paying jobs with investment in the skills, industries and infrastructure of the future. The 5 foundations aligned to the vision for a transformed economy include:

- *Ideas:* the world's most innovative economy.
- *People:* good jobs and greater earning power for all.
- *Infrastructure:* a major upgrade to the UK's infrastructure.
- *Business environment:* the best place to start and grow a business.
- *Places:* prosperous communities across the UK.

ERDF England Operational Programme 2014-20

Thematic Objectives

3.4 In the 2014-2020 programming period, the European Structural and Investment Funds, including the ERDF, will support 10 relevant investment priorities which are applicable to England, which also known as thematic objectives. These include[1]:

1. Strengthening research, technological development and innovation
2. Enhancing access to, and use and quality of information and communication technologies (ICT)
3. Enhancing the competitiveness of small and medium-sized enterprises (SMEs)
4. Supporting the shift towards a low-carbon economy in all sectors
5. Promoting climate change adaptation, risk prevention and management
6. Preserving and protecting the environment and promoting resource efficiency
7. Promoting sustainable transport and removing bottlenecks in key network infrastructures
8. Promoting sustainable and quality employment and supporting labour mobility
9. Promoting social inclusion, combating poverty and any discrimination

[1] http://ec.europa.eu/regional_policy/en/policy/what/glossary/t/thematic-objectives

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10. Investing in education, training and vocational training for skills and lifelong learning

Key Priority Axes

3.5 The European Regional Development Fund Operational Programme for England 2014 to 2020 ("OP") sets out how the European Regional Development Fund will focus on investment to support economic growth and job creation. The OP sets out an overarching strategy for ERDF investment from 2014 to 2020, setting out the priority axes which will guide resource allocation. The priority axes which are relevant to CWLEP are set out below:

Priority Axis 1: Promoting Research and Innovation

3.6 Priority Axis 1 ("PA1") promotes research and innovation. PA1 seeks to improve how small and medium sized enterprises commercialise research and how they collaborate with research institutions will be taken forward through activities such as knowledge exchange, business engagement, networking and investment support in all parts of England, with the choice of sectors and technologies reflecting the approach of smart specialisation. A summary of the key investment priorities is as follows:

- ***Investment Priority 1a*** - enhancing research and innovation infrastructure and capacities to develop research and innovation excellence, and promoting centres of competence, in particular those of European interest.
- ***Investment Priority 1b*** - promoting business investment in research and innovation; developing links and synergies between enterprises, research and development centres and the Higher Education sector, in particular promoting investment in product and service development, technology transfer, social innovation, eco-innovation, public service applications, demand stimulation, networking, clusters and open innovation through smart specialisation; and supporting technological and applied research, pilot lines, early product validation actions, advance manufacturing capabilities and first production, in particular in key enabling technologies and diffusion of general purpose technologies.

Priority Axis 3: Enhancing Competitiveness of SME's

3.7 Priority Axis 3 ("PA3") seeks to improve the competitiveness of SMEs by increasing the capacity and capability of SMEs and promoting entrepreneurship. Priority axis 3 aims to support the Government's commitment to support SMEs and in doing so strengthen the pipeline of high growth business across England. A summary of the key investment priorities is as follows:

- ***Investment Priority 3a*** -Promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators.
- ***Investment Priority 3c*** - Supporting the creation and the extension of advanced capacities for products, services and development.

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Priority Axis 4: Supporting the Shift Towards a Low Carbon Economy In All Sectors

3.8 Priority Axis 4 ("PA4") seeks to move England's economy towards a low carbon model by reducing the levels of Green House Gas (GHG) emissions, increasing the share of renewable energy, and enhancing the energy efficiency of homes, businesses and transport is one which impinges on all territories across the country. A summary of the key investment priorities is as follows:

- ***Investment Priority 4a*** - *Promoting the production and distribution of energy derived from renewable sources.*
- ***Investment Priority 4b*** - *Promoting energy efficiency and renewable energy use in enterprises.*
- ***Investment Priority 4c*** - *Supporting energy efficiency, smart energy management and renewable energy use in public infrastructure, including in public buildings, and in the housing sector.*
- ***Investment Priority 4e*** - *Promoting low-carbon strategies for all types of territories, in particular for urban areas, including the promotion of sustainable multimodal urban mobility and mitigation-relevant adaptation measures*

Project selection

3.9 The following table sets out the project selection criteria for ERDF funding[2]:

Selection Criteria for ERDF and ESF

CRITERIA	COMMENTS
Strategic fit	The key question is "Does the proposed project contribute to the Operational Programme priority axis and investment priorities?" This includes an assessment of fit with call criteria, contribution to local strategies, whether the project complements or duplicates other activities already in place and links to other initiatives.
Value for money	Focus on efficiency, economy and effectiveness. It includes consideration of issues about market failure, demand for the activity, best practice and additionality. Key is that outputs/results are appropriate to the project and that the finances appear sound.
Management and control	The applicant must demonstrate that it is able to manage a compliant project. This includes project management structures, resources, capacity and experience, financial management, awareness of the compliance requirements and document management.

[2] HM Government. 6 November 2014. Guidance England 2014 to 2020 European Structural and Investment Funds Growth programme handbook.

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Deliverability	The Managing Authority seeks assurance that the project will be delivered in the manner described and that there is not an undue optimism bias. This would include consideration of project planning, schedules, activities and milestones, financial management and steps in place to ensure a compliant project.
Procurement / tendering	The applicant needs to define how the project will comply or has complied with the procurement rules.
State Aid compliance	The applicant must demonstrate how the project will be state aid compliant and that adequate systems are in place to ensure that beneficiaries are complying with the requirements.
Publicity	The applicant needs to set out how it and all delivery partners and subcontractors will meet the European Structural and Investment Funds publicity requirements.
Contribution to crosscutting themes	Does the project meet the environmental sustainability and equality as well as diversity cross-cutting themes?

Source: Centre for Cities Briefing on European Structural Investment Funds (2015), p6

CHESHIRE & WARRINGTON CONTEXT

Socio-Economic Context

3.10 The Cheshire and Warrington LEP covers an area of approximately 2,250 square kilometres and has a population of 921,000 (in 2016), which is approximately 12.7% of the North West's total population. The area is approximately 870 square miles (2,250 sq km) and contains three local authority areas:

- Cheshire West and Chester;
- Cheshire East; and
- Warrington.

3.11 The area is home to a significant business and enterprise base, which composes more than 42,000 individual businesses, comprising:

- Approximately 38,000 micro businesses (0-9 employees) – 89% of total;
- Approximately 3,600 small businesses (10-49 employees) – 9% of total;
- 660 medium sized businesses (50-249 employees) – 1.6% of total; and
- 160 large businesses (250+ employees – including major employers such as Bentley Motors, Royal London and key public sector employers.

3.12 Work undertaken by the 2016 Northern Independent Economic Review identified the key sectors which are integral to the growth of Cheshire & Warrington. Together, Manufacturing, Finance and Business Services and Logistics and Distribution account for

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60% of economic output by value. In terms of employment, Wholesale and Retail (16.3%), Health and Social Work (11.7%), and Administrative and Support Services (11.2%) are the largest sectors accounting for 40% of jobs in the sub-region. Almost 10% of employment is in the Professional, Scientific and Technical category[3]. A summary of the key sectors set out in the Revised Strategic Economic Plan for Cheshire and Warrington is illustrated in Figure 1[4]:

[3] Revised Strategic Economic Plan, Cheshire and Warrington LEP (2017), p12

[4] Revised Strategic Economic Plan, Cheshire and Warrington LEP (2017), p12, Figure 3

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Figure 1: Key Sectors

Manufacturing

- 22.8% of our GVA
- 25% by value of the North West's manufacturing output
- Employs over 24k people including c.6,800 in automotive
- Growing at 3 times national rate

Life Sciences

- Employs c.6,500 (2,000 working in manufacture of pharmaceuticals)
- Key asset at Alderley Park including Medicines Discovery Catapult
- AZ in Macclesfield generates 1% of UK exports by value

Energy & Environment

- c.31,000 employees in broader sector and over 7,000 businesses
- Nationally significant nuclear cluster
- United Utilities, based in Warrington, is the North West's only FTSE 100 listed company

Chemicals

- Employs c.5,000
- 50% of UK's pure white salts
- 40% of UK's fertilizer needs
- 16% of UK's road fuels produced in Ellesmere Port

Finance & Business Services

- Employs in excess of 45,000 people including 15k in finance and insurance
- Make up almost 20% of GVA output

Logistics and Distribution

- Almost 18% of GVA
- Almost 5% of employment
- Includes OMEGA which has created 7,000+ jobs and 3 million sq ft of floorspace over the last three years

Source: Cheshire & Warrington Revised Strategic Economic Plan (2017)

3.13 Cheshire and Warrington has set ambitious growth targets for its economy and its growth the 2040. This includes:

- A long-term target to achieve GVA per annum of £50 billion by 2040;
- To increase the area's productivity to 120% of the UK average; and
- To build 127,000 new homes.

3.14 In terms of GVA per capita, Cheshire and Warrington stood at around £28,300 in 2014, ranking it 7th of the 39 English LEPs. This represented 113% of the UK average.

3.15 The Cheshire & Warrington ESIF Strategy sets out the quality, scale, growth potential and outward-facing nature of Cheshire and Warrington's economy, coupled with its strategic spatial positioning. It sets out that Cheshire and Warrington is, evidentially[5]:

- One of the strongest and best performing economies in England, and the strongest in the North of England, with workforce productivity levels rivalling those generated anywhere in England outside of the capital. The economy of Cheshire and Warrington is characterised by a highly active resident population, a strong in-built enterprise culture, and a highly skilled workforce. This economic strength provides employment opportunities beyond our boundaries, with the area being a net importer of labour.
- A major economy with a large cohort of world-leading firms, with an annual Gross Value Added (GVA) of over £20bn, and 430,000 work-based employees. The economy is

[5] http://www.871candwep.co.uk/about-us/about-cheshire-warrington/

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equivalent in scale to cities such as Birmingham and Leeds. Key firms include Bentley Motors, Tata, Vauxhall and Barclays, and have distinctive sectoral specialisms in advanced, high-value engineering, energy, and professional and business services as well as growth potential in food (focusing on niches to move up the value chain), agri-tech and biological engineering.

- A diversified and internationally-oriented economy, with around one-fifth of employment in Cheshire and Warrington in export-intensive industries, the third highest of any LEP area across England. Cheshire and Warrington has a consistently strong record in attracting new inward investment compared to the national average, with the area offering a diverse range of investment locations for investors: in urban centres, in and around attractive market towns, and in high-quality, yet accessible, rural spaces.
- A private sector-led and knowledge-rich economy, with a high density of private sector jobs relative to its population, one of the highest outside of the capital. The area boasts a large private sector business base, with business density rates well above the national average; the business base contains a well-defined mix of high profile international companies, well-established and substantial medium-sized companies, and a dynamic and growing small business base.
- A well-connected economy, with long established linkages to Manchester and Liverpool and their city centres, higher education, and innovation assets, as well as strong economic links to North Staffordshire and the 'Potteries', and across the border to North Wales. People and businesses benefit from a high quality strategic transport infrastructure – the West Coast Main Line, the national motorway network, the M6, M62, and M56 axes – and proximity to international transport linkages at Manchester and Liverpool airports, and the Port of Liverpool.
- An attractive place where people want to live, work and visit, with the natural environment and excellent location, combined with factors such as high educational attainment and employment opportunities in quality occupations, ensuring that Cheshire and Warrington is a place offering a very high quality of life to its residents and is an attractive place to visit and do business.

Local Strategic Context

Cheshire and Warrington ESIF 2014-20 (April 2016) and Local Implementation Plan

3.16 The ESIF Strategy sets out Cheshire and Warrington Local Enterprise Partnership's (LEP) aims and aspirations for the 2014-2020 European Structural and Investment Funds. Cheshire and Warrington's ESIF sets ambitious objectives for the area's economy and the rationale for investing ERDF. It aims to establish Cheshire & Warrington as one of the strongest performing economies, nationally and internationally, promoting economic growth and boosting productivity. It emphasises the need to build on the area's strengths and opportunities but also to remove barriers to growth.

3.17 The ESIF Strategy has been developed alongside the Cheshire & Warrington Strategic Economic Plan ("SEP"). By 2021, the joint vision of the ESIF Strategy and the SEP vision is to be a £26.6bn economy, employing 465,000 people and to be recognised nationally and

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internationally as a modern, strong, sophisticated and attractive location to live, work, invest and visit.

3.18 Over a seven-year programme, Cheshire and Warrington's allocation is estimated to have a total current value of £112.9m to be invested across ERDF, ESF and EAFRD. Within the ERDF and ESF allocation of £110.5m, the strategy proposed 55% is to be invested in ERDF activities and 45% in ESF activities.

3.19 The ESIF Strategy proposes to deliver a considerable scale of activities to support businesses in many sectors of the economy and allow residents to access and progress in employment. It is estimated that the programme will allow:

- 3,500 businesses to receive support regarding innovation, business competitiveness and low carbon;
- 900 new enterprises to be supported to establish their business;
- 1,500sqm of floorspace to be created or improved;
- 20,270 residents to benefit from social inclusion, skills and employment activities.

