1 Introduction

1.1 The Liverpool City Region ("LCR" or the "City Region") Combined Authority (the "Combined Authority", "CA" or "We") has established a Strategic Investment Fund ("SIF") to manage the public funding we receive following the 2015 devolution agreement. Under this agreement, the Combined Authority has taken responsibility for both policy and investment into key growth areas. The SIF also manages funds provided to the Liverpool City Region Local Enterprise Partnership (the "LEP")1.

1.2 Our City Region priorities include economic performance, productivity growth, quality of life and inclusiveness, through investing in skills, infrastructure, transport, housing, innovation and enterprise as well as transforming public services and improving health and wellbeing for residents.

Our Objectives

1.3 As a Combined Authority, we aim to generate sustainable economic growth which benefits all in the City Region, delivering added value to the individual efforts of our constituent local authorities by creating the conditions for an increase in the number and quality of jobs and the level of local employment. Our five year plan is to provide 30,000 net additional and high value jobs, of which 60% to be taken by local residents, and £1bn of private sector investment.

About the Investment Strategy

1.4 This document provides our investment strategy (the “Investment Strategy”) for the SIF, including its sources of funding, its principles and priorities, approval process and fund recycling model.

1.5 In 2016, the LEP, acting as a link to the region’s private sector, published ‘Building our Future,’ a growth strategy for the City Region. This sets out our ambition for driving economic growth in the City Region based on three pillars:

- Productivity – focusing on businesses where the opportunity for growth is greatest
- People – ensuring residents and workers are equipped with the right skills
- Place – making the most of the City Region’s physical and cultural assets and infrastructure

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1 The LEP allows the funds it receives to be managed by the SIF but remains accountable to government for the performance and compliance of these funds. The Section 151/73 Officer of the LCR CA provides assurance both to the LEP and Government that funds are used appropriately and are compliant.
1.6 This Investment Strategy builds on the 2016 growth strategy, the metro mayor’s election manifesto and the City Region’s devolution arrangements and is designed to provide a sound basis for taking investment decisions over the next 12-18 months. It foreshadows a longer-term strategy to be built on the City Region’s Local Industrial Strategy, due to be developed during 2018. This Investment Strategy will be updated to reflect the Local Industrial Strategy.

1.7 In due course, the Combined Authority will present an interrelated trio of documents that define its narrative, “industrial” strategy and investment strategy as follows:

- **Statement of the CA’s mission, role and objectives**
- **CA Narrative**
  - Expected 2018
- **Local Industrial Strategy**
  - Expected 2019
- **Investment Strategy**
  - This document
- **Translation of CA’s objectives into priorities and operating policies.**

1.8 Investments under this Strategy may be further guided by our constituent local authorities’ own investment and growth plans.

The rest of this document is structured as follows:

- Section 2 describes the application of the SIF Strategy
- Section 3 describes principles and priorities of the SIF Strategy
- Section 4 describes the assessment and approval process for SIF funds
- Section 5 explains the funding model that will operate, enabling the recycling and re-use of funds
Inclusive Growth

The phrase “inclusive growth” encapsulates the idea that, as an economy grows, the benefits should be shared by as many people as possible. It is a reaction against economic growth policies that may benefit a limited group but fail to help those left behind, for example by driving total economic output (GVA) whilst having less impact on the quality of jobs, opportunities to learn new skills or increase wage levels widely.

Metro Mayor Steve Rotheram believes passionately in inclusive growth and made it an important theme of his election manifesto. Constituent members of our Combined Authority have also produced strategies for inclusive growth.

Inclusive growth is not a new concept. Yet until recently academics and policy makers have found it easier to describe what it should mean (by defining priorities or desired outcomes) than to identify concrete measures to make it happen (the mechanics of an “inclusive investment”).

One example of how the LCR could support inclusive growth might be around Paddington Village, the proposed extension of the Knowledge Quarter in Liverpool. Paddington Village will become home to the Royal College of Physicians, Proton Partners (an advanced cancer treatment centre) and other life sciences companies. An inclusive approach might actively seek ways for the people of neighbouring Kensington, an area high on the deprivation index, to benefit from the good jobs and high-quality space to be created at Paddington. Investment into the bricks and mortar could be accompanied by (or made conditional on) outreach sessions, education and training plans or public transport facilitation to connect people to the new jobs and training opportunities available.

The Combined Authority will include specific measures to drive this kind of approach in its investments and its investment process. On the one hand, it will consider how projects may contribute towards equality of opportunity and fairness in the City Region. On the other hand, it will actively identify improvements and additions that can broaden the scope of a project’s benefits to include more people as part of a broader approach. A project’s potential to generate inclusive growth and social value will become part of our appraisal criteria in committing public money.
2 Application

2.1 This Investment Strategy applies to the public funding the Combined Authority receives or can access to generate economic growth and transformational change. The funding covered by this strategy includes:

- Direct commitments from devolution, comprising £30m each year for 30 years, subject to five yearly re-commitment by HM Treasury (the £900m “gainshare” commitment)
- Commitments from national growth programmes including Growing Places Funds, Local Growth Funds and their successors
- Commitments intended for LCR transport improvements, including the Transforming Cities Fund, and their successors
- Funding we raise for specific projects like, for example, for 5G networks or the Mersey Barrage tidal energy scheme
- Funding available to the Combined Authority under its ability to raise funds from the Public Works Loan Board or through its management of owned infrastructure assets like the Mersey Tunnels
- Returns from previous investment rounds for which the Combined Authority is responsible

2.2 No funds designated for economic development through this Investment Strategy can be used to support local authorities’ statutory services nor to supplement their revenue budget.

2.3 The Investment Strategy applies to projects in the local transport, land and property, infrastructure, low carbon, culture, business support and innovation, and skills and employment sectors. Whilst its principles and process (sections two and three) shall apply to the housing sector, the Combined Authority plans to release a housing investment strategy, in the form of an addendum to this document, later in 2018.

2.4 Regarding housing, the Combined Authority is proceeding with a city region spatial plan and updated strategy. Housing must be considered as an integral part of the City Region’s offer and growth strategy, to be address by harmonising housing with infrastructure, employment and other themes, and by seeking to partner with private developers, funders and house builders; our constituent local authorities; and Homes England.

2.5 We also note that potential investment in strategic transport infrastructure is assessed under a sector specific appraisal methodology, WebTAG. The Investment Strategy and prioritisation process still applies to these projects, to ensure that they contribute to LCR’s
wider strategic economic objectives. Transport projects will still also need to be appraised using existing transport methodologies as part of their overall development and approval.

2.6 The Investment Strategy shall also be relevant to funding sources that relate to but do not form part of the SIF, specifically Chrysalis, Merseyside Special Investment Funds and European Structural Investment Funds for 2014-2020\(^2\). Each of these has a separate investment strategy and approval process; the purpose of this strategy is to coordinate to the extent possible SIF and non-SIF sources to maximise their beneficial impact in the City Region.

2.7 Funds received by the Combined Authority for onward investment into projects are rarely unrestricted. Each source carries its own requirements and restrictions, typically covering their availability, match funding and economic objectives. Furthermore, funding is usually split between “capital” and “revenue”, indicating its requirement to either build physical capacity or support projects’ operations.

2.8 Rather than produce an exhaustive list - it is unreasonable to expect the City Region’s organisations to follow each public funding source - the Combined Authority will undertake to provide quarterly, public updates on its web site of the funding available and the conditions pertaining. Our commercial development and investment team (our “Investment Team”) will also maintain continuous contact with the City Region’s businesses (including through the LEP), third sector and public sector on the availability of SIF funding.

