

LIVERPOOL CITY REGION COMBINED AUTHORITY

To: The Metro Mayor and Members of the Combined Authority

Meeting: 8 March 2019

Authority/Authorities Affected: All

EXEMPT/CONFIDENTIAL ITEM: No

REPORT OF THE DIRECTOR OF COMMERCIAL DEVELOPMENT AND INVESTMENT AND PORTFOLIO HOLDER: INCLUSIVE GROWTH, ECONOMIC DEVELOPMENT, DIGITAL AND INNOVATION

ESTABLISHMENT OF A NEW LIVERPOOL CITY REGION URBAN DEVELOPMENT FUND

1. PURPOSE OF REPORT

- 1.1. In March 2018, the Combined Authority considered and approved a report for the establishment of a new Urban Development Fund (UDF) for the city region. This approval resolved that:
- (a) An application for £25million be progressed to the Local Growth Team of the Ministry for Housing, Communities and Local Government for the establishment of an Urban Development Fund;
 - (b) Delegated authority be granted to the Head of Paid Service, in conjunction with Treasurer and the Metro Mayor to complete and submit the required application documentation to the Ministry for Housing, Communities and Local Government; and
 - (c) A follow-up report on the progress of the bid and any associated actions, including financial and staffing implications be brought to a future meeting of the Combined Authority.
- 1.2. The purpose of this report is to update members on progress made in relation to the resolutions above and to seek authority to accept, subject to approval of the application, the award of funding of £25,000,000 from MHCLG.

2. RECOMMENDATIONS

- 2.1. It is recommended that the Liverpool City Region Combined Authority:
- (a) Note that the application to MHCLG for ESIF funding of £25 million, including the provision of £1.4m match funding from the Combined Authority, was submitted on 1 February 2019.

- (b) Accept, subject to approval of the application, the award of funding of £25,000,000 of European Regional Development Fund (ERDF) monies from MHCLG for the establishment of the proposed UDF.
- (c) Grant delegated authority to the Head of Paid Service to negotiate the terms and enter into the ensuing Grant Funding Agreement in consultation with the Combined Authority Monitoring Officer and Combined Authority Treasurer.
- (d) Grant delegated authority to the Head of Paid Service to conduct the necessary procurement for the services of a Fund Advisor, as per the requirements of Article 16 Commission Regulation (EU) 651/2014.
- (e) Note the proposed use of £1.4m in match funding to be deployed.

3. BACKGROUND

- 3.1 In 2012, the Chrysalis Fund, was created to support urban development across the LCR. The basic principle of Chrysalis was to take a commercially driven approach to the use of public funds in the delivery of regeneration and economic development. It was formed under the Joint European Support for Sustainable Investment in City Areas (JESSICA) initiative, which allows ERDF and match funding to be invested via Urban Development Funds (UDFs) in urban projects using loans, equity and/or guarantees. This initiative provided the LCR with £28m ERDF funds to be invested over 10 years and was subsequently increased to £35m through Homes and Communities Agency funding.
- 3.2 In 2013, the European Investment Bank (EIB) appointed PwC to undertake two Ex-Ante assessments for two new UDFs for the 2014-2020 investment period for the North West and LCR, called at that time Chrysalis Fund II and a Low Carbon Investment Fund. This was included in the LEP led 'EU Structural and Investment Funds Strategy 2014-2020'. However, after completing the report, the Combined Authority did not progress in the establishment of the proposed UDF.
- 3.3 The Combined Authority subsequently considered it appropriate to work towards the establishment of the proposed UDF. In March 2018, PwC presented the 'Chrysalis Fund: 2014-2020 Ex Ante Assessment Update' updating evidence that strongly supported the case and necessitates a complementary financial instrument to unlock development opportunities across the LCR. The proposed UDF will comprise £25m of ERDF funding from the MHCLG, a £1.4m contribution from the Combined Authority (available from the 2017 novation of the Chrysalis Fund from Homes and Communities Agency to Combined Authority ownership) and match funding on a project-by-project basis. The application has now been reviewed by MHCLG and progressed to further negotiation between MHCLG and the Combined Authority. Therefore, acceptance of the grant award is now required to progress with the signoff of the funding agreement and the operational establishment of the proposed UDF.
- 3.4 It should be noted that this represents a Key Decision due to the scale of funding and city region wide area of potential impact. A Key Decision Notice has been prepared and published for the project.

4 NEXT STEPS

- 4.1 To negotiate detailed terms of the Grant Funding Agreement and proceed with its signoff, before 28 March 2019;
- 4.2 Procure the required Fund Advisor for the UDF, and
- 4.3 Take the appropriate operational measures to ensure the delivery of the UDF.

5 RESOURCE IMPLICATIONS

5.1 Financial

The Combined Authority Treasurer has confirmed that the proposed match-funding request of £1,400,000 can be accommodated as part of the use of novated funds of the Chrysalis Fund novation (Advice Note – File Ref. 12056).

5.2 Human Resources

Due to the selected, in-house, route for the UDF its delivery will be supported with two dedicated staff, a full time Fund Manager and a part time Fund advisor. These roles will be partially funded, up to the maximum eligible costs, by the ERDF resources received. The positions will be filled by an internal recruitment process. If the outcome of this is not satisfactory, the recruitment shall be made external.

The Investment Team and Legal Team will lead the negotiation of the Grant Funding Agreement and the Programme Management Office and Finance Team will have responsibility for managing the delivery of the UDF's investments once the project is live.

5.3 Physical Assets

There is no specific requirement for physical assets. The fund will perform its operations in the existing Combined Authority facilities.

5.4 Information Technology

The approval of funding will not give rise to Information Technology issues.

6 RISKS AND MITIGATION

- 6.1 The Funding Agreement between the Combined Authority and MHCLG will seek to ensure, to the extent achievable, that risk to the Combined Authority is managed, including in relation to State Aid.
- 6.2 Individual project risks are identified and considered as part of the application evaluation process and the proposed Investment Strategy. The Fund Manager with support from the Programme Management Office and Finance Teams will be responsible for ensuring that during delivery risks are understood and that the UDF and its beneficiaries takes necessary steps to mitigate these.

7 EQUALITY AND DIVERSITY IMPLICATIONS

- 7.1 Equality and Diversity implications are considered as part of the application process and relevant considerations are set out in the Full Application.

8 COMMUNICATION ISSUES

- 8.1 All projects approved by the UDF will be subject to the Combined Authority and ERDF's branding guidelines and publicity requirements placed upon them as part of the Funding Agreement. In addition the Combined Authority will, through its adopted communication protocols, publicise the award of funding to the projects and the associated envisaged outcomes.

9 CONCLUSION

- 9.1 This report updates the Combined Authority as set out in paragraph 1.1(c) above and seeks authority as set out in paragraph 2.1 above.

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Appendices:

None

Background Documents:

Combined Authority Paper for the UDF – March 2018