Locations for Growth

3.20 The ESIF identifies five key locations for growth:

- ***Warrington*** – location for high value, knowledge-based business together with manufacturing, but also a diverse array of strengths in sectors including distribution and logistics, precision engineering, energy, telecoms and software, and business services.
- ***Crewe*** – strategic location on the national rail network and the potential for growth linked to HS2, the High Growth City concept for the town and the Basford East and West strategic employment site (150 hectares) are specifically identified as development opportunities.
- ***Ellesmere Port*** – position on an industrial, science and technology corridor, part of the Atlantic Gateway and strengths in high value sectors including aerospace and defence, automotive, petrochemicals and energy, and applied R&D. There is reference to Thornton Science Park together with the town's proximity to Daresbury.
- ***Chester*** – strengths in the tourism and leisure sectors, together with professional services and academia, are highlighted in the ESIF Strategy. There is specific reference to plans for the Central Business District, a development to which Evergreen contributed in the 2007-13 ERDF programme as part of the One City Place initiative.
- ***Macclesfield*** – key sectors in and around the town include banking, finance, insurance and other services. The ESIF Strategy also points to the strategically significant Astra Zeneca site (Alderley Park).

3.21 The following diagram sets out the key strategic imperatives and investment priorities for Cheshire & Warrington and represents a holistic view of the wider strategy:

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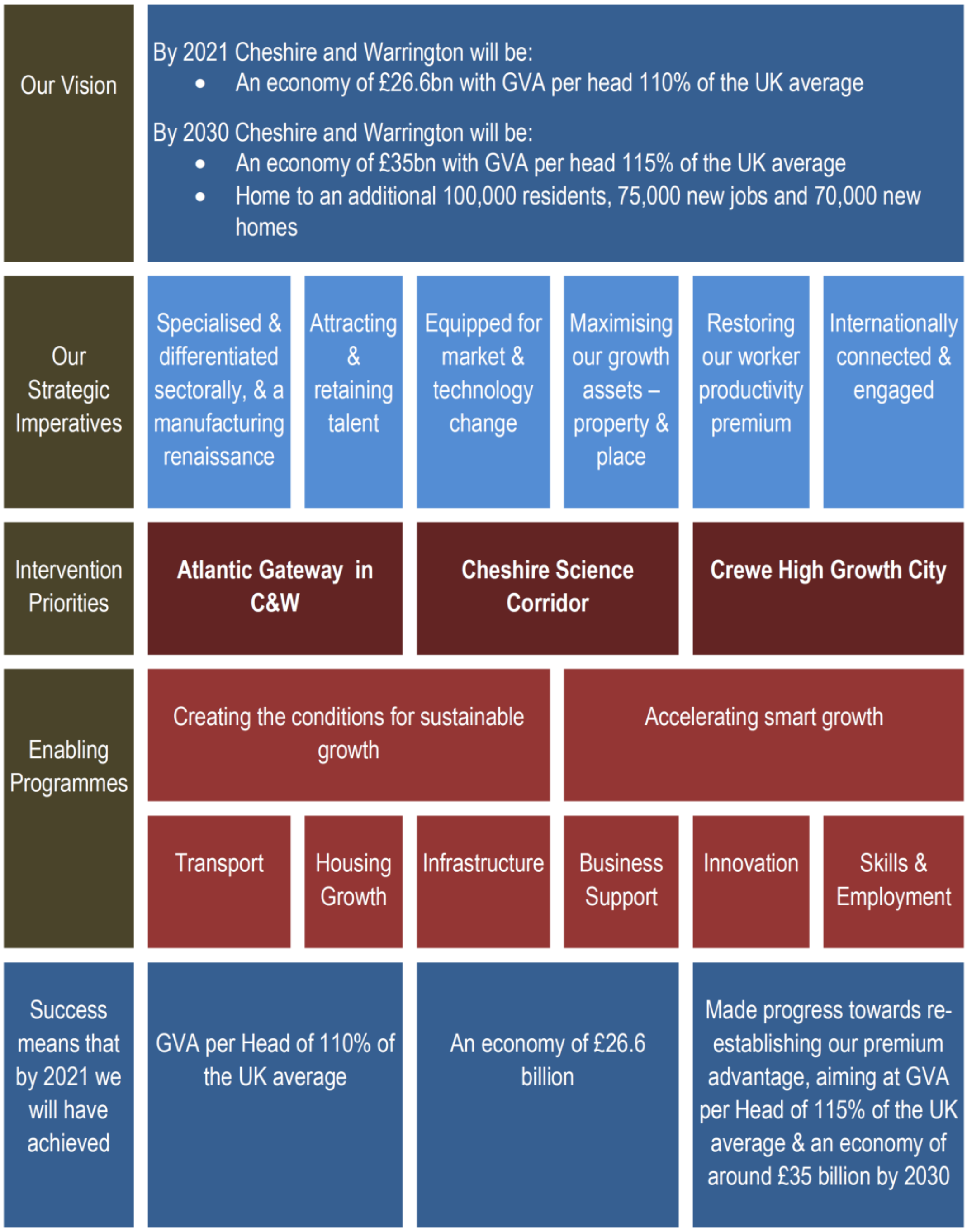
Figure 2: Strategic Imperatives and Investment Priorities



Source: *ESIF Strategy (p26)*

3.22 The ESIF also provides examples of key strategic intervention locations, including:

- Redevelopment of the Alderley Park site in Alderley Edge to create a Human Health Sciences Hub;
- Developing a centre for smart specialisation in agri-tech at Reaseheath College;
- Development of Warrington Waters as part of the Atlantic Gateway initiative;

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- Creating a new Faculty of Science and Engineering for the University of Chester and an associated High Growth Centre; and
- Creating the foundations to support Crewe.

3.23 The ESIF Strategy sets out strategy and the Local Implementation Plan allocations for Evergreen (JESSICA) funding. It is earmarked for two of the ESIF Strategy's priority axes (PA1 and PA3), and is relevant to specific investment priorities identified in each priority axis.

Cheshire and Warrington Strategic Economic Plan

3.24 Cheshire and Warrington Matters, the Strategic and Economic Plan Refresh 2017 ("SEP") sets the priorities and targets for the area's economy, sharing the vision and aspirations of the ESIF strategy set out earlier in this section.

3.25 The financial allocation provided to Cheshire and Warrington to deliver the European Structural and Investment Fund Strategy and the wider economic vision of the LEP area is split 55% European Regional Development Fund and 45% European Social Fund plus a small investment of from the European Agricultural Fund for Rural Development.

3.26 The Local Enterprise Partnership Area allocations have been developed to meet EU and UK national guidelines on programme priorities and the relative level of investment in these are spread across a number of Priority Axes allocations as set out in the European Structural and Investment Strategy. As the programme has developed however MHCLG has decided in partnership with the LEP to vire funds between the priorities to meet the outputs required of the programme and to reflect changes such as the need to remove remaining funds from areas that will not be supporting new bids such as Priority Axes 2 (Enhancing Access to and use and quality of ICT).

3.27 A nominal allocation of £15m has therefore been proposed to support 'Evergreen' investments which will be spread evenly between Priority Axes 1 (Promoting Research and Innovation) Priority Axes 3 (Enhancing Access the Competitiveness of SMEs) and Priority Axes 4 (Supporting the Shift Towards a Low Carbon Economy in All Sectors).

3.28 The nominal Evergreen allocation will draw on the remaining funds within each Priority Axes and any funds returning to the programme from uncommitted funds and exchange rate changes. The continuation of the North West's JESSICA (Evergreen) fund within the Cheshire and Warrington LEP area will allow us to improve the efficiency and value gained from European funds (subject to appropriate terms being agreed with other partners in the region) and when established will allow investments from ERDF allocation to be made in infrastructure that supports growth, including investment in low carbon construction where possible.

3.29 The SEP sets out the key opportunities that will drive growth ambitions across Cheshire and Warrington, including:

- The world class science, technology and innovation assets within the **Cheshire Science Corridor**, including:
  - Alderley Park;
  - Birchwood Park;

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  - Capenhurst Technology Park;
  - Hurdsfield;
  - Jodrell Bank;
  - Protos;
  - Sci-Tech, Daresbury EZ; and
  - Thornton Science Park.
- The once-in-a-generation opportunity that **HS2** will bring to the **Constellation Partnership** area and wider region, building upon a new HS2 Hub Station coming to Crewe and the area's success and growth in science, engineering, rail and automotive, coupled with its enviable lifestyle and unrivalled connectivity – overall this objective seeks to create a "constellation new City";
- The unique cross-border opportunities within the **Mersey Dee Economic Axis**, which includes a major conurbation comprising the historic and dynamic City of Chester, Ellesmere Port (with its Assisted Area Status), Stanlow and Thornton and Deeside (one of the UK's largest and most successful industrial and business locations) coupled with major linked opportunities at Wrexham, along the A55 corridor and on the Wirral; and
- The potential to create **Warrington New City,** though a programme of major investment in transport and community infrastructure.

3.30 The original SEP recognised the national significance of the private sector-led Atlantic Gateway investment proposition. Cheshire and Warrington has a number of key projects which fall within and complement the Atlantic Gateway including Port Cheshire, Port Warrington and Ince Recovery Park. The revised SEP continues to support the ambitions of Atlantic Gateway where they align with the spatial priorities identified above.

Other Key Strategic Policies and Priorities

3.31 Other relevant local polices that are driving investment decisions in the CWLEP area include:

- **Cheshire and Warrington Employment and Skills Strategy ("ESS")** – The ESS has been developed by the LEP to identify the key skills priorities which need to be addressed during the period 2013 to 2015. The strategy identifies a demand for skills that will be driven by major projects, including the projects being delivered through the Atlantic Gateway and High Growth City initiatives which create in excess of 43,000 new jobs. Many of these projects are related to specific sectors, such as advanced engineering, and will therefore be expected to create a large increase in demand for high level STEM skills. The ESS also considers the supply of skills, concentrating on future growth sectors such as Life Sciences and Energy and the Environment.
- **The Constellation Partnership Prospectus** (formerly Northern Gateway Development Zone) – the Constellation Partnership seeks to capitalise on a remarkable investment opportunity with an ambition to deliver 100,000 new homes and 120,000 new jobs by 2040. The Constellation area forms a single economic footprint creating a coherent investment market boosted by High Speed Rail connectivity. Key CWLEP investment

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opportunities identified in the Northern Gateway Development Zone Prospectus include:

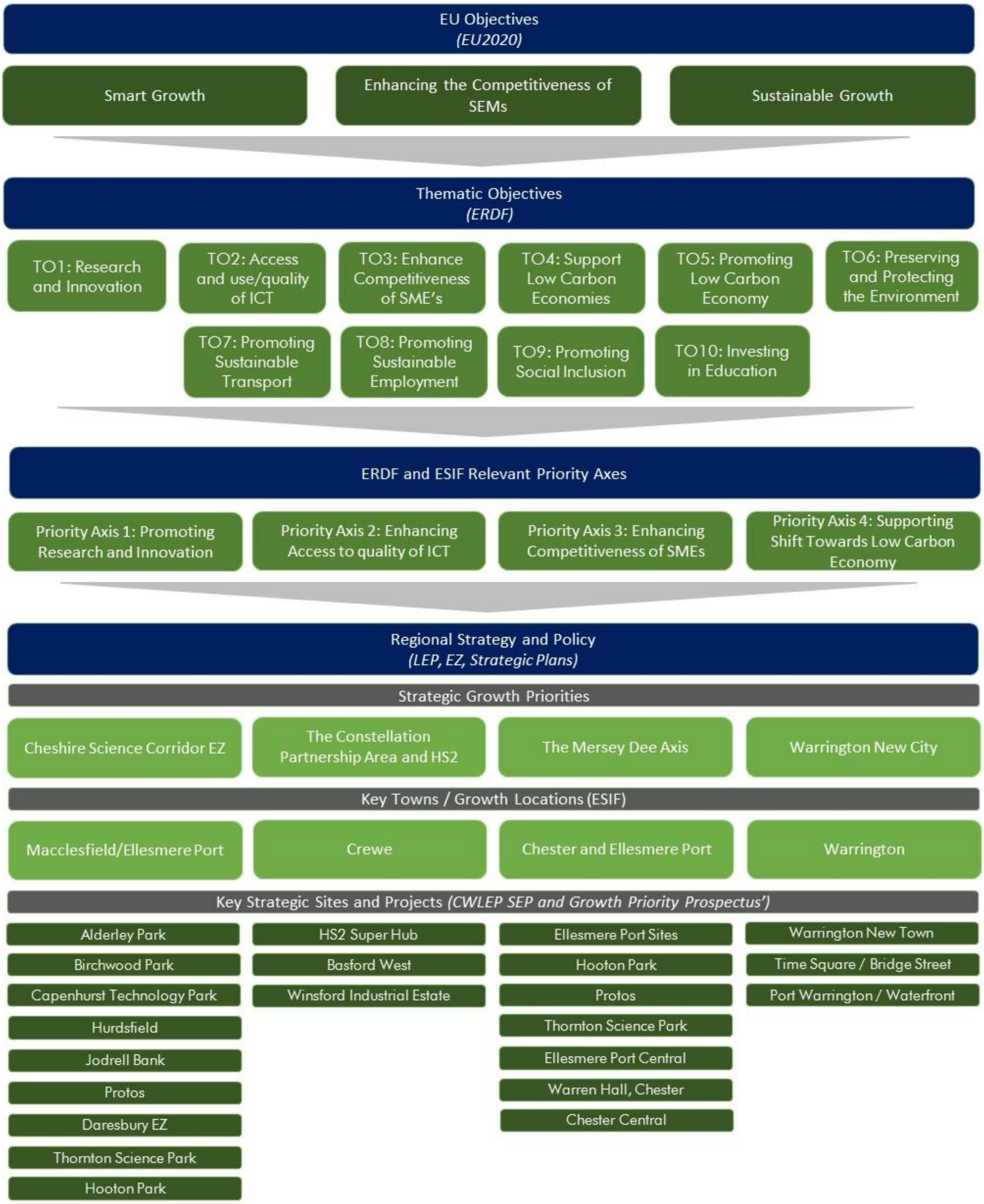
- Winsford Industrial Estate; and
- Basford West, Crewe Commercial Park.

