

5. PRINCIPLES FOR THE USE OF GCGPEP FUNDS: DESIGNING THE FRAMEWORKS AND PROCESSES FOR DECISION

Summary: for decision

1. The board recommends a series of principles and criteria for the use of GCGPEP funds and the design of funding programmes. These principles and criteria will be used to work up more detailed frameworks and processes. Proposed principles and criteria include:
 - A. **General principles: funding supports GCPEP role and priorities from the Growth Prospectus; supports high impact on the economy; adds significant value; funding decisions clear and transparent**
 - B. **Manageable number and size of funding programmes: no more than 6 funding programmes, min. value of £250k each. Other projects outwith these go through normal board, business planning and delegation procedures**
 - C. **Achieving high impact: funding substantially benefits all or part of GCGPEP area; prime objectives of funded activities are economic; clear economic benefits; clear evidence of opportunity/need; potential economic impacts are quantified and reasonable; achieves satisfactory leverage/co-financing**
 - D. **Portfolio balance: recyclable vs. non-recyclable use: the board sets out expectations of what proportion of fund use is recyclable/non-recyclable**
 - E. **Open bidding arrangements: are likely to encourage innovation, risk, and allow competitive selection of projects and activities which may generate the best impacts/results. Its recommended that where calls are made to existing and potential partners for projects or bids for funding these are open and assessed transparently**
 - F. **The board endorse the general approach to developing, managing and monitoring funding programmes set out in the paper**
 - G. **The board add to, and endorse a list of uses deemed inappropriate in relation to GCGPEP funds**

Background

2. In May 2013 GCGPEP will have £2 to £2.5 million available to spend on economic development projects and activities, that will become available from repayment of Growing Places Fund loans. A further £6million is estimated to be repaid in the 13/14 financial year. There may also be a Round 2 of the Growing Places Fund – although there is as yet no firm indication if this will be the case.
3. In the 12 January 2012 board meeting, a number of principles of funding were discussed, with a particular focus on the 2012 Growing Places Fund (Round 1). This set out that funding allocations should follow the stated (at that time) GCGPEP priorities of:
 - Skills and employment
 - Strategic economic vision (incl. infrastructure and housing)
 - Supporting high growth potential businesses and clusters
 - Funding, including inward investment and EU funding
 - Responding to economic shocks
4. The 12 January board paper also specified key funding criteria which would form part of the appraisal of funding bids and decisions such as consistency with GCGPEP's strategic priorities; expected number

of jobs created, deliverability, well-evidenced need for the project and for GCGPEP investment; value for money; levels of leverage with other funding; State Aid compliance; and delivering sustainable growth.

5. The 12 January board paper further proposed that projects for funding that were suitable for investment through loan or equity arrangements would have a higher weighting to try and help create a sustainable rolling fund.
6. Currently we have some broad principles (which are sound) but no proper board-approved systems, structures, processes or monitoring arrangements for the disbursement of these funds. Although we have satisfactorily managed the Round 1 Growing Places Fund allocations and projects on an ad-hoc basis - clearly, GCGPEP would benefit from establishing a clear, transparent and systematic process for the use and award of funds.
7. We also lack such procedures for making decisions about how GCGPEP uses the Enterprise Zone business rates revenues which will start to accumulate in 2014. So therefore it is useful to start to develop some core principles and proposals that could also be applied to the use of these funds.
8. Potential beneficiaries, bidders and co-financers of GCGPEP funds will benefit greatly from advanced notice of funding conditions and eligibility – this helps them better plan projects and activities – which will ultimately mean more effective and impactful use of GCGPEP funds.
9. This paper proposes a number of principles for the use of funds, and the key decisions that will need to be made over the next 3-6 months with regard to the use of funds. Whilst all attempts will be made to avoid an overly-bureaucratic system and process – nonetheless a system must be put in place to ensure that GCGPEP funds are spent appropriately and that maximum value and impact can be made from these funds.
10. This paper refers to funding that is intended for use to deliver economic objectives via partners, stakeholders or other delivery bodies, as well as the GCGPEP Executive Team. It does not refer to general operational and administrative funding of the LEP.

Criteria and principles

11. There are several criteria for which the board need to establish principles for the executive team to work up detailed frameworks and proposals, which include:

- The general principles of use of funds – the reflect GCGPEP’s core mission and priorities
- A manageable number and size of funding programmes
- Achieving high impact and economic benefits from GCGPEP funding
- Overall design of funding portfolio – in terms of evergreen (recyclable) funding, grant (non-recyclable) funding and administrative charges for programme or project management and delivery
- Encouraging innovation and risk – open bidding arrangements
- Governance and management of programmes
- Assessment criteria for funding awards
- Managing performance and risk
- Appropriate use of funds: activities and beneficiaries not supported by GCGPEP funding

The following sections will explore options and make recommendations for each criteria outlined in the bullet points above.