2.9 The Investment Team’s objective is to identify opportunities and projects with the highest potential contribution to the Combined Authority’s targeted objectives and outcomes – with no borough left behind. The Investment Team will maximise the potential for overall delivery in the City Region, whether projects are publicly or privately funded or both.

2.10 To maximise impact, the Combined Authority will seek both to maximise the funding available to the City Region and to maximise the impact of the funding it commits itself. We will seek to complement SIF funding with new, public and private sources of capital, and will collaborate with commercial investors and lenders to fund priority projects and outcomes.

\(^2\)The management arrangement for future urban development funds like Chrysalis has not been concluded as of June 2018.
3 Principles and Priorities

3.1 The core objective of our investment strategy is to ensure that our investment is most effectively targeted at interventions and opportunities that deliver the wider strategic aims of the Combined Authority, as defined in 1.4 and 1.5 above, and to do so in a way that drives inclusive growth and social value, tackles market failure, maximises value for money and provides different kinds of return to the SIF. This section provides detail on the principles and priorities that will guide our investment approach.

Principles

3.2 We will apply the following principles to the operation of the SIF:

- Projects must meet at least one of the strategic objectives of LCR as defined in the current Growth Strategy, and the Mayoral and CA priorities for an ambitious; fair, green, connected and just City Region3.

Projects should also either:

- Demonstrate a clear strategic case for public investment, for example to address market failure, create public goods and value or provide the enabling infrastructure for growth, and/or;

- Represent an opportunity for the CA to achieve a financial return on any SIF investment.

3.3 Projects that meet both principles are especially relevant. Furthermore:

- Where projects aim to boost the ‘supply-side’ of the City Region’s economy (e.g. provision of infrastructure, commercial premises, training courses, etc.) there must be suitable evidence of market demand.

- We will carefully consider the risk-reward profile of each project, both for our financial commitment and in terms of the strategic outcomes and objectives that the project is seeking to deliver. The SIF aims over the long-term to become a revolving fund that uses receipts from current or previous investments to fund future investments.

- We will consistently seek to maximise value for money to the public purse.

- Projects should be able to demonstrate significant leverage of funding.

- The SIF will ensure a geographic and thematic spread of investment and will engage with geographically diverse places/sponsors across the City Region to help identify projects with the highest economic, social and environmental impact potential, as well

3 See for example: [http://liverpoolcityregion-ca.gov.uk/who-we-are-367](http://liverpoolcityregion-ca.gov.uk/who-we-are-367).
as sound operational footing. This does not mean an equal share across themes or geographies. Places will benefit in different ways and at different times.

- The SIF will be deployed using decision making tools which assess the potential impact of an intervention or investment in supporting inclusive growth and will embed inclusive growth and social value in decision making.

- The strategy will be as clear and straightforward as possible. It will not impose an undue burden on applicants whilst still providing for robust decision-making.

- All parties to a project will be expected to work collaboratively with the Investment Team and agree credible and robust deliverables and financial structures, together with a clear legal route to delivery, at the outset of the development process.

- Projects must be able to evidence competent and appropriate development and delivery capability.

3.4 We will strive to be flexible, creative and “mode agnostic”, i.e. to fund the most effective delivery of our objectives without favouring any one type of intervention (what works best, goes). Our aim is not a physical legacy but a human one, benefitting all our residents and communities.

**Investment priorities**

3.5 As set out above, our core objective is to invest in the projects with the highest potential contribution to the Combined Authority’s objectives and to maximise the potential for overall delivery of projects in the City Region (with or without public support). This section sets out in more detail the objectives and priorities that will drive our decision taking around sectors and places. The City Region has identified investment priorities in seven economic sectors in which it has competitive advantages and which will drive our future success. We have also identified priorities for our people and places, consistent with our 2016 Growth Strategy, with further detail on People set out in the Skills Strategy of 2018

3.6 These investment priorities are multi-dimensional and may be applied in combination. We will use our investments to develop a cohesive, vibrant and successful City Region that works for residents, businesses and visitors alike.

3.7 The priorities for investment within specific sectors are those which will foster a productive and sustainable, competitive business base, being precise about the relevant drivers of growth and productivity within the city region, such as innovation, infrastructure, skills, inward investment.

3.8 The cross-cutting priority of skills and employment is important for all our sectors and businesses and also in driving inclusive growth and fairness, by providing our residents
with opportunities to develop skills that will help them participate and succeed and providing support to secure, retain and progress in employment.

3.9 Investment priorities for places are those which are non-sector specific, but which provide the right environment for businesses and people to succeed, often through improvements in physical environment and digital connectivity.

Sectors

3.10 The following sections show where SIF investment could most effectively drive growth and productivity in our key sectors. These priorities are designed to give those developing and assessing projects a clear sense of the priorities against which we expect projects to contribute. Sectoral projects which do not align with these priorities are likely to be rejected on the basis reduced strategic fit.

Cross-sectoral Programmes

3.11 Across all priority sectors, we will support projects that facilitate inward investment of new, productive enterprise and the expansion of existing enterprise through physical and intellectual capital, typically the acquisition of modern plant and equipment and the development/refurbishment of suitable premises. In respect of both, we will progress “programme facilities” that set common requirements and expectations of recipients (in consultation with the Combined Authority's policy team), enable streamlined decision making and allow for coherent monitoring and evaluation.

3.12 Furthermore, we will consider sector led schools engagement and skills development programmes based on the sectoral analyses provided here: http://www.lcrskillsforgrowth.org.uk/growth-sectors.
## Digital, Createch and Artificial Intelligence

**Digital Infrastructure (linked to the LCR Digital Infrastructure Action Plan)**
- Delivery of the LCR-wide full fibre network and Digital exchanges
- 5G testbed development & rollout
- Smart Cities development

**Delivery of the AI and the data driven economy initiatives inc. the High Performance Computing & Cognitive Computing theme of the “LCR+” Science & Innovation Audit**
- Major projects & cluster development
- Commercialisation & business scale-up
- Public sector transformation

**Createch sector development and access to new markets**
- Sector-wide place marketing initiatives
- Smart specialisation sub-sector focused, notably immersive technologies, film/tv & cybersecurity
- New business space geared to digital/createch business needs
- Innovative sector promotion & marketing

**Industry & future demand-led skills initiatives (both new plus scale-up of successful existing)**
- Sector-specific initiatives
- Cross-sector (linked to priorities identified in other sections)

**Digital inclusion initiatives aimed to make LCR digitally inclusive**
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<th>Advanced Manufacturing</th>
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<tr>
<td>Build technical and leadership skills in workforce</td>
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<td>• Sector led schools engagement programme</td>
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<td>• Focus on emerging technologies and future skills requirements for existing manufacturers</td>
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<td>• Focus on leadership and management development</td>
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| Develop innovation support and adoption programme |
| • Focus on additive manufacturing, digital technologies, glass, robotics, packaging, materials (Ref SIA priority) |
| • Prioritise both commercialisation of research and innovation across firms and sub-sectors |

| Promote focused sectoral and sub-sectoral marketing |
| • Applies to trade and investment |

| Support research in areas of competitive advantage |
| • Prioritise sensors, digital technology, materials chemistry, glass and additive manufacturing |

| Facilitate expansion of current and future areas of competitive advantage |
| • Prioritise automotive, rail, pharmaceutical, FMCG and advanced logistics |
Health and Life Sciences

Build on regional excellence and regional need – sustaining and growing existing organisations and wider sector
- Invest in the expansion of existing areas of competitive advantage
- Prioritise infectious diseases, bio-manufacturing (linked to “LCR+” Science & Innovation Audit)
- Support areas of particular regional healthcare need, including cardiovascular health, cancer and wellbeing
- Support company/sector scale-up, centres of excellence (physical and professional) and development zones