- **Cheshire Science Corridor Prospectus** – the Cheshire Science Corridor Prospectus provides a summary of the assets and investment opportunities across the Cheshire Science Corridor. The EZ targets science-based businesses and growing companies occupying premises on the sites, offering business rate relief and (on Ellesmere Port sites) enhanced capital allowances linked to Ellesmere Port's status as an assisted area. In particular, it frames the opportunity at the following sites:
  - Alderley Park (1.1m sq ft of high specification space);
  - Birchwood (20 Ha and 200,000 sq ft office space);
  - Thornton Science Park (9.3 Ha secure development land); and
  - Ellesmere Port (portfolio of oven-ready sites totaling 49 Ha).
- **Mersey Dee Alliance Prospectus** – the Mersey Dee Axis is a cross border initiative that comprises North East Wales, West Cheshire and Wirral, and has a population close to 1 million. It is the location of a substantial range of nationally important industrial and commercial activities – particularly for the energy sector, advanced manufacturing and high-tech engineering and financial and professional services. The Mersey Dee Alliance Prospectus identifies several strategic sites that have significant potential to provide jobs, homes, leisure, and business space. Within the CWLEP area, these include:
  - Ellesmere Port Central;
  - Cheshire Science Corridor Sites;
  - Chester Central; and
  - Warren Hall, Chester.

3.0 Strategic Priorities

CHESHIRE & WARRINGTON SUMMARY

3.32 A review of the strategic priorities sets the context which underpins the assessment of potential projects. The following diagram illustrates how the strategic priorities filter down into strategic locations for growth and identified projects:



3.0 Strategic Priorities

Source: CBRE, 2018

4.0 Market Failure and the Development Market

4.1 For FIs focused on urban and territorial development, the market failure must be analysed mainly in a spatial context, which is embedded in the broader national or regional socio-economic context.

4.2 Reasons for market failure are often unique to each region and market segment, therefore these specificities will play a central role in the establishment of evidence of inadequate market operation.

DEVELOPMENT MARKET FAILURES

4.3 The Commission's common principles for an economic assessment of the compatibility of State Aid with the operation of the single market identify the most common sources of market failure. The types and causes of market failure that are of particular relevance to property development include:

- **Positive and negative economic externalities** – these arise where developers or investors do not internalise the whole benefit or cost of their actions. For example, where the positive benefits that could be realised by the development (such as job creation, environmental improvements etc) do not affect developer's decision making. The benefits of the removal of negative externalities, such as land contamination, are not valued by developers which is therefore a major cause of viability issues and negative investment decisions. These negative externalities are a significant issue on sites across the study area.
- **Imperfect and asymmetric information** – imperfect information may lead to transaction costs, agency costs, moral hazard or adverse selection, which as a consequence lead to inefficient market outcomes. At an area level, an example could be where developers and investors do not have sufficient precedents to understand the potential costs or returns of a development in a particular area. At project level, this may include poorly known costs of remediation, which may lead to excessive risk premiums required by market investors. Information asymmetry can also occur in the supply of finance, where lenders cannot effectively determine the costs and returns of an investment due to a lack of sufficient information.
- **Coordination problems** – coordination issues can lead to market failure, where the costs of contracting, uncertainty about the collaborative outcome and network effects prevent the effective design or even the conclusion of contract agreements, thus leading to inefficiently low levels of coordination and output. Coordination problems in a spatial context may often be addressed by integrated approaches which bring together actions that are mutually reinforcing, or that can only function when implemented jointly. An example at a project level could be the time, cost and complexity involved in land assembly (which is particularly relevant on large strategic sites) – the cost of which is a significant deterrent to the development of these sites.
- **Path dependency** – developers and investors may view regeneration and development opportunities differently to local authorities, and therefore may be less likely to bear the costs of these developers, which are viewed as a key priority by the public sector.

4.0 Market Failure and the Development Market

- **Debt and access to finance** – access to finance at a geographic and project level may be difficult where lenders do not want to invest outside of prime areas or in speculative development (i.e. where schemes are pre-let).
- **Cyclical lending issues** – access to finance based on the economic cycle could be a key issue in specific areas and at a project level, as was evidence in the last recession where finance is channelled towards more secure investments/areas in order to reduce banks' exposure to risk. The appetite to invest in particular sectors (i.e. retail, industrial, logistics etc) may also be subject to cyclical flux.
- **Equity issues** - even if not related to economic efficiency, this may lead to situations considered suboptimal from a public interest point of view. A typical example could be the concentration of deprivation within an area.
- **Spillover signalling effects** - may be generated when no sufficient financial support is provided, and conversely, public sector support can improve and stimulate private sector supply and also have an effect in terms of risk-sharing mechanisms.
- **Lack of policy coordination** – this may occur in the public sector may lead to duplication of efforts and a waste of financial resources, particularly in cases where public bodies do not act in synergy.

VIABILITY AND FINANCE GAPS

4.4 As a general principle, public intervention may be justified to address an investment gap, where there are insufficient resources to support a development that would provide a public benefit. A common reason for and investment gap is a **"viability gap"** which constitutes the inability of a development to achieve the financial performance required to attract the necessary investment at market terms. In development terms, this could occur due to excessive or abnormal site costs, including costs associated with infrastructure, environmental improvement site remediation or other environmental/technical requirements – for example, the significant costs of a remediating a brownfield site for new employment development. Market conditions and projected revenues may also lead to a withholding of investment due to viability, such as low projected sales or rental returns. Macro-economic factors, such as market forecasts may also squeeze the viability of a particular development and weaken the appetite of developers and finance institutions.

4.5 Viability gaps must not be due to intrinsically uneconomic or poorly structured underlying investments to justify intervention. Public sector intervention should be justified by an identified market failure, such as where an investment would generate economic development benefits (positive externalities) and remove barriers to investment (negative externalities).

4.6 The other primary reason for an investment gap, which may exacerbate viability issues, is a **"financing gap"**. Limited access to development finance may occur when financiers are reluctant to finance development in areas where there is imperfect information or a lack of precedent to guarantee returns. This typically will result in a risk averse stance by lenders and create a finance gap for developers – an example may be a financial institution being unwilling to lend in a rural area of CWLEP due to imperfect information on the performance

4.0 Market Failure and the Development Market

of the market in these areas. This type of risk aversion was clear during the last recession, where the risk profile of banks changed significantly and has been slow to recover, albeit with some ongoing recovery over the past 5 years. The Brexit vote, however, now adds further uncertainty to the lending market; particularly in assessing future market conditions.

4.7 The following section reviews the key market failures that have been evidenced in CWLEP, some of which are common and others of which are location specific. The project pipeline in the following chapter assesses proposed projects against evidence of market failures, viability and finance gaps which may justify intervention through a new or existing UDF.

MARKET FAILURE IN CWLEP

4.8 Following review of the key market failures across the region is based on a desktop review of literature, experience in the market and discussions with developers/lenders. Work undertaken has identified weaknesses in the market the CWLEP area, which are generating investment gaps and market failures. These include:

a) Access to Finance outside Core Cities

4.9 A key issue, particularly since the recession, has been the draw of finance and investment towards major cities such as Manchester and Liverpool. This has had an impact on peripheral areas across CWLEP, particularly in rural locations and key conurbations in the Constellation Area such as Crewe. This lack of access to finance is being exacerbated by three key market failures:

1. **Information asymmetry** – evidence suggests that a lack of information is a barrier to the supply of finance in the region, where lenders cannot effectively determine the costs and returns of an investment, particularly in rural towns/areas. This leads to lenders being risk averse due to perception and a void of information, drawing investment towards safe haven locations, such as Manchester, particularly in terms of speculative development.
2. **Path dependency** – sub-optimal investment decisions are being made where developers have been less active in the LEP areas than in major cities, creating a lack of confidence and in sectors and business activity. In areas such as Manchester, the agglomeration of investment, development and sectoral growth provides a level of confidence to lenders that isn't as prevalent in parts of CW.
3. **Cyclical lending** – the recession has had a significant impact on the study area, particularly in cities, such as Crewe, and in rural locations. Brexit has also had an immediate effect of lending patterns, which have recovered to some degree but may be further accentuated following the UK's exit from the EU.

4.10 There may be a role for a UDF to improve the supply of finance in these areas where the private sector has been reluctant to take risks, in order secure significant regeneration benefits and positive externalities.

4.0 Market Failure and the Development Market

b) Enabling Costs

4.11 A significant number of developers across the region are experiencing difficulties in unlocking sites due to poor infrastructure or the high cost of providing site treatment and land assembly. There may be a role for a UDF to play in reducing the gap in viability on marginal sites in order to bring them forward for development. The costs of delivery of development, coupled with low rental values and difficulties in accessing finance are creating a failure in many core areas across CWLEP. Key costs are caused by evidence of negative economic externalities and co-ordination problems, such as (inter-alia):

- Land assembly and co-ordination issues;
- Land remediation;
- Poor infrastructure / the costs of providing new infrastructure (including highways, energy etc); and
- Limited transport and accessibility.

4.12 The provision of sub-commercial rates could be a mechanism by which the amount of gap funding required could be reduced and the viability gap could be bridged, where access to commercial finance is restricted.

c) Access to finance for limited debt levels

4.13 Access to finance for smaller debt is limited, where lenders have a preference to lend at higher levels due to the costs and due diligence associated with smaller finance amounts. This is particularly relevant for amounts under £1m, where the capacity for higher commercial returns for lenders is diminished. There could be scope for a UDF to help to bridge the gap for request for smaller debt; however, this may be limited by the number of small sites in the project pipeline and the costs of managing a number of projects that are limited in scale. However, evidence suggests that there is market failure in the region, particularly in the central area (i.e. Crewe) for intermediate or "grow-on" accommodation of circa 10,000 to 50,000 sq ft.

d) Appetite for risk

4.14 The appetite for risk, for the reasons mentioned earlier, is lower for investments by commercial lenders into property development. Banks will typically fund between 50-60% of the gross development value of a development, with the remainder expected to be leveraged by the private sector. There may be a role for a UDF to bridge the capital for these types of failure where developments are on the margins of viability.

e) Imperfect information

4.15 As touched upon earlier, lack of information is creating a finance gap. It is clear in a number of areas of CWLEP that developers and investors do not have sufficient precedents to understand the potential costs or returns of a development, which in turn leads to excessive risk premiums being required. For example, imperfect information is also creating negative conditions for risk averse lenders in the region, as set out earlier.

CBRE

4.0 Market Failure and the Development Market

4.16 There is the potential for a UDF to provide targeted and bespoke support which will help to combat the effects of imperfect information and positive externality market failures, in order to ensure that the potential for high value growth is maximised.

MARKET SUMMARY

4.17 A review of property market trends was undertaken by Regeneris as part of the Block 1 Ex-Ante Assessment to establish where commercial development is working most effectively, identifying the locations and sites which the evidence suggests are proving most attractive to the market. It has also informed the assessment of market failure in the region. The research draws on desktop research, Local Authority data, stakeholder consultation and work undertaken by CBRE on the economic and property baseline for the Constellation Partnership area.

Offices

4.18 Currently, the commercial office market is generally buoyant. However, the market for offices has ebbed and flowed since the recession in 2010. The last 2-3 years have seen some larger deals in key locations (Birchwood Park, One City Place, Alderley Park) which is evidence of strengthening demand post-recession.

4.19 Spatially across the CWLEP the office market is spatially divided between the north and the south sub-markets. This trend is likely to continue as office market areas consolidate and continue to cluster. However, this also affords an opportunity for the weaker areas to "catch up" and grow if they can offer quality space at more competitive rental rates. This would also support SME growth aspirations if affordable accommodation options can be provided to fledgling businesses in the key growth sectors: financial and professional, digital and creative.

4.20 Crewe and the south of CWLEP are generally beyond the influence of Manchester and offer more localised office functions. Some locations achieving rental values in excess of £20 per sq ft, but the best performing locations (Wilmslow, Birchwood Park, Alderley Edge, Chester Business Park) are typically seeing £17.50-£18.50 per sq ft at the top end of the market.

Case Study: City Place, Chester

4.21 City Place is a £120m, 3.5-acre development on land adjacent to Chester Train Station. Ultimately City Place will provide over 500,000 sq ft of Grade A office accommodation, including retail and leisure facilities, as well as 200 residential units and new public realm, when it completes in 2028.