General principles of use of funds

12. The following principles for all funding decisions, are proposed:

- A. Support the role outlined in various GCGPEP documents, and the economic objectives outlined in the GCGEP Growth Prospectus
- B. Support activities which have the potential to make a high impact on the economy of the LEP area – including high levels of job creation
- C. GCGPEP funding adds significant value – it makes a project or activity happen that would otherwise not occur; or provides faster or higher levels of impact
- D. Decisions about funding awards are clear and transparent

13. **BOARD RECOMMENDATION:** the board accepts and supports the above principles (12A-12D)

A manageable number and size of funding programmes

14. It is recommended that GCGPEP establishes no more than 3 funding programmes in 2013, and that it operates no more than 6 funding programmes 2013-2015. This reflects the limits to the administrative capability and resources of GCGPEP, as well as funds available.

15. It is recommended that funding programmes consist of a minimum of £250,000 in value. Anything below that can go to the GCGPEP board through normal approval and delegation processes.

Achieving high impact: the best results from GCGPEP funding

16. In order to make decisions about whether funding awards will make high levels of impact and achieve the best results for GCGPEP, it is proposed that all funding decisions be subject to the satisfaction of the following criteria:

- A. Substantially benefits all or part of the GCGPEP area
- B. Is clearly a project / activity whose prime objectives are economic, and has clear economic benefits
- C. Clear evidence of opportunity/need and why intervention is necessary
- D. Potential economic impact is quantified; and estimate is reasonable and demonstrably achievable
- E. GCGPEP funding achieves satisfactory levels of 'leverage' – there are sufficient levels of co-finance or co-resourcing

17. **BOARD RECOMMENDATION:** the board accepts and supports the above criteria (16A-16E), and puts them at the heart of the assessment criteria for the award of GCGPEP funds.

Overall design of funding portfolio: recyclable vs. non-recyclable funding

18. There are several options open to GCGPEP on how it establishes and manages its funding portfolio. One key issue is the balance between evergreen (recyclable) and grant-based (non-recyclable) funds. Obviously it is advantageous to recycle funds – but not all potential development activities are supportable by loans and investments.

19. Another key issue is managing the availability of funds, and the scarcity of funds from 2014 to 2018. For example, in May 2013 GCGPEP should have £2-2.5m available from recycled GPF funding, another £6m in 2014; £1.7m in 2015 and £4.4m in 2018. However – there is a significant gap in funding available from 2016 and 2017, as (based on current projections) Enterprise Zone business rates revenues do not really kick-in until 2018 (see table below). There are ways in which we could manage the balance of grants/admin and loans to create a smoother funding profile for GCGPEP.

5. PRINCIPLES FOR USE OF LEP FUNDS

YEAR	GPF recycle/repayments	Annual EZ business rates receipts	Cumulative EZ rates receipts
2013	£2,000,000		
2014	£6,000,000	£244,886	£244,886
2015	£1,700,000	£504,464	£749,350
2016		£779,398	£1,528,748
2017		£1,276,641	£2,805,388
2018	£4,400,000	£1,803,017	£4,608,405
2019		£2,359,826	£6,968,231
2020		£2,948,422	£9,916,653
2021		£3,570,209	£13,486,863
2022		£4,226,651	£17,713,514
2023		£4,919,265	£22,632,779
2024		£5,649,632	£28,282,411
2025		£6,419,394	£34,701,805
2026		£7,230,257	£41,932,062
2027		£8,083,995	£50,016,057
2028		£8,982,449	£58,998,506
2029		£9,927,535	£68,926,041
2030		£10,921,242	£79,847,283
2031		£11,965,637	£91,812,920
2032		£13,062,866	£104,875,786
2033		£14,215,160	£119,090,946
2034		£14,641,615	£133,732,560
2035		£15,080,863	£148,813,423
2036		£15,533,289	£164,346,712
2037		£15,999,288	£180,346,000

Source: EZ rates revenues modelled by Urban and Civic based on a 'straight line' build out and occupation of the EZ site.