Support interventions that capitalise on emerging trends and technologies throughout supply chain
- Including data analytics, artificial intelligence, digital technologies, precision medicine and medtech (including sensor technology)
- Support the development and uptake of innovative approaches (in NHS/social care) to transform healthcare/address the needs of an ageing society and wider issues (e.g. paediatrics, public health)
- Support strength and scale of local supply chain, and work across larger geographies (e.g. all of North)

Create platform for sector and cross-sector growth
- Prioritise knowledge intensity and capacity to generate globally competitive sector overall
- Facilitate public-private collaboration, including in research, commercialisation and joint working
- Support industry led skills and professional development initiatives
- Facilitate expansion of demand led digital, physical and professional infrastructure

Support the attraction, development and retention of high skilled talent and organisations
- Prioritise sector led initiatives

Drive Inclusive Growth
- Public health and health/social care-focused initiatives (linked to Devolution and skills, innovation, digital initiatives)
Professional and Business Services

Develop infrastructure to facilitate future growth
- Prioritise existing and future *demand led* physical expansion (land and premises), building world class places
- Use (digital) infrastructure, including ultra fast broadband, to promote growth and productivity
- Support transport infrastructure to enable routes to servicing new and existing markets

Support incremental and radical innovation and investment
- Prioritise SME formation and growth in competitive sub-sectors
- Priorities access to investment for scale up in competitive sub sectors
- Facilitate virtual, physical and professional networks – the spaces and places firms want to be
- Facilitate innovation in and growth of existing firms
- Support commercialisation of research in competitive sub-sectors

Support targeted inward investment and business growth capability

Support skills and professional development overall
- Prioritise high value skills development and deployment and productivity growth
- Develop the flexible and resilient workforce needed, through city region wide action
- Coordinate skills development with business growth and marketing
Support improvement of network infrastructure to facilitate future development
- Prioritise opportunities arising from new data and technology opportunities
- Include utilities masterplanning

Facilitate sector growth by:
- Supporting demand led provision of capital equipment
- Promoting the development of cross-sectoral, cross-technological capability
- Supporting viable low carbon energy projects

Develop areas of asset led competitive advantage in low carbon generation
- Such as tidal generation, hydrogen fuel, offshore wind
- Support research, commercialisation and early adoption in areas of competitive advantage

Integrate low carbon investment and resource efficiency into all sector investment priorities
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<th>Maritime and Logistics</th>
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Support investment that prioritises:
- Transport and capacity expansion, usually by infrastructure development, including Mersey Gateway, Northern Powerhouse rail and Multi-modal opportunities
- Emerging changes in logistics industry driven by industrial supply chain organisation, growth in ecommerce, impact of data and analytics in the industry
- Focus on future demand requirements including port-centric, multi-modal, large sites, proximity to market and workforce, and sustainability performance
- Coordinated supply chain interventions

Support expansion of areas of competitive advantage in the maritime sector
- Prioritise sector led marketing and development initiatives
- Facilitate development and transfer of new technologies and models into the sector

Support development of sector specific skills
- Including sector entry, expertise in emerging trends and collaboration in emerging technology
Visitor Economy, Culture and Heritage

Promote Liverpool City Region, targeting:
- Expansion of visitor numbers and reducing demand seasonality issues
  - Including expansion of leisure and business markets, routes and visitor type
- Increases in length of stay and total spend of visitors

Refine commissioning and delivery of place marketing
- Including platform for delivery of marketing

Support improvements to transport connectivity and infrastructure development associated with growing identified visitor markets
- Including key physical infrastructure and, selectively, technology platforms

Support improvement in skills, professional development and standards
- Prioritise sector entry, customer service and manager development

Support enhancements in productivity and sector innovation
- Including scale up, opportunities for building local supply chain and generating efficiencies through use of renewable energy and application of digital capabilities and technologies
- Including sector entry, expertise in emerging trends and collaboration in emerging technology
People

3.13 The mayoral Combined Authority is committed to action on the long-standing challenges that the City Region faces in terms of social exclusion inactivity, inequality and ill health. This Investment Strategy therefore supports projects which drive inclusive growth and social value, and aim to ensure that communities and residents benefit from growth and have the opportunities they need to succeed and contribute on a more equal and fair basis.

3.14 The kinds of investments we will make to deliver inclusive growth and reduced inequality include:

- Projects which support the creation of good quality jobs (including paying the real living wage, permanent contracts and workplace progression).

- Projects which support the creation of facilities to support skills development linked to the specific sectoral needs and opportunities of businesses.

- Projects which provide training opportunities, whether in-work or through a dedicated programme, supporting people to transition into better quality work at better wages, also improve productivity at the macroeconomic level. As noted above, our sectors have specific skills requirements, but we will also support cross cutting opportunities for raising skill levels (e.g. digital) and improving employability.

- Projects which support the attraction or provision of higher-level skills and skills that support innovation.

- Projects which improve the quality of labour market information through clearly communicating what businesses need now and in the future, and the skills training that is provided by educators, and demanded by residents. This should include careers materials and activities and be line with the City Region’s Careers Hub.

- Projects which prioritise and deliver the use of local labour / local supply chains.

- Projects which address specific challenges of people who face complex and multiple barriers to work or are furthest away from employment.

- Projects which seek sustainably to address chronic ill health (particularly mental health) as a barrier to employment and wellbeing

Through the project approval process, we will engage with all sponsors on their project’s ability to increase its inclusive growth, social value and equality and diversity, performance. The measures agreed will feature in the project funding documentation.
Places

3.15 The unique places within our City Region are vital to our long-term success. Our growth strategy aims to deliver places which are well connected to jobs and the services and skills provisions that people need, with high quality residential and commercial buildings, accessible open spaces; supported by well-functioning commercial and residential property markets that meet the needs of businesses and people.

3.16 The businesses supported through the sector priorities above all drive growth and employment in our places, and in addition we will support the following kinds of projects which are specifically about how our communities are built and enhance the environment within which we live and work:

- Projects which enhance the sustainable vitality of local town and district centres through investment that delivers new employment opportunities and makes those employment opportunities accessible to local residents. This could be, for example, through the retail offer, leisure, entertainment and cultural facilities, access to services, and strengthening the visitor economy or wider business environment. We will prioritise those opportunities which make the strongest contribution to our inclusive growth and social value objectives, through maximising lasting opportunities for local people and engaging sections of our community that are currently less likely to benefit.

- Place renewal projects, particularly those designed to move away from traditional retail, are long-term in nature. The best propositions of this type refer not only to place but also to people and proposition (this latter being the purpose and competitive advantages that apply). We will favour projects that address place, people and proposition holistically.

- Projects that maximise the contribution of our major, place based assets, including assets that connect our city region to the global marketplace. This may include, for example, projects in support of the Port of Liverpool, Liverpool John Lennon Airport and Sci-tech Daresbury. This may also include Liverpool’s city centre when efforts are made to link its economic and employment potential to other areas in the City Region.

- Ensure the supply of developable land and premises in response to existing or future demand. This means enabling site remediation where it is needed, addressing a range of lot sizes in areas where occupiers want to locate and that are financially viable, with the right supporting physical and social infrastructure. This includes premises for start-ups and entrepreneurial activity and business incubation space⁴ (including for those communities that are currently less likely to set up and grow businesses), city centre office accommodation, light industrial space throughout the City Region but focused on

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⁴ Premises dedicated to incubation and acceleration must demonstrate a comprehensive and credible operational plan, recognising that networks and support are more critical to growth than the space itself.
areas of highest demand, as well as large strategic sites for manufacturing and distribution, where latent market demand can be evidenced.