4.22 The North West Evergreen Fund, "Evergreen", provided Muse Developments with a £4.8 million development loan to part-fund the first phase of the City Place scheme in Chester – a scheme that will deliver thousands of new jobs to the local area.

4.23 Muse has also secured a further £1.4 million grant funding from the European Regional Development Fund for the development.

4.24 Muse Developments has now delivered the first phase of City Place - a six storey 70,000 sq ft BREEAM 'Excellent' office building. One City Place is now fully occupied and was acquired by Hermes Investment Management in 2017.

4.0 Market Failure and the Development Market

Industrial

4.25 Demand for industrial space has increased, which has been concentrated in areas with good access to the motorway network particularly around the M6 and M62 corridors. Crewe has an established history and prevalence of manufacturing and logistics uses, particularly along Weston Road adjacent to the station. The forthcoming Basford East development will also increase stock in the market, attracting new occupiers.

4.26 Winsford Industrial Estate offers a wide range of accommodation for industrial occupiers in a more rural location, albeit still with access to the M6. There is land available to expand this estate in the future.

4.27 To the west, Sealand Road in Chester forms the principal industrial area of Chester. We anticipate future growth along the Motorway network as logical sustainable locations.

4.28 In the last year or so there has been a return to speculative development mainly in Warrington around already established logistics and manufacturing clusters and on the best quality sites (Omega, Birchwood). A lack of high quality large space has recently driven up rental values and contributed to rising demand for smaller stock. In other locations, industrial rents remain low, particularly in Cheshire West & Chester, and this continues to be a barrier to speculative development.

Case Study: Cheshire Green Employment Park

4.29 Cheshire Green is a major employment park in South Cheshire. Due to a lack of appetite from traditional lending sources, an application to the Cheshire and Warrington Local Enterprise Partnership was made for GPF Funding to assist in the delivery of site infrastructure.

4.30 A business case was prepared to support an application and subsequently secure Growing Places funding of £3.6m from the CWLEP to address immediate infrastructure and site constraints.

4.31 Following receipt of funding, Cheshire Green Employment Park Ltd is now implementing the first phase of the development with the construction of the roundabout and access to the site. It is anticipated that upon completion the Employment Park could provide up to 3,000 new jobs and 1.35million sq.ft. of accommodation.

5.0 Potential Investment Pipeline

INTRODUCTION

5.1 The scope of the Ex-Ante Assessment Block 1 includes a high-level assessment of the potential development pipeline that could be accessed by a future fund mechanism, in order to draw down and leverage ERDF funding available to CWLEP.

5.2 The assessment methodology draws primarily on information already established as strategic investment priorities in the area and those put forward as development projects by CWLEP. To assess the project pipeline CBRE have utilised a range of desktop and anecdotal information from a range of sources, including:

- Information gathered as part of the Cheshire & Warrington and Lancashire Ex-Ante Assessment (2017);
- Discussions with LEP officers and Local Authorities contacts;
- Analysis of projects included in the ESIF strategy and LEP Strategic Economic Plan including the Cheshire and Warrington EZ, the Constellation Partnership and key areas of focus such as the Mersey Dee Alliance and Warrington New City set out within the SEP to update current investment propositions included within the current Ex-Ante appraisal; and
- Discussions with the development industry and financial institutions.

PROJECT LIST

5.3 A summary of the potential project pipeline is illustrated in Appendix 1 and a more detailed proforma assessment of each site is contained in Appendix 2. The assessment provides a summary of each development, including:

1. The site name and location;
2. Site size and proposed use;
3. The proposed use, development or phase of development that is considered to be a potential project;
4. The approximate floorspace that is proposed to be supported by any prospective funding (where available);
5. The project sponsor or developer(s);
6. The project delivery timescales (where available – estimates have been used where appropriate);
7. The fit with strategic priorities – a more detailed assessment of the alignment of a particular project with the key strategic themes is contained in each site proforma;
8. The total project cost, where this is available (this may relate to the total project cost or the known costs that are available – such as the cost of a major piece of strategic infrastructure);
9. The possible amount of funding requirement, where this has been indicated either through consultations or any available development appraisals; and

5.0 Potential Investment Pipeline

10. An overall assessment of the eligibility of the project to potentially draw on ERDF funding.

5.4 The overall assessment, both in the summary table and proformas, includes a colour coded assessment of each project which demonstrates the following:

- **Red** – Projects which are not to be considered as potential projects for future UDF funding. The reasons for this recommendation include:
  - The project does not fit with the strategic priorities of the OP, ESIF or local strategic policies.
  - The proposed use would not be appropriate for UDF funding.
  - The scale and size of the site is insufficient.
  - The project has no certainty, is too long term in nature or there is an inherent lack of information.
  - The developer of the site has expressed that ERDF funding is not required.
- **Amber** – project which may be considered for as projects for UDF funding and meet some of the criteria required. The reasons for this recommendation include:
  - The project meets some, but not all of the strategic criteria required.
  - There is a lack of information or information on the site is currently outstanding.
  - Projects are longer term or the timescale on the delivery of projects are less definitive.
  - Depending on further assessment, there are question marks over the eligibility of the project to be successful in applying for funding.
  - The ability to demonstrate market failure is unclear.
- **Green** – the site demonstrates most of the attributes required to be considered as part of a pipeline of projects to service a future UDF – subject to further assessment and detail of the type, scale and financing of the project. The reasons for this recommendation include:
  - The project has a good strategic fit with the OP, ESIF or local strategic policies.
  - There is evidence to suggest that the project could support speculative new development and new floorspace would be delivered (this would require further discussion / evidence).
  - The project could potentially be developable in the next 2-3 years.
  - The developer or project sponsor has a strong track record of delivery.
  - There is evidence of market failure and/or an investment gap through discussions and evidence gathered (however, this will require further assessment).

5.5 *There are gaps in this information and further ongoing updates will be required to provide a level of certainty in the potential of the project pipeline, and will need to be subject to further*

5.0 Potential Investment Pipeline

discussion. The viability of eligible projects will need full interrogation and testing as an additional stage of work if they are to be assessed for ESIF funding.

5.6 This assessment represents the level of information available at a point in time (February 2018) and it is likely that other candidate projects may come forward and be added to the list in due course.

5.7 Size of fund required

Market analysis has shown that funds of under £15m are sub-optimal and not attractive to fund managers. The proposed fund size therefore is £20m this is based on the average investment made by Evergreen I, the amount of funding invested by Evergreen I and the split of the funding by priority. Given the average investment in C&W through Evergreen I was over £6m a £20m fund may be on the small side, but the fund managers will be tasked with working with businesses to find match funders. It is understood one of the companies that has a pipeline of low carbon projects has institutional investors already engaged, due to the rate of returns that can be accurately forecast on energy saving projects.

A £20m fund split between three priorities will need careful management. It would be reasonable to expect that funding for some investments will be drawn from multiple priorities.

Financial modelling of the fund shows that within five years the fund will have already generated enough income to start re-investing funds and is expected to make over £5m in interest from investments and idle funds within 10 years which will enable the fund to continue to invest and achieve outputs.

5.8 Type of funding to be offered

The funding will be invested primarily by way of loan with the potential for mezzanine funding to be offered depending on the investments. The fund manager will assess the risk of the investment and price the interest rate accordingly.

5.9 Target Final Recipients

The fund will be marketed to a number of different potential recipients to reflect the funding priorities. Priority 1 will be primarily marketed to developers, priority 2 be will marketed just to SMEs, priority 3 will be marketed to both SMEs and developers as it is envisaged that low carbon technology can be invested into new builds and to existing buildings for SMEs and developers considering refurbishment projects like Glasshouse.

5.10 Update March 19

Following discussion with a number of partners across the region it is clear that there is strong demand for the funding being proposed. Evergreen 1 is almost fully invested and has invested or has in assessment over £37m of projects for Cheshire and Warrington.

5.0 Potential Investment Pipeline

Known demand broken down by priority is:

£7m P1a Enhancing research and innovation infrastructure and capacities to develop research and innovation excellence, and promoting centres of competence, in particular those of European interest

This pipeline as detailed in Appendix 1 remain largely current and more than covers the amount of funding available.

£5m PA3 - Business support
Enhancing the Competitiveness of Small and Medium Sized Enterprises

The C&WLEP ran a call for projects seeking energy funding in late 2018. There were 8 applications for funding of which two applications were focussed on providing environment audits to SMEs and finance to improve their infrastructure with an emphasis on reducing the carbon footprint of those businesses. Unfortunately the LEP couldn't provide the funding for the projects so they remain unfunded .

Name of project	Description	Total Project cost	Funding required
Low carbon Investment Fund	Grant programme to assist 150 SMEs by carrying out energy audits and then providing grant funding to 75 businesses to install low carbon tech.	6,000,000	3,000,000

£8m PA4 - Low carbon - Promoting energy efficiency and renewable energy uses in enterprises

Low carbon projects didn't feature in the pipeline when this ex-ante report was originally produced. The following are details of the potential pipeline for this element of the fund:

Name of project *	**Total Project cost**	**Funding required**
Hospital Solar Car port	£1.6m	£800k
EV Charging Infrastructure – commercial premises at a number of sites	£1,500,000	£750k
Heath and Power storage scheme – To recover energy from site in Ellesmere Port to put back into the site to reduce operating costs	£2,000,000	£1,000,000
Energy reduction scheme at major Manufacturer	£4,000,000	£2,000,000

5.0 Potential Investment Pipeline

Energy Saving scheme at new car Park in Crewe (yet to be built), to include LED Lights, EV charging points and Solar Panels	£500,000	£250,000
Total	£9,600,000	£4,800,000

*Names of applicant have been removed for confidentiality purposes.

SUMMARY

5.11 **Appendix 1** and **Appendix 2** provide a current snapshot of the project pipeline (with further information to be added).

5.12 Based upon our assessment of CWLEP's strategic priorities and consideration of available information, we have identified and assessed a total of 16 potentially suitable projects.

5.13 Of the projects identified, we consider that 8 "Green" projects demonstrate most of the attributes required to be considered as part of a pipeline of projects to service a future UDF (i.e. a potentially suitable investment proposition within the next 2 years). Based upon the information available (in February 2018), we understand that gross development costs for these projects total c. £120m.

5.14 In addition to this, a further 8 "Amber" projects have been identified. These represent projects, which could be considered for UDF funding pending the provision of further information and currently meet some of the criteria required. We consider that some of these sites could also be made "project ready" within the next 2 years.

5.15 Finally, we have identified a further 3 "Red" projects that for a number of reasons (strategic fit, delivery timescale, lack of certainty etc.) are not to be considered as potential projects for future UDF funding.

5.16 Notwithstanding these "Red" projects, CBRE consider that there are sufficient projects identified to potentially form a strong development pipeline across Cheshire & Warrington that, subject the provision of some additional information, a good case could be made for the provision of ERDF funding on this basis. The following section provides an options appraisal of the different funding models that the LEP could consider.

6.0 Investment Models

INTRODUCTION

6.1 CBRE's assessment of potential investment models provides analysis of fund options that could be adopted by CWLEP to invest ERDF (and potentially additional) allocations through the Greater Manchester Evergreen II Limited Partnership Limited ("Evergreen II") or other appropriate funding vehicles. This assessment builds on the following information:

1. A review of the lessons learnt from comparative funds and value added of a UDF.
2. A Legal Overview Report into Evergreen II Follow on Investment, prepared by Addleshaw Goddard (2nd February 2018);
3. The Block 1 ex-ante assessment, including pipeline supply of potential sites;
4. A review of potential fund options by Regeneris Consulting in its preceding ex-ante assessment (8 February 2017);
5. A review of remaining funding that can be drawn down by CWLEP, which we understand to be in the region of £15 million – however, this is subject to confirmation and review; and
6. The cost implications of fund set up and management, based on CBRE's fund management experience.

LESSONS LEARNT

6.2 CBRE has acted as executor of a number of funds across the UK, which provides the basis for understanding the issues and opportunities which influence the mechanics of operating an efficient and successful UDF. CBRE has experience in operating closely with similar UDF's, sub-funds and pension funds including Evergreen I, Evergreen II, Merseyside, Belfast City Council Investment Fund and the London Borough of Newham.

6.3 Based on our experience, the core fundamentals that are required to set up, operate and manage a successful fund include:

- An appropriate fund size (c.£15-£20m+) in order to offset costs and have the ability to truly support a transformative level of development. If combined with a larger fund, such as Evergreen, this may not require the level of investment that would be needed for a bespoke fund, but could maximise the value added by combining funds.
- Strong, clear and stable political leadership.
- Full public-sector partnership that supports the process, providing a united pro-growth platform on which to deliver on objectives. This should include effective partnership and collaboration between Local Authorities and the Fund Manager.
- A high level of collaboration between the public and private sector to enable swift and transparent joint-decision making.