20. A method of managing the funding portfolio from 2012 to 2018 may be to make an allocation to loan/recyclable funding that recycles in 1, 2 and 3 year periods – e.g. in the table below (the table is based upon the forecast GPF recycled funding availability from 2013 to 2016)

Total funding pot of £6m (recycled GPF)	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m
GPF recycle that is returned	2.0	6.0	1.7			4.4
*New loans that are repaid			1.0	2.0	1.7	
Opening balance	2.0	6.0	2.7	2.0	1.7	
Grant/admin – non recyclable	-2.0	-2.0	-2.0	-2.0	-1.7	-2.0
1-year loans – recyclable*		-1.0	-0.7			1.2
2-year loans – recyclable*		-1.3				1.2
3-year loans – recyclable*		-1.7				
Closing balance	0.0	0.0	0.0	0.0	0.0	0.0

This is an example – there are other ways of configuring the financials.

21. The general principles that the board establishes for the funding portfolio balance between admin, recyclable and non-recyclable funds becomes more critical once EZ business rates receipts become substantial later in the decade.
22. **BOARD DISCUSSION:** the board's ambitions/expectations in terms of the balance of funding in terms of admin: recyclable: non-recyclable uses.

Encouraging innovation and risk – open bidding arrangements

23. If GCGPEP aspires to achieve the best impacts and results for its expenditure then it must be open to innovation and risk, to new ideas from a wide range of stakeholders, and a competitive element to bids for funds. This would tend to support open bidding arrangements for a substantial proportion of GCGPEP funds.
24. Open bidding processes by their necessity will involve competition between stakeholders, including local authorities. However they may also encourage collaboration and joint ventures. Bidding processes can be designed to help reduce the overheads/expenses incurred.
25. **BOARD DECISION:** it is recommended that the board endorses open calls for projects, where GCGPEP provides funds for external organisations to bid to undertake economic development activities.

Governance and management of programmes

26. It is the intention for GCGPEP to establish themed funding programmes (e.g. for skills) which provide for a framework of activities that may be funded by GCGPEP. Each funding programme would have detailed aims and objectives, and financial allocations for certain activities or intended outcomes, as well as planned administrative/running costs where relevant.
27. In this way, GCGPEP can more greatly influence what funding is spent on, and how it is spent – in effect, aligning funding to GCGPEP priorities and aims.
28. Some programmes may be more prescriptive than others. There may be some programmes where we are very flexible and seek innovative ideas or encourage knowledgeable delivery partners to take a lead.
29. The following governance and management arrangements are proposed:
- A. Funding Programme Development: undertaken by a task and finish group comprising of LEP staff and stakeholders (e.g. business representatives, local authority officers) with useful technical or market expertise
 - B. Funding Programme Scrutiny and approval: GCGPEP Investment Subcommittee makes recommendations to GCGPEP board – GCGPEP board makes final decision
 - C. Board governance: an established subcommittee for all funding programmes, or separate subcommittees for separate large funding programmes
 - D. Appraisal and recommendations in relation to bids: it is recommended that a peer review process is established for different elements of funding programmes – that utilises the expertise of business representatives of partner organisations. E.g. for a small business finance call for proposals – may want to bring in Chambers of Commerce representatives and a small business banking representative to help assess bids.
 - E. Final decision on funding bid awards: to follow the GCGPEP delegation scheme
 - F. Monitoring of performance and compliance: LEP executive reports to Funding Programme subcommittee, which in turn raises issues with the GCGPEP board as necessary
30. **BOARD RECOMMENDATION:** the board supports the above criteria (29A-29F) as a starting point for setting down the detailed governance arrangements for funding programmes

Assessment criteria for funding awards

31. As noted in paragraph 16 and in points 16A to 16E – it is recommended that these criteria are worked up into detailed assessment criteria.
32. Individual funding programmes may have additional criteria.

Managing performance and risk

33. It is imperative that projects funded by GCGPEP are monitored, and that satisfactory progress is made against awards or payments. It is suggested that a suitable monitoring framework and approach is developed – one that effectively monitors progress and use of funds, but which is proportionate to the level and nature of the funding allocation and use – i.e. not unnecessarily bureaucratic.
34. It is also important that this aligns with the requirements of accountable bodies where funds reside, e.g. Cambridgeshire County Council (GPF) and Huntingdonshire District Council (for EZ business rates receipts), as well as audit requirements of central government where required.
35. It is proposed that a presumption is made that organisations bidding for GCGPEP funding to match European funds will be fully responsible for compliance with European funding requirements.

Appropriate use of funds: activities and beneficiaries not supported by GCGPEP funding

36. There are certain uses of GCGPEP funds which should probably be clearly rejected at the outset. It is helpful to do this, as it makes it more manageable to reject various funding requests. Such uses that are not supported by use of GCGPEP funds should include political uses, uses contravening legal requirements such as State Aid, use of funds by individuals holding certain criminal convictions or bans on being company directors, use of funds outwith board scheme of delegation.
37. **BOARD RECOMMENDATION:** it is recommended that the board identify other inappropriate uses, and endorse such a list.