- Where there is a demonstrable market failure and other funding sources are insufficient to deliver the quality, tenure mix or delivery rate required, we will invest in projects which ensure that the City Region has the housing stock needed to attract skilled people and provide the quality of life we want for existing communities. Intervention in the housing market to address existing stock will focus on upgrading the housing offer in the most deprived areas, for example through retrofitting properties to address fuel poverty, and increasing the availability of good quality, affordable (in the broadest sense) housing.

- Improve access, and equality of access, to high speed and reliable digital connectivity for businesses and residents. It is pressing that the city region provide broadband availability, capacity and speed that companies require to compete in the global economy, to enable innovation and drive productivity.

- Protect businesses, the environment and improve air quality by ensuring that the city region has local, competitive and resilient energy supplies that allow us to be more self-sufficient in energy needs. This should include investment in green, low carbon, renewable energy and ensuring this ambition is integrated as far as possible with new developments and transport infrastructure.

3.17 We recognise that achieving what our places need is likely to require patient capital investment and committing to the delivery of projects which are long term in nature. This Investment Strategy enables us to support projects, or groupings of projects, of this type. It allows the Combined Authority to address spatial priorities in a way which delivers the longer term changes needed to provide new opportunities for our communities.

**Transport and Connectivity**

3.18 Our transport and connectivity priorities draw from the three emerging priorities established for investing the Transforming Cities Fund. These are outlined below.

**Theme 1: Enhancing and expanding the public transport network to meet new areas of demand**

3.19 This will focus upon the need to transform intra-city regional rail connectivity and exploit the city region's rail network to maximise the attractiveness and uptake of the new, bespoke rolling stock on the Merseyrail network from 2019/20 onwards. The aim will be on improving the quality, capacity and resilience of the network, likely to include significant enhancements to Liverpool Central Station and measures to improve Liverpool South Parkway's connectivity and network resilience role.
3.20 New rail stations and significant rail station enhancements may be supported where these directly support the city region’s growth strategy (e.g. enhanced access to the Baltic Triangle or Knowledge Quarter) and where they maximise modal shift on congested routes or on routes that are significantly affected by poor air quality.

3.21 Enhanced rail services on significant commuter routes linking key destinations and with significant potential to attract modal shift will be supported (e.g. the introduction of additional, dual fuelled rolling stock on the Borderlands Line to provide regular, through services into Liverpool and Deeside Industrial Park).

Theme 2: Improving the appeal of public transport, and particularly bus, against private transport

3.22 This theme will principally entail a programme of enhancements to the city region’s core bus highway infrastructure on core commuting routes to the main growth areas that exist or which are developing. Measures will target greater reliability and punctuality, more competitive journey times, operational efficiencies, lower levels of congestion and improved air quality in support of the challenges outlined above.

3.23 This could be supported through advanced traffic management tools (e.g. the use of red routes, intelligent traffic systems, selective prioritisation at junctions and real time diversions to allow for operational problems) to maximise the attractiveness of bus travel and to complement the Bus Alliance’s investment.

3.24 It will also be supported by measures that maximise both the usage and efficiency of the enhanced core networks. This may include a virtual one stop shop for ticketing, information and travel technology to enable intelligent travel choices to be made, and to remove barriers to interchange and payment and to revolutionise the way that people access, and pay for access to the transport network. This will maximise the city region’s digital connectivity assets. It will also include a radical uplift in the availability of wi-fi coverage and device charging points at rail stations, interchanges and on board buses and trains.

3.25 The delivery of works may be supported by new powers that the Mayor benefits from in respect of Bus Services Act and influence over a Key Route Network of local roads.

3.26 The introduction of gainshare arrangements, wherever possible, to capture the benefits arising from improved bus journeys and bus fleet efficiencies, principally, and to reinvest these in promotional activities such as travel planning, marketing and publicity. This approach could also include support from Transforming Cities for capital investments at strategically significant rail stations to generate commercial or revenue returns that will be reinvested in enhanced service levels or level of information.

Theme 3: Intervening for health and wellbeing

3.27 This theme will be focused on the challenge of decarbonising the transport network, reducing emissions and encouraging more healthy forms of travel.
3.28 Firstly, it will entail the development of a comprehensive programme of very high quality, segregated or on-road cycleways linking key residential areas and employment areas. This will have the aim of providing a cohesive and attractive core network of cycle routes serving the city region’s growth areas, including improved access to schools and colleges. This package may be complemented by the roll-out of city region-wide programme of cycle hire and cycle parking facilities.

3.29 High quality interchanges between rail and bus networks and the key route network for cyclists will be supported, where these provide a “last mile” sustainable transport link to work or home, in support of the city region’s Local Journeys Strategy. Technology and information, as outlined in the preceding theme, will be exploited to facilitate the attractiveness and uptake of such facilities.

3.30 Secondly, the roll out of clean fuels (typically renewable electrical, hybrid technology and hydrogen power) on diesel rail services, buses and potentially, the Mersey Ferries, to reduce both carbon and harmful NO2 emissions, both of which contribute to the city region’s air quality concerns. Transforming Cities funding could also support new fuelling infrastructure to make the use of such technologies viable and attractive.
4 SIF approval process

4.1 The Combined Authority’s investment process is described below. Our objective is to create a transparent and efficient journey to funding. We also intend to create robust challenge at the concept stage, with proactive Combined Authority support to reach that stage and move into detailed diligence.

4.2 Each approval stage, and the steps necessary to reach that stage, are illustrated below and described in detail in the sections that follow. Note that the Investment Team will manage projects’ progress through these steps and will be solely responsible for drafting investment reports, based on information provided by the project sponsor and contributions by internal and external consultants. This process requires applicants to make readily available all supporting materials to the application and to enable third party diligence where necessary.

4.3 We will separately provide – through an update to the SIF assurance framework and in our regular market updates – further specification of the information sponsors will provide in progressing through the approval process.

4.4 The CA will require that all applicants seek explicit approval to publicity associated with projects under consideration, and in particular to the CA’s proposed funding of the project.

4.5 Project sponsors will carry the CA’s reasonable costs in structuring, executing and monitoring each project. The costs typically include legal, professional and consultancy fees, and are incurred independently of whether the CA commits to fund the project. The CA will seek, where practicable, to agree these fees in advance with project sponsors.

4.6 The CA will also seek to be clear in advance about the resources it has available and the time likely to be required to progress a project through its approval process.

Identifying Projects

4.7 The Investment Team will maintain an ongoing dialogue with the City Region’s businesses, third sector and public organisations to inform them of the availability of funding, the
current objectives, and to identify and co-design project opportunities from an early stage. The LEP will play an important role in identifying sector led opportunities.

4.8 Our commitment to fund the most effective delivery of our objectives means that we will consider options from an early stage. For example, we may ask, “What is the best way to revive economic activity in town centre X?” and consider interventions across transport, property, business support and training schemes, ultimately progressing the combination of projects that best meets our objective. Alternatively, we may ask, “Which of the five proposed logistics developments in our area best meet our objective?” and progress terms with the top two schemes.

4.9 The Combined Authority will generate project opportunities in two ways:

- First, it may call for projects by engaging with organisations and working with them to generate a project in the Liverpool City Region. The Combined Authority may call for projects in batches but will operate by preference under an “open call” system that allows projects to progress when ready.

- Second, it may commission strategically important projects by specifying desired outcomes and either delivering a project itself or inviting organisations to deliver the outcomes through a commission or procurement. An example could be where we wish to ensure that training opportunities are provided to a certain group of excluded people; we could identify a project directly or invite organisations to present how they would provide that training then select the provider with the best public value proposition.