6.0 Investment Models

- An effective board that is limited in size but has clear strategic goals and strong political/public sector support.
- Strong external fund management and executor support that has a high degree of autonomy, power and control to drive efficiency.
- A high degree of trust between key stakeholders.
- A good existing track record and experience/skills in delivery in order to instil market confidence and encourage developers to engage in the fund.
- A strong and trusted brand, backed by effective marketing.
- A strong pipeline of investment ready projects and a flexible investment strategy.
- The ability to leverage 'pound for pound' private investment.
- Robust knowledge of the market in which the fund operates.
- The delivery of value for money – i.e. reasonable set up and management costs which do not place and undue burden on the Accountable Body, enabling the maximisation of funds.
- Ongoing monitoring and review of the fund.

6.4 Based on CBRE's experience of managing existing funds, as highlighted above, we consider that the most successful existing fund operation as a comparative example has been the Greater Manchester Evergreen fund; which has had significant success in delivering projects over the past 6 years. The reasons for Evergreen's success include:

1. The unique political and public-sector landscape in the North West that create the conditions for growth. This permeates from senior political level to officer level and provides a united approach to investment which, in turn, instils confidence into the development industry.
2. Strong and effective leadership with swift decision making.
3. High exposure of schemes to senior leadership in GM, which is attractive to the development industry.
4. A very strong track record of project delivery, which in turn is generating significant revenue in recycled monies.
5. Good value for money in terms of set up/operational costs compared to returns.
6. A strong brand which has the confidence of the market.

6.5 The core fundamentals that are required to set up and manage a successful UDF provide the platform upon which to assess a series of options for the investment of CWLEP ERDF monies which is set out later in this section.

VALUE ADDED

6.0 Investment Models

6.6 A review of the published evidence about UDFs and discussions consultees was undertaken by Regeneris as part of its Ex-Ante Assessment to understand the quantitative and qualitative dimensions of value added to a potential UDF. The following synopsis builds on this information and identifies the potential implication of added value:

- **Providing Finance to Unlock Development** - supplying the finance required to deliver development where market failures have resulting in viability and funding problems resulting in the private sector not being able to take forward development. Anecdotal evidence suggests that funds such as Evergreen in the North West of England and Chrysalis on Merseyside have faced challenges in achieving their lifetime investment targets.
- **High Levels of Leverage** – a feature of the design of ERDF backed Urban Development Funds, such as Evergreen, is their ability to lever in substantial additional investment, both at the fund and at the deal level. A number of these have secured EIB fund level investment in the form of debt finance, as well as asset backed investment from public sector partners through the inclusion of land and property. Ideally, ERDF will be no more than 30-40% of the total funding package, but this might be challenging to secure in practice. More importantly, the UDF model involves the fund investing alongside site owners, developers and other funding partners such as banks, specialist property funds and potentially institutional investors. The contribution of a UDF should be no more than 20-25% of any specific investment given the role in targeting schemes with marginal viability.
- **Stimulating Development** - if UDFs are successful in unlocking development schemes with marginal viability, then it should help to stimulate economic activity, which in turn contributes indirectly to more active and viable development markets. They can also play role in demonstrating the returns which can be secured in this part of the market, encouraging more developers and investors to be active in these market areas.
- **Securing Specialist Expertise** - DFs require a great deal of expertise and professionalism in designing and delivering complex public sector backed instruments. The fund managers who manage UDFs may bring expertise which is not available or is limited locally.
- **Driving Economic Impacts** - ERDF backed UDFs can be used to achieve a range of desirable economic development impacts through addressing market failure affecting the delivery of sites and premises to meet the current and future needs of the area's economy. The provision of an appropriate mix of sites and premises plays a critical role in stimulating enterprise in general, supporting the process of sectoral change, as well as generating higher value jobs which provide skill development and employment opportunities for local people.
- **Recycling of Investment Returns** - one of the key strengths of using ERDF backed FIs to provide finance rather than grant mechanisms is the potential to

6.0 Investment Models

secure returns which can be reinvested (after the operational costs of the UDF are covered, depending on how these are funded). However, the ability to secure these returns for reinvestment will depend upon the nature of the UDF model, the underpinning investment strategy, the economic cycle in which investment occurs and the effectiveness of fund management activity.

STATE AID IMPLICATIONS

6.7 The Commission has built specific experience through the approval of notified aid schemes related to FIs for urban development in 2007-2013 that aimed at setting up urban development funds. These decisions were adopted directly under Article 107(3)(c) of the Treaty on the Functioning of the European Union.

6.8 The new article on "Regional urban development aid" exempts an urban development FI from the notification requirement provided that it is *"implemented via urban development funds in assisted areas"*, *"co-financed by the European Structural and Investment Funds"*, and supports the *"implementation of an integrated sustainable urban development strategy"*. Other conditions include provisions and parameters on maximum investment size (maximum €20 million per project), minimum leverage of private funds (minimum 30%), the form of aid (equity, quasi-equity, loans, guarantees), the selection of managers and investors, the remuneration of managers and investors, etc.

6.9 In relation to the state aid implications for a new FI for CWLEP, independent state aid advice has been received and sent to MHCLG. The appointed fund manager will be tasked with ensuring compliance with state-aid.

OPTIONS APPRAISAL

6.10 Based on existing research, analysis and legal advice, we consider there to be five possible fund options which may be appropriate for CWLEP. These include:

- **Option 1** – a partnership with the Greater Manchester Evergreen II fund;
- **Option 2** – a partnership fund with Stoke & Staffordshire LEP ("SSLEP");
- **Option 3** – individual Cheshire & Warrington fund;
- **Option 4** – partnership with Chrysalis (Liverpool City Region); or.
- **Option 5** – a 'do nothing' scenario, where funding allocated through ERDF to Evergreen is committed to developments as grant funding.

Option 1: Partnership with Evergreen II

6.11 Legal advice provided by Addleshaw Goddard advises that direct investment into the Greater Manchester Evergreen II Limited Partnership is not workable as:

1. Funding provided to Evergreen II via the Greater Manchester Fund of Funds Limited Partnership ("FoF") may only to be utilised within the Greater Manchester area. It is anticipated that the same restrictions will apply in relation to the ERDF funding to be advanced / invested by the other authorities; and

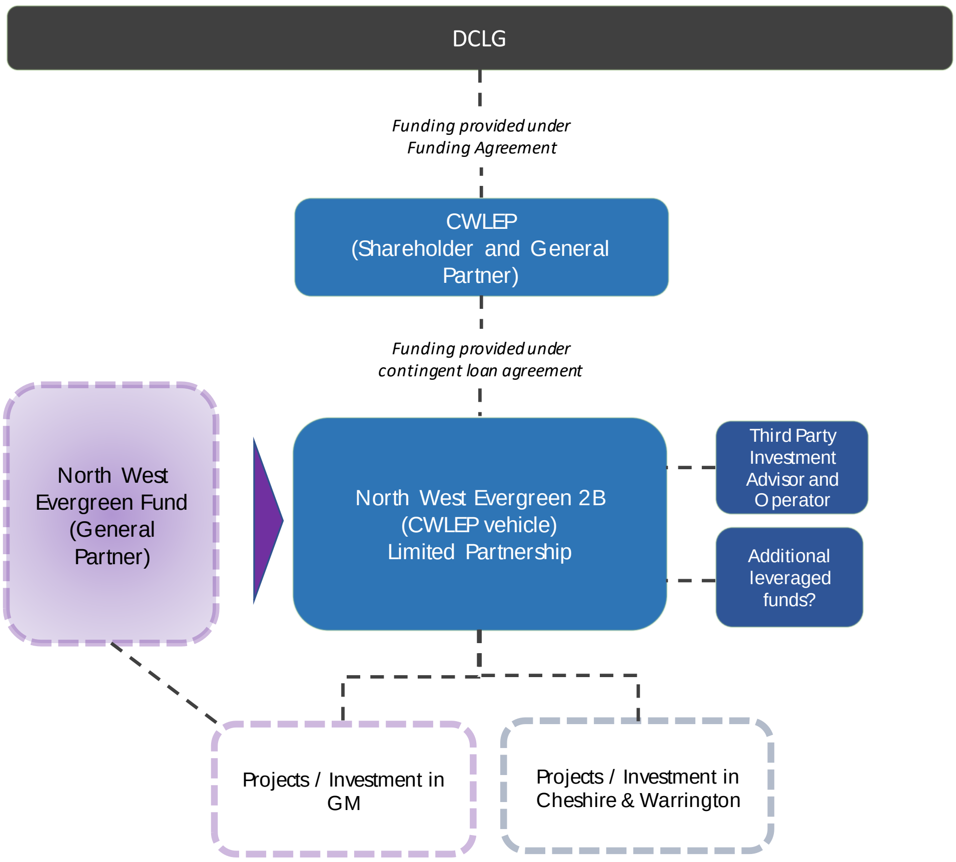
6.0 Investment Models

2. Co-mingling of area funds received by different ERDF recipients is currently not permitted under the funding documents.

6.12 Therefore, Option 1:

- Does not consider the option of direct investment into Evergreen II, which is not considered to be a legal or viable option.
- Assesses the opportunity for CWLEP to enter into a separate but parallel limited partnership with Evergreen II, using a parallel vehicle structure. This would effectively allow the allocation of funds through the Greater Manchester led Evergreen II.

6.13 The following simplified diagram sets out how the structure of a limited partnership might work. More detail on the potential organisational and governance arrangements is set out in the text that follows.



a) Structure and Organisation

6.14 As set out above, investment into Evergreen II fund is only considered to be feasible if:

- Parallel investment vehicles are created to direct investment via a ring fenced limited partnership; and

6.0 Investment Models

- A procurement exercise is run in respect of the management and administration of the funds to be invested by the authorities in the parallel vehicles.

6.15 The limited partnership model would require:

- GMCA to remain the sole limited partner of Evergreen II, with parallel limited partnership vehicle established for investment by CWLEP;
- Separate bank accounts to be established by the new parallel vehicle into which monies from each local authority can be credited and debited; and
- Common ownership is established only through the General Partner of Evergreen II (Greater Manchester Evergreen II (General Partner) Limited) and the parallel vehicle (i.e. the existing General Partner acts as the General Partner for all sub-fund vehicles, with CWLEP becoming a shareholder, with rights to appoint board members). This has the potential to provide oversight to each local authority (including GMCA) of investments being made across the North-West region (through board attendance / reporting etc.). However, each local authority should retain control of decision making in respect of investments made in its area / using its ERDF monies.

b) Governance

6.16 Investment through a parallel vehicle should not change the existing limited partnership arrangement. Greater Manchester Evergreen II (General Partner) Limited will remain the General Partner of Evergreen II, with GMCA the sole limited partner. Key governance arrangements will include:

- A new partnership arrangement put in place for the new 'parallel' vehicle for CWLWP;
- Greater Manchester Evergreen II (General Partner) Limited becoming General Partner of the new parallel investment vehicle;
- A change to the governance of the Greater Manchester Evergreen II (General Partner) Limited to:
  - Accommodate CWLEP becoming a shareholder; and
  - Allow the appointment of representatives of CWLEP to the board of Greater Manchester Evergreen II (General Partner) Limited. The number of representatives that would be appointed to the Board of Evergreen II would need to be discussed and agreed with the GMCA/DCLG as part of wider discussions on the integration of the LEP with the fund.

6.17 It is anticipated that a new shareholders' agreement is entered between the various authorities to record the governance arrangements of Greater Manchester Evergreen II (General Partner) Limited. Decisions relating to each area would be controlled by

6.0 Investment Models

the relevant authority, meaning that in practice, CWLEP would not have an ability to vote on investments in the Greater Manchester area and vice versa, and conversely each authority should have a casting vote in respect of investments in its area. It is anticipated that procurement for a fund advisor would be run by GMCA. A detailed diagram of the structure, organisation and governance is illustrated as follows:

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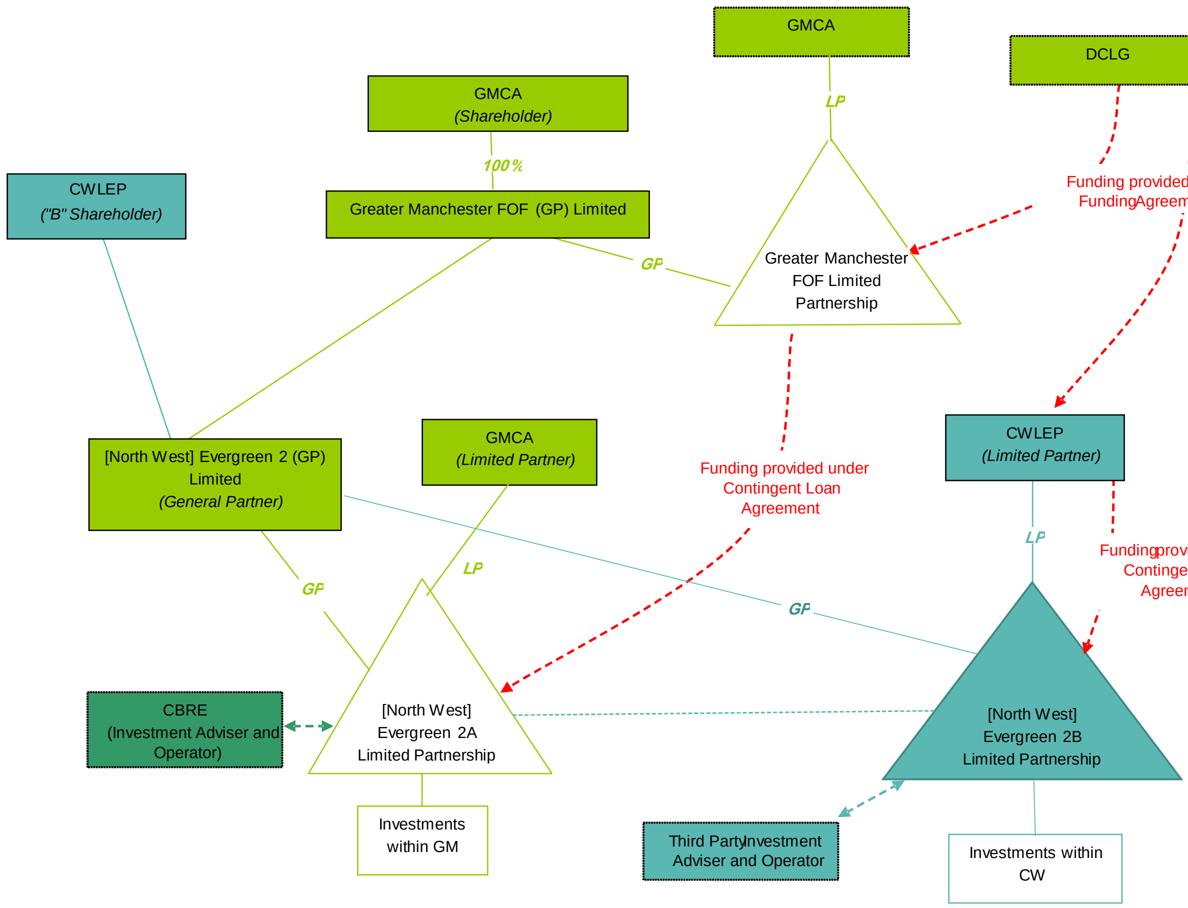

