

Hull and East Yorkshire LEP Board

Business Loan Fund Strategic Review
Report to the Board, 21st July 2021
Paper F - Report from Karen Oliver-Spry, Investment Programmes Manager

1. Summary

1.1. This report suggests a strategic review of the Growing Places Fund and associated Business Loan Fund legacy programme with the aim of enabling the LEP Board to agree an approved use of the funds for the HEY LEP.

2. Recommendations

2.1. The LEP Board is recommended to agree the following:

- **For the executive Investment Programmes Team to undertake a strategic review of the Growing Places Fund utilisation and Business Loan Fund programme, resulting in a new investment programme proposal and development for the HEY LEP.**
- **To delegate oversight of the review as a work package to the Business Support Board.**
- **To place a hold with immediate effect on the current Business Loan Fund programme to entail no further acceptance of expressions of interest, and an imposed deadline of 31st October 2021 for receipt of outstanding applications.**

3. Report

Background

3.1. The Business Loan Fund (BLF) programme was established by the Humber LEP in 2012, utilising the Humber's £8.1m Growing Places Fund capital allocation, distributed to LEPs to support the unlocking of stalled infrastructure projects and encouraging economic growth. The programme was set up as a revolving fund and on a semi-commercial basis but in reality offered at below commercial level interest rates and providing favourable, flexible terms with no fees to help de-risk activity. Although originally aimed at stalled infrastructure and development, the flexibility of the fund has meant that the type of project considered has been varied and loans have been awarded for property purchases and investment in capital equipment, as well as infrastructure and development projects.

3.2. At the time of inception, the impact of the global economic recession that started in 2008 meant that finance options to support business growth were limited. There was widespread consensus that the availability of finance from conventional lenders had been significantly scaled back, as had the

availability of government grant funding with the demise of the Regional Development Agencies. Growing Places funding was initially the primary source of devolved funding aimed at facilitating economic growth at a time when there was a high level of market failure within the financial sector and businesses were unable to access appropriate levels of finance to enable them to invest.

3.3. The BLF has subsequently become part of a broader and increasingly populated funding picture that locally includes increased accessibility to traditional bank finance, as well as newer companies specialising in various types of mezzanine finance¹ and the Northern Powerhouse Investment Fund (NPIF) supported by a £5m contribution from the Humber's European Social Investment Fund (ESIF) contribution².

3.4. In addition, since 2013, businesses have had greater access to capital grant funding via a £30m Regional Growth Fund grant programme, £131m Local Growth Fund secured through the government's Growth Deals and latterly £13.4m from the Getting Building Fund programme.

Transition to HEY LEP

3.5. At the close down of the Humber LEP, the entire Business Loan Fund programme was transferred to the HEY LEP's governance and administration. The Business Loan Fund continues to operate under the terms and conditions established by the Humber LEP and accountable body continues to manage extant loan agreements, including two linked to activity in North and North East Lincolnshire (Europarc and Humberside International Airport – a total of £0.81m), although from April 2021 only applications from HEY area businesses are accepted.

3.6. A detailed summary of the programme position at 31st March 2021 has been provided in section 7 of Paper D presented to the Board. £12.53m of loans have been agreed since the programme inception and the value of the Growing Places Fund was £8.93m, inclusive of interest earned. Of this £5.6m was committed in outstanding loans, with up to a further £1.33m committed as further advances, leaving £1.96m available for lending. Of this, £1.50m loan funding is linked to applications that may come forward in the following months.

¹ Examples of such companies operating in the Humber include:

- Thincats (<https://www.thincats.com/>)
- Together Financial Services Ltd (<https://togetherness.com/>)
- Shawbrook Bank (<https://www.shawbrook.co.uk/>)
- Fresh Thinking Capital (<http://www.freshthinkingcapital.com/>)
- A Shade Greener Finance Ltd (<https://www.asgfinance.co.uk/>)

² See <https://www.npif.co.uk/>

Of the existing loans there is a provision against one loan of £0.20m. Repayments of approximately £0.71m are expected in the current financial year, £0.70m in 22/23 and £0.10m in 23/24. An end of scheme bullet repayment is expected to result in significantly increased repayments of (£2.44m) in FY 24/25.

Strategic Review

- 3.7. As the current owner of the Growing Places Fund the HEY LEP Board should endorse the future use it intends to make of the funds and may wish to consider a new approach to funds utilisation within the scope of the requirement that it is capital funding and must be used to deliver capital projects. However, this still allows for greater alignment to the particular conditions, challenges and priorities of the LEP and business going forward. A full strategic review of the Business Loan Fund is proposed, undertaken by the executive Investment Programmes Team and through delegation as a work package to the Business Support Board.
- 3.8. It is suggested that the review should take place within the current financial year following the immediate implementation of a hold on the Business Loan Fund programme with cessation in the receipt of further expressions of interest and a deadline for receipt of outstanding applications. This review will explore existing and anticipated need, opportunities, value and best practice from other LEP or Combined Authority areas in order to develop a programme proposal for consideration by the LEP Board and intended launch from 1st April 2022. There is also potential that this new programme could become a vehicle for small amounts of underspend arising within the existing Investment programmes subject to agreed use of capital switching freedoms and flexibilities.

4. Timescales

4.1. A proposed timetable is provided below. This may be subject to change.

What	When
Hold placed on current Business Loan Fund programme – no further EOIs accepted. Strategic Review commences	21 st July 2021
Progress updates reported to Business Support Board for feedback and endorsement.	Standing agenda item for meetings – dates tbc

Business Loan Fund deadline for outstanding applications	31 st October 2021
Final loan commitments under current programme agreed by LEP Board	January 2022 – date tbc
Draft programme proposal reviewed by Business Support Board	January / February 2022 – date tbc
Final programme recommendation agreed by Business Support Board	March 2022 – date tbc
Final programme proposal agreed by LEP Board	March 2022 – date tbc
New programme launched	1 st April 2022

5. Financial and resource implications

- 5.1. There are no immediate resource implications. The review and proposal development will be undertaken by the existing Investment Programmes Team, resourced through current programme funding (Getting Building Fund) to 31st March 2022.
- 5.2. The resourcing requirement for the proposed new programme will be explored as part of the review with advice and recommendations supplied as part of the proposal.