4.10 When the Combined Authority makes a call for projects, we will filter opportunities by completing an outline paper for internal consideration. The project sponsor will provide the information necessary to complete this paper. The aim of this gateway is to agree a project’s potential for delivery and impact before committing resource to working it up.

4.11 Each outline paper will be discussed by a senior Combined Authority team, with results shared periodically with the Investment Panel and CA Board (see below for details of their constitution and role). Projects may be approved for further work or rejected at this stage.

4.12 Projects which are rejected will receive a concise statement by the CA on why it has been rejected and what changes would be required in order to pass. The Investment Team may consider co-funding the project’s further development if its credentials appear promising in this preliminary stage.

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5 Best practice in public investment requires the Combined Authority to consider options when deploying its funds. When supporting a private sector sponsor, the options may be limited because the sponsor controls the project’s scope, scale and timing. The Combined Authority will therefore have the choice of committing to the project or committing the funds elsewhere. The outline stage will assist us in comparable projects by different sponsors.
4.13 Any projects that are subsequently resubmitted by the project sponsor, must make clear through the submission how previous comments have been addressed. Projects will be reconsidered if it can be demonstrated that key variables/parameters have changed, at the discretion of the Combined Authority.

4.14 Please refer to Appendix 1 for further guidance on the outline review.

**Concept Review**

4.15 Deliverable projects with a high potential contribution will progress to the concept stage. The Investment Team will engage with project sponsors to agree indicative terms for SIF support. These terms will include the quantum, return requirements (if any), milestones and principal conditions. They will be captured in a “heads of terms” document to be exchanged between the Combined Authority and the project sponsor/funder.

4.16 The Investment Team will also identify diligence requirements to understand in more detail the project and its value proposition and to complete the prioritisation framework. The project sponsor will engage with us, providing as full a picture of the project and its delivery options as is obtainable at this stage. Please refer to Appendix 2a for typical preparatory information required for concept submission and to Appendix 2b for guidance on the prioritisation framework.

4.17 At this stage, the Investment Team will request that the project sponsor complete an inclusive growth, social value and diversity questionnaire. The responses, which will cover gender and minority balance, inclusive growth and local procurement potential, will form the basis of a dialogue to maximise the project’s inclusivity and local growth impact, to be included in the legal documentation on approval.

4.18 The Investment Team will submit projects to the investment panel, a body composed of senior CA officers and external experts (the “Investment Panel”), on the basis of a concept paper that includes the heads of terms discussed and a completed prioritisation framework. Several funding and delivery options may still be considered at this stage.

4.19 Projects that score highly enough relative to their sectoral peers and to the rating of projects across the SIF portfolio will progress to detailed diligence.

4.20 Projects that do not score highly enough will not progress but will receive formal feedback on their score. This feedback will include steps available to improve the score and the support the Combined Authority is willing to provide in taking those steps, if any. The Combined Authority does not expect any project to be submitted at the concept stage more than twice and reserves the right permanently to exclude a project.
Detailed Diligence

4.21 On successful progression through the concept stage, the Investment Team will conduct comprehensive market, operational, financial and structural due diligence on the project. This will cover all aspects of project development, operation and exit in a manner similar to that which commercial lenders and investors might adopt. The team will identify each project’s diligence needs and is likely to retain external specialists to support this work. For example, a property project would typically require third party market, valuation and cost analysis.

4.22 The Investment Team will also negotiate detailed terms for the SIF’s financial commitment and may engage internal or external legal counsel to aid this process, agreeing a viable legal structure, detailed legal terms and state aid approach for the public investment. This agreement will be captured in a “term sheet” to be signed by all relevant parties to the project and submitted as part of the project’s final submission, now focused on the preferred option.

4.23 Once the project details have been finalised, it will be submitted for an external appraisal designed formally to assess its contribution to the Combined Authority’s investment objectives under the SIF, including its value for money, risks, and monitoring and evaluation arrangements. The external appraisal report, which will be coordinated by the Combined Authority’s programme management office, will form an integral part of the submission pack for each project. The appraisal conducted will conform to the Single Pot Assurance Framework – National Guidance6.

4.24 It is vital for project sponsors to understand that on-going dialogue and information exchange with the Combined Authority, its consultants and appraisers will be necessary to reach the end of the diligence process, and that this process may require a significant commitment on the part of the sponsor.

Interim Review

4.25 The Investment Panel and the CA Board, which will receive regular updates on projects under consideration7, may elect for projects to be submitted for interim review before progressing to final review. Whilst interim review is intended for projects that are unusually large, complex, novel or protracted in negotiation, the Investment Panel and the CA Board will each have discretion in requiring an interim review. Projects with a non-repayable commitment of more than £5m or a total commitment of more than £10m will be submitted for interim review unless waived by the Investment Panel.

7 The LEP board will receive regular updates in respect of the funding it passes for management under the SIF.
4.26 Projects will be submitted for interim review by the Investment Panel based on an investment report, the SIF financial commitment terms negotiated to the point of an indicative term sheet and an external appraisal report. Each of these will be updated for consideration by the Investment Panel at final review.

4.27 Projects may be rejected or approved at the interim stage, in both cases with reasoned feedback. The Combined Authority does not expect any project to be submitted at the interim stage more than twice and reserves the right permanently to exclude a project.

Final Review

4.28 Projects with satisfactory diligence, term sheet and external appraisal will be submitted for consideration at the final stage by the Investment Panel. The Investment Panel will provide final commentary to the Combined Authority on the project’s merits. The Investment Panel may in its sole discretion also provide recommendations for modifications to be made in the SIF commitment.

Combined Authority Approval

4.29 Projects recommended for approval by the Investment Panel will be submitted to the CA Board, or to a sub-group nominated by the CA Board, for final consideration. The basis for this approval will be a summary project submission, summary appraisal submission and the Investment Panel’s commentary.

4.30 Projects approved by the Combined Authority will receive delegated authority for officers of the Combined Authority to enter into legal documentation and proceed to disbursing the SIF commitment. Projects that are rejected will received reasoned feedback. The Combined Authority reserves the right permanently to exclude a project.

4.31 For the avoidance of doubt, no project is approved until legal documentation is entered into and complete.

4.32 We summarise this investment process below:

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8 This approval, and the process that precedes it, requires compliance with LEP arrangements where funds to be invested are sourced through it, including in respect of the LEP board.
Conditions to Funding

4.33 All public funding is provided with conditions. Besides the usual development, performance, monitoring and evaluation conditions, we may require projects to incorporate *inter alia*:

- Actions plans co-produced as a result of examining the project’s inclusive growth potential, including in relation to gender balance, equality and diversity, and access to opportunity.

- Performance requirements linked to environmental, urban and corporate best practice, and to the Metro Mayor’s other priorities. These may include requirements in relation to urban design quality, sustainability performance, digital connectivity (dig once ducting) or autonomous/electric vehicle infrastructure (charging points).

4.34 The Investment Team will be clear in specifying these requirements before the concept stage and in incorporating them into each project’s financial appraisal.
**Change Control**

4.35 Projects whose forecast performance changes materially after passing any approval stage will be resubmitted to that stage. A material change is defined as follows:

- Increase in funding requirement by 10% or more; reduction in base case return to the Combined Authority by 20% or more.

- Deterioration of the public value proposition resulting in a base case value for money reduction of 10% or more, a breach of any minimum value for money or appraisal threshold (such as a benefit cost ratio threshold) or a significant deferral in the production of public value.

- Material change in project and/or SIF commitment risk profile identified by the Investment Team or the Investment Panel which is reasonably likely to impact the project negatively.