Source: Addleshaw Goddard (February 2018), amended by CBRE

c) Funding

6.18 The funding structure is prescriptive and would likely require DCLG consent, particularly to allow the co-mingling of existing funds with new ERDF funds from other areas and funding is only envisaged to be utilised in the Greater Manchester area at present.

6.19 The existing GMCA Funding Agreement does not appear to explicitly prohibit FOF or Evergreen II from obtaining and investing potential future ERDF funds into other areas, but it would require the prior written approval of DCLG.

6.20 The Funding Agreement also states that DCLG consent is required before any change to the project is made – including a change in the constitutional arrangements of the FOF or in the ownership, control and nature of business of the FOF or its General Partner. Admitting another local authority or a LEP as a shareholder of FOF General Partner and/or a Limited Partner of FOF and/or changing the nature of the FOF business to include dealing with funds and investment outside of the GM LEP Area would be likely to constitute a "Change" which would again require DCLG consent.

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6.21 It is therefore necessary that DCLG consent is obtained prior to altering the governance structure and potential the funding requirements of the existing FoF and Evergreen II. However, we understand that CWLEP has had positive discussions with DCLG with regard to the potential to join Evergreen under this type of arrangement.

d) Costs

6.22 The following tables set out the potential costs[6] of partnering the Evergreen Fund as a parallel vehicle or effectively a "sister" fund and the costs that would be passed over to any project/borrower when it is selected. Key fund management and set up costs will be incurred and whilst these will be covered by the interest earned on projects, there will be an initial cash flow requirement in years 1 and 2. General set up and management costs would include:

- Set up and management - including the costs of a private sector fund manager, a fund administrator, any in-house resource cost and other third-party fees;
- Third party legal costs – including the costs of legal fees and marketing which would be subject to tender for procurement; and
- Audit fees – which include set up / ongoing fees for the auditing of the fund.

6.23 Costs will be passed on to the borrower and individual projects as part of the overall loan agreement and through fees payable for monitoring, including:

- An initial arrangement fee payable to the fund manager;
- An exit fee on repayment of the loan;
- A third-party monitoring fee payable to the fund manager; and
- Any agency fee payable to a private sector agent payable on allocation of funding.

Parallel Fund to Evergreen

Fund Set up and Management Costs

YEAR	SET UP AND MANAGEMENT COSTS[7]	THIRD PARTY COSTS (LEGAL & MARKETING[8])	THIRD PARTY AUDIT COSTS[9]	TOTAL FUND COST PER ANNUM
1	£50,000 (£30k Gallium Fund Administration, £20k Fund Manager p.a)	£10,000	£30,000	£90,000
2	£50,000	£10,000	£30,000	£90,000
3	£50,000	£5,000	£30,000	£85,000

[6] These costs are estimates only and are based on our experience of setting up and managing similar funds, such as Evergreen I.

[7] Note: fee would increase if capital increases

[8] Legal and Marketing (set up and ongoing) fees are estimates only and will be subject to tender for procurement

[9] Audit (set up and ongoing) fees are estimates only and will be subject to tender for procurement

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4	£50,000	£5,000	£30,000	£85,000
5	£50,000	£5,000	£30,000	£85,000
6	£50,000	£5,000	£30,000	£85,000
7	£50,000	£5,000	£30,000	£85,000
8	£50,000	£5,000	£30,000	£85,000
9	£50,000	£5,000	£30,000	£85,000
10	£50,000	£5,000	£30,000	£85,000
Total (10 Yr)	**£500,000**	**£60,000**	**£300,000**	**£860,000**

Parallel Fund to Evergreen

Costs to the Project / Borrower

COST ITEM	FEE
Arrangement Fee	2%
Exit Fee	0.5%
Monitoring (3rd Party Fee)	£2,000 upfront, then £1,200 per month
Agency Fee	0.2% (min £10,000)

e) Summary

6.24 It is clear that is not legally possible to directly join the Evergreen fund. However, there are a number of benefits in entering into a parallel limited partnership with the Evergreen fund, including its track record, the pooling of resources (which could also potentially include the utilisation of available funding and c.£59m of funding returns generated by North West Evergreen) and sharing of costs. Whilst, there is uncertainty around the legal and operational logistics of such an arrangement (as well as a requirement for MHCLG consent to pursue this option), legal advice is currently being sought to clarify this approach..

6.25 The table below provides a summary of the key strengths and weaknesses of a limited partnership agreement with the Evergreen II fund.

Option 1: Limited with Evergreen II

Key Strengths and Weaknesses

STRENGTHS & OPPORTUNITIES	WEAKNESSES & THREATS
GM has significant experience of successfully managing Evergreen I, where Cheshire & Warrington were also limited partners; demonstrating a successful record of collaboration.	Direct investment into Evergreen II not workable.
Evergreen is a strong and established brand.	The co-mingling of funds and structural/organisational changes would require explicit DCLG consent – uncertainty as to whether this could be obtained (co-mingling of funds currently not permitted under the GM Funding Agreement) – however, we understand initial discussions have been positive.

6.0 Investment Models

Evergreen has established an efficient structure, which benefits from strong political support and engagement, and a track record of collaborative working between the public and private sector.	Presents legal and operational/logistics challenges – distinct parallel funding vehicle would need to be set up.
GM and Evergreen provides pre-determined investment procedures and certainty.	Would create additional layers of management and administration (at board / shareholder / investment advisor level).
The GM led fund would provide access to a large pipeline of projects and larger funding pool.	Possible appetite for GM to implement a more complex structure (if focus of investment is GM).
Evergreen benefits from existing credibility working in the market from Evergreen I.	Additional procurement process and risks.
Sharing of administrative costs / burden. Evergreen II already established, so removes some establishment cost of a new UDF fund.	Each authority would have ultimate responsibility / casting vote in respect of investments in its area – limits influence over possible investments in GM and vice versa.
Increased efficiencies of Evergreen II being operational and benefits of economies of scale.	
Strong alignment between key strategic priorities in GM and CWLEP	

Option 2: Cheshire & Warrington and Stoke-on-Trent & Staffordshire UDF

6.26 A second option could be the establishment of a joint fund by Cheshire & Warrington and Stoke & Staffordshire. This approach would pool resources, sites/schemes and experience to create a bespoke fund that would be unique to the Cheshire & Warrington and Stoke & Staffordshire geography.

a) Structure and Organisation

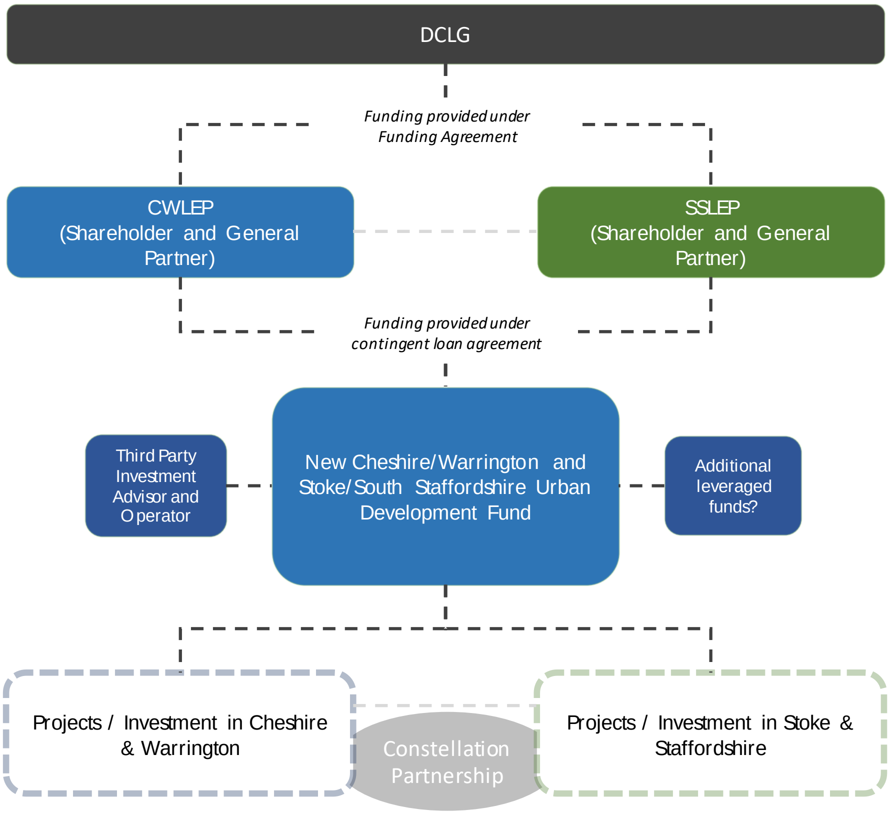
6.27 A combined fund UDF would require joint working between the authorities in Cheshire & Warrington and Stoke & Staffordshire (or potentially another Authority such as Lancashire LEP), which would need to appoint accountable body for ERDF resources either through in house or external (procured) fund management.

b) Governance

6.28 A joint fund would require the implementation of a new governance and management structure to operate jointly and assume responsibility for the implementation and management of a fund across Cheshire & Warrington and Stoke & Staffordshire. Co-ordination and accountability would be the responsibility of an appointed, accountable body and any procured fund management services.

6.29 A diagram which illustrates the potential structure and governance arrangement is illustrated below.

6.0 Investment Models



c) Funding

6.30 The funding structure would likely require DCLG consent / a funding agreement to be put in place. However, once established, this option could effectively allow the wider area to exert greater control over how and what ERDF funds are invested into. Each area could pool resources to allow a larger fund (at least c.£20m with the potential for more) to be managed by the UDF.

d) Costs

6.31 The following tables set out the potential costs[10] of setting up and managing the new joint UDF, and the costs that would be passed over to any project/borrower when it is selected.

[10] These costs are estimates only and are based on our experience of setting up and managing similar funds, such as Evergreen I

6.0 Investment Models

CWLEP and SSLEP Joint Fund

Fund Set up and Management Costs

YEAR	SET UP AND MANAGEMENT COSTS[11]	THIRD PARTY COSTS (LEGAL & MARKETING[12])	THIRD PARTY AUDIT COSTS[13]	TOTAL FUND COST PER ANNUM
1	£150,000	£50,000 (£30k Legal and £20k Marketing)	£20,000	£220,000
2	£100,000	£20,000 (£10k Legal and £10k Marketing)	£20,000	£140,000
3	£102,000	£20,000	£20,000	£142,000
4	£104,040	£20,000	£20,000	£144,040
5	£106,121	£20,000	£20,000	£146,121
6	£108,243	£20,000	£20,000	£148,243
7	£110,408	£20,000	£20,000	£150,408
8	£112,616	£20,000	£20,000	£152,616
9	£114,869	£20,000	£20,000	£154,869
10	£117,166	£20,000	£20,000	£157,166
Total (10 Yr)	**£1,125,463**	**£230,000**	**£200,000**	**£1,555,463**

CWLEP and SSLEP Joint Fund

Costs to the Project / Borrower[14]

COST ITEM	FEE
Arrangement Fee	2%
Exit Fee	0.5%
Monitoring (3rd Party)	£2,000 upfront, then £1,200 per month
Agency Fee	0.2% (min £10,000)

e) Summary

6.32 Establishing a new joint fund in each area would follow a similar process to an individual fund, with the pooling of resources and costs. This approach could build on links established across these geographical areas (such as the Constellation Partnership) and offer control over the allocation of funds and the overall management of the investment.

6.33 The table below provides a summary of the key strengths and weaknesses of pursuing a new joint UDF. However, it should be noted that following discussions

[11] The set up and management costs include the costs of a private sector fund manager, a fund administrator, any in-house resource cost and other third-party fees. Note: fee would increase if capital increases. Note: fee would increase if capital increases

[12] Legal and Marketing (set up and ongoing) fees are estimates only and will be subject tender for procurement

[13] Audit (set up and ongoing) fees are estimates only and will be subject tender for procurement

[14] Costs include Arrangement Fee (an initial arrangement fee payable to the fund manager), Exit Fee (An exit fee on repayment of the loan), Monitoring (a third-party monitoring fee payable to the fund manager) and Agency Fees (any agency fee payable to a private sector agent payable on allocation of funding).

6.0 Investment Models

with both SSLEP and Lancashire Enterprise Partnership, neither LEP currently have an appetite for such a joint fund.

Option 2: Cheshire & Warrington and Stoke & Staffordshire Joint UDF

Key Strengths and Weaknesses

STRENGTHS & OPPORTUNITIES	WEAKNESSES & THREATS
Greater control over the allocation and investment of funds, including the reinvestment and retention of future monies.	Higher costs associated with establishing a fund from scratch, rather than partnering with existing arrangements – including management and operational costs.
Reduction in legal uncertainty when compared to partnering and administering GM Evergreen II Fund.	New fund would likely require DCLG consent.
Possibility of linking in with existing arrangements such as the Growing Places Fund or other capital funding programmes across the two geographical areas.	Possible complexity with joint working arrangements and governance – including set up and management.
Indicative assessment suggests that there could be a healthy supply of pipeline projects which could be pooled across CW and SS.	Possible issues with resources, skills and experience in fund establishment and management (i.e. marketing, deal making, due diligence, fund management and oversight)
Possibility of including further monies from CW/SS local authorities to top up the fund and increase returns to deliver the pipeline of projects.	Possible conflict between strategic and investment priorities of each area. Possible issues with fund management in covering the full spectrum of funding types involved.
Sharing of administrative costs / burden of starting a new fund – pooling of resources, skills and experience.	The brand and reputation of the fund would not be as strong as Evergreen.
A single branded fund could increase profile/credibility and link into the Constellation Partnership.	Political and organisational uncertainty when compared to existing fund.
	May result in competition between CWLEP and Evergreen (covering the same geographical area).

Option 3: Individual Cheshire & Warrington Fund

6.34 Option 3 would result in an individual fund being pursued by Cheshire & Warrington, allowing the allocation of funds to be controlled directly by the CWLEP geographical area and its managing body.

a) Structure and Organisation

6.35 A bespoke fund would require a local statutory body to act as an accountable body for ERDF resources – either through in-house or external (procured) fund management. CWLEP would set up a separate fund geared towards ERDF investment through a newly established UDF mechanism. There is also the potential for a bespoke CWLEP fund to consider assuming control of other funds, such as the Growing Places Fund ("GPF") in order to increase the scale and reach of the fund.

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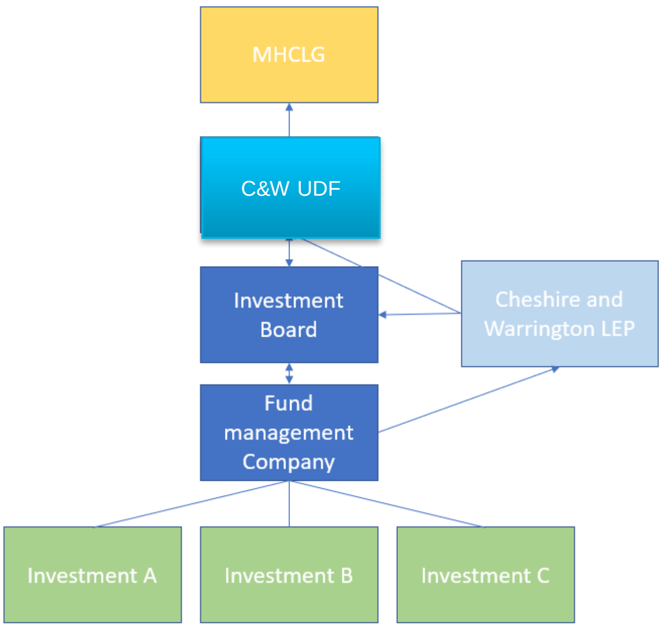
b) Governance

6.36 CEC would be the accountable body under this model and a new Limited partnership set up. The General Partner; Cheshire and Warrington UDF would be responsible for the delivery of the fund with support from the LEP.

6.37 The LEP would lead on the appointment of a fund management company, with all documents counter checked by CEC. The Fund management contract would let by the General Partner, Cheshire and Warrington UDF.

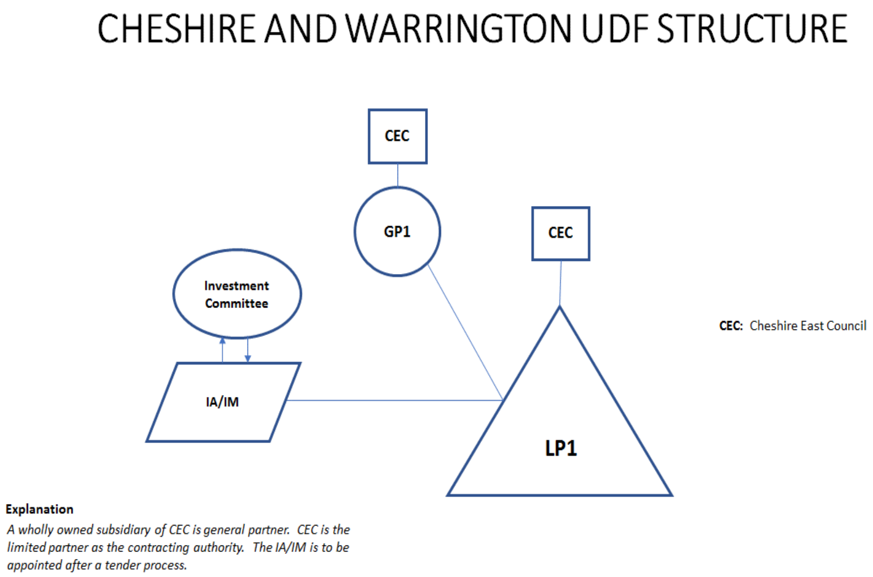
6.38 The UDF would manage the grant funding and approve drawdowns to the Fund management company. It isn't envisaged that any staff will be directly employed by the UDF. The LEP will be the main point of contact for the fund and will complete all the claims and reports. CEC however will sign-off all the reports, claims and drawdowns and carry out all the mandatory functions of the company, such as filing the accounts at Companies House and arranging audits.

6.39 A diagram showing the proposed governance and reporting arrangements is below:



6.40 A diagram which illustrates the potential structure and governance arrangement is illustrated below.

6.0 Investment Models



It is envisaged that the grant funding agreement will be between MHCLG and the GP1 which will be called Cheshire and Warrington UDF. This will be wholly owned by Cheshire East Council.

c) Funding

6.41 The funding structure is prescriptive and would likely require DCLG consent / a funding agreement to be put in place. However, once established, this option could effectively allow CWLEP to exert greater control over how and what ERDF funds are allocated.

f) Costs

6.42 The following table sets out the potential costs[15] of setting up and managing a new CW UDF, and the costs that would be passed over to any project/borrower when it is selected. This option would essentially replicate the costs of a joint fund, but the costs would need to be individually absorbed by CWLEP (so, combined, the costs are effectively doubled).

[15] These costs are estimates only and are based on our experience of setting up and managing similar funds, such as Evergreen I

6.0 Investment Models

Individual Funds for CW

Fund Set up and Management Costs

YEAR	SET UP AND MANAGEMENT COSTS – FOR EACH LEP[16]	THIRD PARTY COSTS (LEGAL & MARKETING[17]) – FOR EACH LEP	THIRD PARTY AUDIT COSTS – FOR EACH LEP[18]	TOTAL FUND COST PER ANNUM – FOR EACH LEP
1	£150,000	£50,000 (£30k Legal and £20k Marketing)	£20,000	£220,000
2	£100,000	£20,000 (£10k Legal and £10k Marketing)	£20,000	£140,000
3	£102,000	£20,000	£20,000	£142,000
4	£104,040	£20,000	£20,000	£144,040
5	£106,121	£20,000	£20,000	£146,121
6	£108,243	£20,000	£20,000	£148,243
7	£110,408	£20,000	£20,000	£150,408
8	£112,616	£20,000	£20,000	£152,616
9	£114,869	£20,000	£20,000	£154,869
10	£117,166	£20,000	£20,000	£157,166
Total (10 Yr)	**£1,125,463**	**£230,000**	**£200,000**	**£1,555,463**

Individual Funds for CW

Costs to the Project / Borrower[19]

COST ITEM	FEE
Arrangement Fee	2%
Exit Fee	0.5%
Monitoring (3rd Party)	£2,000 upfront, then £1,200 per month
Agency Fee	0.2% (min £10,000)

d) Summary

6.43 Whilst establishing a new fund for CWLEP would require significant upfront costs and investment in resource, it would offer control over the allocation of funds and the overall management of the investment. It also offers the opportunity to combine with other funds, such as GPF, to increase the scale of the fund and to share the administrative resource and set up costs.

[16] The set up and management costs include the costs of a private sector fund manager, a fund administrator, any in-house resource cost and other third-party fees. Note: fee would increase if capital increases. Note: fee would increase if capital increases

[17] Legal and Marketing (set up and ongoing) fees are estimates only and will be subject tender for procurement

[18] Audit (set up and ongoing) fees are estimates only and will be subject tender for procurement

[19] Costs include Arrangement Fee (an initial arrangement fee payable to the fund manager), Exit Fee (An exit fee on repayment of the loan), Monitoring (a third-party monitoring fee payable to the fund manager) and Agency Fees (any agency fee payable to a private sector agent payable on allocation of funding).

6.0 Investment Models

6.44 The table below provides a summary of the key strengths and weaknesses of pursuing individual funding arrangements.

Option 3: Individual Cheshire and Warrington UDF fund

Key Strengths and Weaknesses

STRENGTHS & OPPORTUNITIES	WEAKNESSES & THREATS
Greater control over the allocation and investment of funds, including the reinvestment and retention of future monies.	High costs for LEP associated with establishing a fund from scratch, rather than partnering with existing arrangements – including management and operational costs.
Reduced legal uncertainty, when compared to joining and administering GM Evergreen II Fund.	New fund would likely require DCLG consent.
Possibility of linking in with existing arrangements such as the Growing Places Fund or other capital funding programmes to increase the scale of the fund.	The vehicle may require top up funds - £10m would be the minimum of what might be efficient given the potential start up and management costs.
Good supply of pipeline projects in CW which could deliver returns.	Possible issues with resources, skills and experience in fund establishment and management (i.e. marketing, deal making, due diligence, fund management and oversight)
Possibility of authorities in the region investing further monies to top up the fund and increase returns to deliver the pipeline of projects.	Weaker branding and smaller geographical coverage.
New branded fund could increase profile of CW	Not as attractive to fund managers – may be considered too small in isolation.
Individual fund would ensure a strong alignment with individual strategic priorities of CWLEP	More limited project pipeline to draw on and recycle funds.

Option 4: Partner with Chrysalis

6.45 A fourth option could be to join another fund, the Liverpool City Region's Chrysalis fund. Chrysalis is run by a private sector entity, which differs from the GM Evergreen fund which is a public-sector entity that has a procured service. There would therefore be high costs associated with the consortium that manages the Chrysalis fund.

6.46 At present the fund is paying the consortium approximately £500,000 per annum (at year 6 onwards) to manage the fund (based on a £30m fund size). The cost of set up and management of the fund in year 1 was close to £1 million. As such, it is likely that entry into the Chrysalis fund by CWLEP would be at least as high as the cost of setting up a new fund.

6.47 Furthermore, Chrysalis is currently using 'ring fenced' monies for its Objective One programme, which would not be accessible by the LEP. Also, there is a potential disconnect, both strategically and geographically, between CWLEP and the Liverpool City region, which may discourage partnership or investment. Lastly, there is little evidence of an appetite (at this stage) for Chrysalis to consider a partnership with

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another region. For these reasons, it is not considered that partnership with the Chrysalis fund is a viable or attractive option.

6.48 The table below provides a summary of the key strengths and weaknesses of pursuing a partnership with Chrysalis.

Option 4: Partner with Chrysalis

Key Strengths and Weaknesses

STRENGTHS & OPPORTUNITIES	WEAKNESSES & THREATS
Sharing of administrative costs / burden. Chrysalis already established, so removes some establishment cost of a new UDF fund.	High costs of private management fees (likely higher than setting up and individual fund).
Increased efficiencies of Chrysalis being operational and benefits of economies of scale.	Lack of experience and precedent.
Possible access to a larger pool of projects.	Would require DCLG consent.
Experienced track record of successful grant funding in CW.	Appetite of another fund (Chrysalis) to absorb the management and costs of including CW is not established based on discussions.
	Geographical and strategic disconnect.
	Chrysalis is currently using 'ring fenced' monies for its Objective One programme, which would not be accessible by CWLEP.
	Not as attractive as Evergreen as a potential partnering option.