4.36 This change control process applies to projects in the approval process, for which no binding legal documentation has been signed. The Combined Authority will address material changes to projects in the delivery phase through the provisions of their legal documentation.

**Process Review**

4.37 We will conduct an internal review of this Investment Strategy's approval process, outline gateway criteria and prioritisation framework between six and nine months after launch and may update our operations as a consequence of that review.
5  Financial model

Conditions and Recycling of SIF Funds

5.1 The SIF comprises funding from multiple sources. Each source is likely to have its own restrictions, requirements and targets. This section does not seek to describe each source in detail but rather to identify the principles which the Combined Authority will observe to guide the financial operation of the SIF and ensure that the financial model supports the delivery of the wider objectives of the strategy, independently of the funding source.

Projects

5.2 One of the Combined Authority’s long-term objectives is to tackle market failures present in the City Region’s economy, and to do so in ways that drive inclusive growth and greater opportunities for our communities and people. Intervention in these failures is predicated on the presence of a strategic plan to achieve market sustainability in an inclusive way and on the specific intervention’s contribution to this plan. In areas of persistent market failure (such, for example, as the gap between the cost and value of central office development), the Combined Authority will call for this Investment Strategy to be augmented by a specific analysis and action plan, to be used in structuring and appraising the intervention.

Products

5.3 The CA shall offer grant funding, first loss instruments, guarantees, debt (whether senior, junior, corporate or other), quasi-equity, equity and other risk sharing instruments in any combination it considers optimal.

5.4 Where the CA provides non-repayable and sub-commercial funding, it shall routinely accompany this non-repayable and sub-commercial funding with repayable and commercially priced funding.

5.5 Commercial funding will be provided only in support of this Investment Strategy and its wider objectives, not solely to pursue optimal financial returns.

Efficiency and Additionality

5.6 The CA shall provide sub-commercial funds at the lowest level needed to catalyse a project. It shall provide commercially priced funds in an amount that reflects its availability of funding, risk and return objectives, and portfolio performance.

5.7 The CA shall use its funding to influence projects’ scale, timing and operation, seeking to optimise its outputs. It will seek to be additional in deploying its funds and avoid the crowding out of commercial funding sources.
5.8 The CA shall participate in (sub-commercial) financing opportunities only where its additionality can be demonstrated (through the increase in scale, speed of delivery and/or output or outcome intensity of a project) and shall seek actively to engage commercial investors, lenders and intermediaries on crowding in private sources of funding. Its desire to crowd in investors applies at the project and SIF levels.

**Underwriting Approach**

5.9 The CA shall adopt a risk-based approach in which it undertakes a comprehensive but proportionate appraisal of both the project and the LCRCA financial offer. This offer will reflect its view of risk and return (always in compliance with State aid legislation), its financial position, the outputs available through the project and the risks to their realisation, plus externalities. This risk-based approach will replace the gap-based approach that has been prevalent in the City Region.

5.10 The CA shall appraise projects with reference to its assurance framework, informed in its turn by the MHCLG Appraisal Guide, Treasury Green Book and benefit cost analysis. In analysing the risk and return of financing, the CA shall have regard to best practice in the UK financial services industry.

5.11 The CA shall structure its funding to allocate and mitigate risks to project sponsors, funders, users and stakeholders and shall use its own funding to accept a portion of these risks. In structuring its financial commitments, we shall have regard to additionality, value for money, scale of impact, outputs and the financial sustainability of our resources.

**Co-investment**

5.12 The CA may participate in project and financing opportunities led by related and third parties. Related parties include our underlying local authorities, central funding agencies, the Chrysalis Fund and Homes England. Third parties may include private investors, enterprises and developers, and voluntary sector organisations.

5.13 When co-investing, LCRCA may or may not lead the transaction but will under all circumstances adhere to its own underwriting and approval standards.

**Equity Limits**

5.14 LCRCA shall commit equity only alongside significant stakeholder (investor, management, client etc.) equity and shall remain as minority shareholder except by exception.

**Programming**

5.15 Given the propensity of projects to slip in delivery, the Combined Authority will prudently over-programme its commitments until receipt of board approval and entering into legal
documentation, when they become legally binding. In order to maximise the use of funds, we will over-commit:

- Capital projects by up to 30%
- Revenue projects by up to 20%

5.16 We shall review over-programming limits periodically.

**Risk and Portfolio Management**

5.17 The Combined Authority will monitor its commitments at three levels: project, programme and portfolio.

- At the project level, we will monitor the project’s development, financial and operational performance from the signing of legal documentation onwards. Our interest is not only the performance of our committed finance but also the project’s success in generating the economic, social and environmental benefits foreseen at appraisal.

- At the programme level, we will monitor projects against the obligations and restrictions set out for each funding stream. For example, our requirement to manage Growing Places Funds may differ from those set for Transforming Cities, and we will need to monitor our compliance accordingly.

- At the portfolio level, we will monitor risk and performance principally by assessing macro-economic, concentration, financial product and political risks. (Concentration risk refers to danger of focusing too much resource into single or interdependent sectors, sponsors, stakeholders or geography.)

5.18 Where competent risk management requires changes to the Combined Authority’s strategy or priorities, the Investment Team will communicate this to the market.
Appendix 1: Outline Assessment

5.19 The Combined Authority will treat project proposals received under “calls”, including open calls, to an outline review before committing significant time to their progression. This outline stage assesses projects for their strategic fit, public value and deliverability. The purpose of the gateway is to ensure that only projects that are fundamentally orientated to the goals of the SIF and are deliverable progress to prioritisation, diligence and commitment.

5.20 A project is assessed at the outline phase against four criteria:

A strategic fit test

5.21 Projects must meet at least one of the LCR’s strategic objectives as defined in this Investment Strategy. They must address directly at least one sectoral or cross-sectoral investment priority.

A public value and inclusive growth test

5.22 Projects must have the quantifiable potential to add public value to the communities and people of the LCR and to contribute to LCR’s inclusive growth objectives.

A market failure / investment opportunity test

5.23 The SIF will invest in projects that:

- Demonstrate a clear strategic case for public investment, for example to address market failure, create public goods and value or provide the enabling infrastructure for growth, and/or;

- Represent an investment opportunity for a financial return to the CA.

A deliverability test

5.24 It is essential that projects progressed to full diligence can be delivered in a timely manner. Undeliverable projects – or those with unrealistic delivery timescales – tie up funds which could be directed to more achievable projects.

5.25 Deliverability assessment is not always straightforward, and the specifics will vary from case to case but the submissions of deliverable projects should robustly demonstrate these key attributes:

- Timescales, costings and risk assessments that are comparable with the experience of successful comparable projects in comparable operating environments.

- Proposed project leadership / delivery structures with experience of managing similar kinds of projects.
• Credible business plan, operational and financial standing of the sponsor and project stakeholders.

5.26 In order to make this assessment, we will request information that provides a clear view of the project’s purpose, delivery, operation, risks and exit. It is feasible at this stage that different delivery options are available, and we will seek to understand these options in full, requesting supporting information for each.

5.27 As a minimum, we will request, in written format:

**Project**
- A description of the project and its objectives, including the options that may be considered to reach those objectives. The objectives will typically be the factors motivating the project’s sponsors, funders and key stakeholders to undertake the project

**Development and operation**
- A business plan that includes the scope, scale and timing of the project’s development and operation

**Funding**
- A financing plan that includes sources, quantum, likely headline terms and status of approval of the funding necessary to deliver the project

**Organisation and Personnel**
- Organisational structure for the project sponsor and contributors
- The proposed legal approach (legal structure) to be adopted
- Audited financial statements / statement of financial position

**Risks**
- Headline project risks with a focus on delivery risks

**Team and Track Record**
- Biographies of key personnel associated with delivery and operation of the project
- Summary evidence, whether by reference to previous projects, case studies, corporate performance or other, of the sponsor’s and its team’s previous experience in delivering comparable and equivalent projects

**Approvals**
- Description of the key steps, approvals, authorisation, agreements partnerships and other permissions required to deliver the project, with summary commentary on the steps necessary to complete that step
Appendix 2: Prioritisation framework

5.28 At the project stage, we will prioritise projects using a single, simple methodology. The aim of this methodology is to compare projects’ contribution to our objectives across different sectors, and to identify the most compelling projects from a range of options. The results of prioritisation will be provided to the Investment Panel in addition to the Investment Team’s concept stage report and the Investment Panel project will consider the project on the basis of both results and report.

5.29 The criteria assessed will be:

- Strategic fit
- Financial return in NPV terms.
- Outputs – converted into a single NPV financial metric.
- Leverage and additionality – relative sum of external funding levered and not displaced.
- Project risks and their mitigation.

5.30 Each criterion is given a score which is weighted in the following proportion:

- Strategic fit – out of 25 points
- Financial return – out of 25 points
- Outputs – out of 20 points
- External funding leveraged – out of 15 points
- Risk / deliverability – out of 15 points (where a lower risk rating achieves a higher score)

5.31 Therefore, each project is able to achieve a maximum score of 100 points. The higher the score achieved, the higher priority the project.

5.32 The following sections describe the scoring process for each criterion.

Strategic fit

5.33 Section 2 sets out our strategic investment priorities. The submission should be clear how the project in question supports the strategic investment priorities of LCR. To do this, it should set out a clear logic for how the intervention will address one or more of the priorities, and evidence that this logic is robust.
This evidence could be drawn from the experience of projects in the LCR, or from outside the area, but it should be as specific as possible and cite facts rather than rely on generalities. The logic underpinning the submission should be straightforward and robust.

Projects which do not credibly demonstrate that they will address one or more of the strategic investment priorities will be rejected.

The submission will identify which of the strategic investment priorities will be addressed by the investment. A single project can – and hopefully will – address more than one of the priorities.

For each priority the level of impact will be assessed as high / medium / low.

Where a project is considered high impact it receives 3 points. Where a project is considered medium impact it receives 2 points. Where a project is considered low impact it receives 1 point. If the project is considered not to impact the strategic investment priority in question then it receives no points.

The project is scored in this way against each relevant criterion. By summing together the individual impact scores a project receives a total impact score. This number is divided by 20 to get a percentage, where 20 is considered to be the upper limit for impact. If the total impact score is higher than 20 then the percentage is 100.

The percentage is multiplied by the total number of points allocated to strategic fit (25), to give a score for strategic fit.

For example:

- Project 1 is considered to have a low impact addressing strategic criteria A, B, C, D, and E. It receives a total impact score of 5. This is divided by 20 to get 25%. In turn, 25% is applied to the total possible points for strategic fit – 25 – to get a total score for strategic fit of 6.25.

- Project 2 is considered to have a medium impact addressing strategic criteria A, B, and C, and a high impact addressing strategic criteria E. It receives a total impact score of 9. This is divided by 20 to get 45%. In turn, 45% is applied to the total possible points for strategic fit – 25 – to get a total score for strategic fit of 11.25.

- Project 3 is considered to have a high impact addressing strategic criteria A, B, C, D, E, F and G. It receives a total impact score of 21. Since this is higher than the maximum possible score it automatically gets 100% of the total possible points for strategic fit – 25.

The aim of this process is to give greater weight to projects that have a greater impact over a wider range of priorities.
Financial return

5.43 The SIF as an investment programme should aim to generate a financial return, though not necessarily on all of the individual projects. The portion of non-recyclable funding will be driven down over time as SIF takes receipt of funding from other projects.

5.44 There must be a clear investment logic as to how the SIF investment will generate a financial return. This should be as specific as possible, and cite facts rather than generalities. Appendix 2b provides more detail about the kinds of evidence that can be used to demonstrate robust investment logic.

5.45 As part of the submission, the Investment Team will prepare or request a NPV cash flow indicating the financial return of the project overall and the financial return to the CA.

5.46 The NPV cash flow will be assessed over the SIF commitment’s lifetime up to maximum 20 years at a discount rate of [6]% per annum.

5.47 The return to the CA will be divided by the total CA investment to get a percentage return.

5.48 For the purposes of scoring the level of financial return, a ‘return ceiling’ of 300% is set. The percentage return is divided by the ‘return ceiling’ – and this is multiplied by the weight of financial return in the model (25 points). Where the financial return is equal to or higher than the ‘return ceiling’, the project receives all 25 points as a score for financial return.

5.49 The returns to other organisations, whether public, private or third sector, are not considered as part of this process.

Outputs

5.50 As part of the submission, the project sponsor will produce an evidenced analysis of expected outputs plotted over the next 20 years.

5.51 Outputs should be converted into economic returns (expressed in £ values) to the City Region using HM Treasury Green Book compatible methodologies in line with existing evidence and / or ready reckoners. The Investment Team, in collaboration with the Combined Authority’s programme management office, will use agreed norms to select the methodology to apply to each project.

5.52 These output values are plotted over a 20 year time horizon in NPV terms, with the discount rate set at [6]%. This gives a total NPV value of outputs that is comparable across different project types.

5.53 This ‘output return’ to the CA will be divided by the total CA investment to get a percentage return.

5.54 For the purposes of scoring the level of output return, a ‘return ceiling’ of 1,000% is set. The percentage return is divided by the ‘return ceiling’ – and this is multiplied by the
scoring weight of outputs in the model (20 points). Where the output return is equal to or higher than the ‘return ceiling’, the project receives all 20 points as a score for outputs.

5.55 The aim of the outputs score is to prioritise projects that lead to greater practical outputs (jobs, homes, apprenticeships, etc.) for LCR.

Leverage

5.56 As part of the submission, the project sponsor will describe the amount of leverage over the next 20 years. The NPV of this leverage will be assessed over a 20 year timescale at a discount rate of [6]% per annum.

5.57 The NPV of leverage will be divided by the total CA investment to get a ‘leverage return’.

5.58 For the purposes of scoring the amount of leverage achieved, a ‘return ceiling’ of 500% is set. The percentage return is divided by the ‘return ceiling’ – and this is multiplied by the scoring weight of leverage in the model (15 points). Where the amount of leverage achieved is equal to or higher than the ‘return ceiling’, the project receives all 15 points as a score for leverage.

5.59 The aim of the leverage score is to prioritise projects that achieve greater leverage, and so amplify the impact of the CA’s investment.

Risk / Deliverability

5.60 As part of the submission, the project sponsor will create a detailed risk register and a more detailed project plan.

- The project will be assessed for risk on a four-point scale as follows:
  - High risk: 0 points
  - Medium risk: 5 points
  - Low risk: 10 points
  - Very low risk: 15 points

- Appendix 2b provides a schema for assessing different kinds of risks on different projects.

- The aim of the risk / deliverability score is to prioritise projects that have lower risk / better mitigation in place.
Scoring the prioritisation

5.61 The total prioritisation score for the project is simply the sum of the scores of the different criteria. All scores are out of 100. The higher the prioritisation score, the higher priority the project is for investment via SIF.

5.62 In summary, projects will score more highly if they:

- Demonstrate a higher level of strategic fit and a greater impact towards strategic priorities.

- Demonstrate a higher level of financial return to the CA, leveraged funding, and economic outputs – and where these returns / outputs occur sooner rather than later.