Option 5: "Do Nothing" (No UDF / Grant Funding)

6.49 A final option could be a 'do nothing' approach, where Cheshire & Warrington re-allocates its ERDF funding earmarked for Evergreen through grant funding to support development.

6.50 There would likely be a strong demand for grant finance across Cheshire & Warrington, and there is a track record of this type of funding across the geographical area. Whilst this option would remove significant administrative and management costs, it would not have the long-term benefits of recycling monies into the area and generating repeat investment.

6.51 The table below provides a summary of the key strengths and weaknesses of pursuing a "do nothing" grant funded approach.

Option 5: No UDF

Key Strengths and Weaknesses

STRENGTHS & OPPORTUNITIES	WEAKNESSES & THREATS
Likely strong demand for grant funding from projects across CW	Would not offer a return on investment or the recycling of funds.
Could help to fill viability gaps on marginal sites and help to unlock sites in emerging markets.	Potentially a missed opportunity to provide a catalyst for longer term investment.

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Removes significant start up, legal, procurement marketing and management costs when compared to the UDF approach.
Experienced track record of successful grant funding in CW.

Summary

6.52 The table below provides a review of the options based on their overall deliverability, costs and ability to deliver efficiencies and value for money; including:

- ***Deliverability*** – the logistics/ease of establishment, complexity and flexibility of structure and investment model, difficulty in management and operation;
- ***Cost*** - costs/economies of scale including set up, management and third-party costs; and
- ***Value for Money*** – efficiency and ability to deliver return on investment.

Options Appraisal

OPTION	DELIVERABILITY	COST	VFM	SCORE / COMMENTS
Option 1: Partnership with Evergreen II	✓✓✓	✓✓✓✓	✓✓✓	**Score: 10** Deliverability and flexibility dependent on consent (DCLG) and amendment to existing GM arrangements.
Option 2: Joint Fund	✓✓✓	✓✓✓	✓✓✓	**Score: 9** Pooling of resources and pipeline of sites, but set up costs higher that partner fund.
Option 3: Individual CWUDF Fund	✓✓✓	✓✓	✓✓✓	**Score: 8** Allows control over investment, but constitutes high parallel set up costs compared to a joint UDF.
Option 4: Partnership with Chrysalis	✓✓	✓✓	✓✓	**Score: 6** High set up costs, lack of control and logistical difficulties, no demonstrated appetite for partnering.
Option 5: Do Nothing (No UDF)	✓✓✓✓	✓✓✓✓	✗	**Score: N/A**

6.0 Investment Models

	Set up costs minimal but does not deliver a return on investment, so no score is given.

Source: CBRE

7.0 Conclusions

7.1 The assessment illustrates that, subject to DCLG consent and deliverability, a **Individual Cheshire and Warrington UDF** would be the most desirable option for CWLEP particularly if weight is given to ease of establishment.

7.2 A sister fund to Evergreen fund would provide a strong platform upon which CWLEP could invest ERDF monies, and offer a high likelihood for delivering recycled funds to reinvest in the region. The key reasons for this recommendation are:

1. The general benefits of establishing a sister fund:

7.3 The ability to offer a product to the market which is already known and understood.. This would have the additional benefits of:

- Evergreen I and II can share their relevant enquiries and cross refer as appropriate.
- Evergreen I is almost fully invested so the establishment of this fund will provide a seamless transition for companies seeking finance in Cheshire and Warrington.
- This fund will be able to build on best practice and lessons learnt from Evergreen 1.

2. Building on Evergreen's Success

7.4 As set out earlier in this section, CBRE consider that Evergreen is a successful model for UDF delivery. In establishing a sister fund, CWLEP would benefit from:

- Building on an established and highly successful brand.
- Existing credibility in the market derived from Evergreen I.
- Market knowledge of how a Urban Development Fund works and numerous examples of projects that have benefitted from the funding invested under Evergreen 1

3. A Significant Fund and Strong Project Portfolio

7.5 Establishing a sister Fund would give:

- Access to a large pipeline of projects, which will add certainty in terms of the breadth and depth of project which are eligible for investment.
- Working with CWLEP on the LGF and GPF funds and Enterprise Zone gives an opportunity for coordination of support and of investments and sharing of enquiries and knowledge across the sub-region.
- The evergreen 1 model is tried and tested and there is no a track record of investment performance which can be used as an example for interested parties.
- Intermediaries are already familiar with the product, so marketing and awareness raising of the fund should be relatively easy and cheap.

7.0 Conclusions

Flexibility in the investment and recycling of funds.4. Collaboration and Shared Strategic Priorities

7.6 There are already links established between Greater Manchester and CWLEP, which are essential components of the Northern Powerhouse. The key benefits include:

- An existing history of collaboration in Evergreen I between Greater Manchester and CWLEP, which demonstrates the ability of joint working within the Evergreen fund.
- The ability to link into CWLEP joint working on strategic partnerships such as the Constellation Partnership.
- Shared strategic priorities across the regions, which share major investment opportunities such as HS2

5. Value for Money

7.7 The Evergreen fund has the potential to maximise returns for CWLEP by providing:

- Relatively low set up and management costs which do not place and undue burden on the LEP.
- The ability to draw on experience and pool resources.
- The ability maximise returns due to a strong project portfolio and the potential for the efficient delivery of projects/recycling of funds.

MANAGEMENT AND REVIEW

Investment Strategy

7.8 The projects identified within Appendix 1 and Appendix 2 will form the basis of the potential investment strategy. During the development of projects CWLEP will develop investment guidelines, which will guide development parameters for eligible projects. This will be tied to the CWLEP SEP and Enterprise Zone Investment Programme, but will also potentially focus upon projects outside of the Enterprise Zone. Further work will be undertaken by CWLEP in respect of investment options and guidelines in due course.

7.9 Cheshire East Council (CEC) will be acting as the entrusted entity on behalf of CWLEP Thee newly formed Cheshire and Warrington UDF, wholly owned by CEC will be responsible to signing off the investment strategy prior to being issued as part of the fund management procurement process..

Funding

7.10 The CWLEP will provide the operating costs for the first two years of the fund until it becomes self financing.

7.11 Financial modelling shows that after two years, interest from investments and idle funds will be sufficient to meet the running costs of the fund.

7.0 Conclusions

7.12 Match funding is expected to be secured on an investment by investment basis and will be a requirement of any investment. The appointed fund manager will manage this. Using figures achieved on Evergreen I investments in Cheshire and Warrington, it is expected that approximately £38m of match funding will be achieved against a £20m fund.

Quantified Impacts and Leverage

7.13 Based upon the projects identified as part of this Ex-Ante, we would expect that the potential impacts associated with establishing a revolving UDF would be significant. Whilst it is not possible to fully quantify these impacts given the revolving nature of the fund, we have expect the fund to be able to create 20,335m2 of new floorspace, based on figures achieved by the Evergreen I investments in Cheshire and Warrington.

7.14 Further specific quantification of impact will be provided as more detailed investment options and guidelines are established over the coming months.

7.15 Whilst this high-level review of project pipeline does not enable specific leverage impact of potentially allocated funds, it is currently expected that the leverage effect will be similar to that achieved by Evergreen I and II. An assessment of recently funded projects suggests that an average leverage of c. 1: 1.88 could be achieved.

7.16 Green House Gas reductions levels have been estimated using data from schemes either delivered or delivered through out C&W some of which have been partly funded by ERDF or Innovate UK. The figures suggest that for an investment of £8m of low carbon funding GHG savings could be 20,000 tonnes over five years.

7.17 Jobs again based on performance of previous investments has been estimated at 2130.

7.18 The funding is expected to help a number of Brownfield sites be developed out that may have been stalled due to lack of finance. Based on Evergreen I, it is expected that 19ha of land will be developed.

Management

7.19 As outlined at Paragraph 6.14, the procurement of a Fund Manager will be run by CWLEP. An ITT and briefing documents will be prepared in due course,

7.20 CWLEP has a clear process for managing the performance and review of the LEP programme, which would be utilised to monitor and review the allocation of funds into any investment model option (whether integrated with an existing fund or where a new fund is established).

7.21 For example, CWLEP has a Performance and Investment (P&I) Committee and undertakes monthly meetings with BEIS and MHCLG which monitor and manage the programmes and projects at the individual project level. The LEP programme manager or ESIF Programme Manager sits on relevant boards overseeing key projects and attends monthly meetings with to discuss progress on all projects. The

7.0 Conclusions

programme managers endeavour to share best practice and have shared for example, strong business cases to be used as examples.

7.22 The UDF will ultimately be responsible for the management and monitoring of the fund. There will be quarterly investment board meetings to discuss investment proposals and monitor progress of investments against financial and outputs milestones. The LEP P&I committee will also receive regular updates and recommend intervention to the UDF board as appropriate. The Investment board and LEP will work with the Fund manager to ensure that grant drawdown targets are met and will be able to use the Growth Hub, Growth and Skills Company and Evergreen II fund to help promote this fund to ensure investments are made in a timely manner to meet trigger points.

7.23 The Fund manager will be responsible for managing the investments on a day to day basis and will be expected to have receive monthly management information from all the investments. The fund manager will be expected to work closely with the SMEs during the life of the loans and to take early, appropriate action should there be any risk of defaults on loans, such as restructuring, payment holidays etc.

7.24 Through risk management CWLEP identifies risks early and takes steps to manage risk, including setting clear milestones, and considering the reallocation of funds in extreme circumstances where required. These procedures ensure that projects are driven forward and that key risks are identified.

7.25 The UDF will manage all the reporting to MGCLG with support from the LEP programme manager as there will be staff directly employed by the UDF.

7.26 CWLEP has a proven track record in managing UDFs as demonstrated through the execution of the Growing Places Fund.

7.27 Of the £12.1m GPF CWLEP were awarded a total of £13.3m has now been loaned. Two loans are currently live and four loans worth a total of £6.26m have been repaid. Whilst this fund has been operating on the basis of "breaking even" rather than making a profit. The average rate of interest has been 3.25%.

7.28 This demonstrates that there is clear appetite across Cheshire & Warrington for take-up of funding.

7.29 CWLEP are currently considering one application for £3.8m and have had discussions with another four companies about applications totalling £4.4m. The table below summarises the GPF Applications that have been made since funds were allocated.

Project	Status	Total £	Loan £	Longstop	Comments
Kingfisher Square	Completed	722,902	235,000	30/07/13	
Tower Wharf	Completed	3,139,000	1,285,000	30/04/15	24 two bed flats
Edgewater Park	Completed	5,115,000	1,743,000	30/04/15	39 three bed houses
Omega North	Completed	10,600,000	3,000,000		
Synge Street	Rejected	208,000	80,000		
Telford Court Care Home	Rejected	5,500,000	1,925,000		81 bed care home

7.0 Conclusions

Square One*	Enquiry.	750,000	300,000		Expression of Interest Due after Christmas
AMRC	Rejected		3,000,000		Rejected by Strategy Com as to high risk. Managed to secure funding from GMLSF
Jodrell Bank	Withdrawn		2,000,000		University provided funding.
Yprotech	Enquiry.		150,000		Seeking funding elsewhere
Cheshire Green Employment Park	Signed		3,200,000		
Bruntwood - Glasshouse	Signed		3,872,876		Gap funding to complete building at Alderley Park
New Bridge Road Sub Station	Awaiting application		676,000		Provision of sub station
Hooton Park	Withdrawn - to be funded under EZ		1,700,000		
Vauxhall	In appraisal		2,500,000		To pay for four energy saving projects which should present savings to enable loan to be repaid within two years.
Total			**25,666,876**		

7.30 CWLEP have not awarded funds to enable the support of all projects. Almost £10m of funding applications have either been withdrawn, rejected or are at enquiry stage. We consider that this provides further evidence of significant pent up demand for funding within the area.

7.31 Other initiatives for monitoring and review include:

- Standardising monthly monitoring and quarterly claim dates to provide clarity and ensure consistency in the submission of forms.
- Ensure that the capturing of information on claim forms is simplified to streamline monitoring, management and reporting.
- Implementing a monitoring workbook which is updated quarterly after submission of claims.
- Monthly meetings to discuss all funding projects to ensure ongoing monitor of projects and funding streams.

7.32 CWLEP would ensure that robust monitoring and management procedures are implemented in the management and ongoing investment of any fund monies.

7.33 How the fund would meet Strategic Objectives

7.0 Conclusions

The Fund will meet both national and sub regional objectives. By investing in new research and development facilities at sites look such as Alderley park it will help create jobs and continue to develop the reputation of the area for R&D. The provision of finance for SMEs to improve efficiency will help SMEs survival rates and competitiveness, by enabling business to reduce their running costs and invest in new technology. The low carbon funding will help to build and retrofit buildings which are much more energy efficient and cost efficiency, improving air quality at the same time as helping to reduces businesses operating costs. The Low Carbon element of the fund will also help to roll out low carbon technology across the region, helping to showcase the benefits, which should in turn help to increase the uptake of new low carbon technology and drive down the costs.

Overall the fund is expected to fit will with the Strategic Economic Plan, helping to contribute to the a growing economy and fits with the emerging Local Industrial strategy and the underpinning Energy and Clean Growth Strategy published by the LEP by helping to promote low carbon technology and saving over 20,000 tonnes of C02 within 5 years.