- Demonstrate lower levels of project risk.

5.63 Prioritisation scoring is carried out using the prioritisation spreadsheet which is available from [web address]. Project promoters can use this to optimise their business cases ahead of submission.
Appendix 2a: Typical Requirements for concept submission

5.64 The Investment Team will typically obtain the following – to the extent not already received for the outline stage – before submitting any project to the concept stage.

Market

- Assessment of the market / environment in which the project will operate, including competitive position
- Statement of need, relating to the economic, environmental and social needs that the project will address

Organisation

- Organisational structure for the project sponsor and contributors
- The proposed legal approach (legal structure) to be adopted, including in relation to State aid
- Audited financial statements / statement of financial position

Business plan

- Outline business plan for the delivery and operation of the project, noting that the sponsor may at this stage be considering different delivery options. Information should be provided for each option.
- Outline financing plan (including SIF funding)
- Proof of funding commitment from the sponsor and third parties (e.g. heads of terms for third party debt), outlining the quantum, terms and headline conditions that obtain to the funding
- Project risk assessment, including impact weighted risks and mitigations.

Personnel and Team

- Biographies of key personnel associated with delivery and operation of the project

Track Record

- Supporting evidence, whether by reference to previous projects, case studies, corporate performance or other, of the sponsor's and its team’s previous experience in delivering comparable and equivalent projects
Disqualifying criteria

5.65 In addition to the above minimum information requirements, no project will be eligible for submission without:

For land and property, housing projects:
- Clear ownership of land and assets or an agreed route to ownership of those assets
- Acceptable land value contribution. The CA will typically consider land at the lower of cost and value

For infrastructure projects:
- Non-binding letters of support from the key project stakeholders, agencies, landowners and authorities

For business support projects:
- Evidence of support from and evidence of engagement with the relevant sector, the engagement and commitment of any relevant provider, engagement with any relevant public authority or agency, including Growth Hub support where relevant.
Appendix 2b: Guidance on project assessment

5.66 This Appendix provides guidance on the prioritisation process. It is aimed primarily at supporting the business case assessment process. It is also designed to help project promoters and developers who are working to develop a robust business case.

5.67 The Appendix has the following sections:

• Assessing market failure / investment opportunity
• Assessing deliverability of projects
• Determining strategic fit and impact
• Assessing financial return
• Assessing project risks

Assessing market failure / investment opportunity

5.68 The SIF will invest in projects that either:

• Demonstrate a clear strategic case for public investment, for example to address market failure, create public goods and value or provide the enabling infrastructure for growth, and/or;

• Represent an investment opportunity for a direct financial return to the CA on any SIF investment.

Market failure

5.69 Market failure is defined as any situation where the market is not expected to provide an economically or socially beneficial outcome to the desired extent, at all or within an optimal timeframe. This often happens where the private sector cannot capture all of the benefits of investment (i.e. when many of the benefits are social / economic rather than financial return).

5.70 In part driven by the market’s inability to provide the full cost of capital, we will invest in the infrastructure that enables wider growth and inclusion. This could include transport, digital, social and other infrastructure. In other cases, such as investment in residential or commercial property, market failure is very much dependent on the specifics of a given investment.

5.71 We may also invest in public goods and public value, where the wider benefits to the people and places of the city region are the primary return on investment.
5.72 The SIF Investment Team and/or project promoter will identify and evidence the market failure relating to the project in question. The project assessors will consider whether the reason and evidence given qualify as market failure. This should be considered in light of other private and public sector projects of a similar nature.

**Investment opportunity**

5.73 On occasion, LCR will have opportunities to invest that generate financial returns which can be used to support ongoing investment in the City Region. Examples of this include:

- Investing in property in the City Region that is consistent with our strategic objectives and generates a financial return
- Investing in promising, innovative firms in the City Region that helps these firms grow and can be expected to generate a financial return
- Incentivising internationally mobile investment
- Investing in IP in a way which supports local firms to grow and can be expected to generate a financial return

**Assessing deliverability of projects**

5.74 As part of phase one, project assessors must check whether a project is realistically deliverable within the proposed timeframe. The following is a series of questions which should be asked of the projects and their promoters:

- Is this project similar to other projects that have successfully reached completion in comparable environments? If so, were those other projects successful in terms of being delivered on time and to budget? Have any similar projects stalled and, if so, why have they stalled?
- Where deliverability challenges have occurred on comparable projects, what differences are there in this project that mitigate similar issues occurring, and / or what mitigating steps are planned?
- Are there any particular challenges to the proposed project that are different from other typical projects of this type? What mitigating steps are planned?
- Does the project promoter / delivery body have a track record of managing similar projects? If not, what steps are being taken to mitigate the knowledge / experience gaps that may exist?
- Is the proposed project management / delivery team adequately resourced?
- How could deliverability failure manifest itself and what would the implications be? (in terms of time and cost).
• Is the submission sufficiently detailed and evidenced to be credible?

5.75 Projects that are similar to previously successful projects (particularly successful LCR projects), and projects which are to be delivered by credible organisations, should be considered more deliverable than projects which do not meet these criteria.

5.76 Projects that have more probability of serious failure (resulting in large time delays or cost overruns – or both) should have a higher evidence requirement than those where the consequences of failure are less serious.

**Determining strategic fit and impact**

5.77 One of the most challenging areas of assessment is determining the extent to which a project meets one or more strategic priority of LCR. Determining strategic fit happens in both phases of the prioritisation process:

- In the first phase, determining strategic fit is concerned with the logic of an intervention and evidence that the logic is, or can be made, robust.
- In the second phase determining strategic fit is also about to what extent the intervention addresses the strategic priorities of LCR.

**First phase strategic fit assessment**

5.78 In the first phase, a determination of strategic fit should focus on the logic of intervention – i.e. how does the intervention address a given strategic priority - and the evidence that underpins that logic. For some of the strategic priorities this will be straightforward. For example, if the strategic priority is to build a particular piece of infrastructure and the intervention proposes to do just that, then the link is clear.

5.79 In most cases, however, the link between project and strategic priority will involve at least some logical ‘leaps’ between what is being funded and what will happen. For example, a strategic priority to increase employment in a given sector might be fulfilled by funding a local start-up programme, but here project assessors should consider whether:

- Start-ups are the correct means to increase employment – i.e. is the sector amenable to successful start-ups or is it heavily capital intensive and therefore difficult for new entrants? Do start-ups in this sector tend to grow rapidly or are very small / micro companies the norm?
- Assuming start-ups are a reasonable way to boost employment – are the means proposed sufficient to support additional start-ups? Is there good evidence of demand to start-up such firms? (e.g. perhaps a large local supply of graduates in relevant technical areas)
In the above example, the project promoters make at least two logical 'leaps': firstly, that start-ups increase employment in the target sector (the strategic priority), and secondly that the proposed support package leads to more start-ups.

It is incumbent upon the project team to identify the causal logic in their proposed interventions and how these address the strategic priorities, and provide evidence that supports this logic. Project assessors should question this logic and evidence.

Suitable evidence to support project proposals includes:

- Data and evaluations of comparable projects in comparable environments that demonstrate the causal logic of the intervention proposed, with acknowledgement of where the context in LCR differs.

- Data demonstrating demand for particular interventions, where such demand is an important driver of an intervention’s success. For example, where commercial occupiers are needed to ensure the success of a high street redevelopment, or where prospective students are needed to ensure the success of a new course or FE facility. Such demand data could include feedback from key local stakeholders, survey data, and other data which implicitly demonstrates demand (e.g. rising house prices in a particular area).

- Data demonstrating existing supply of / competition for particular interventions, where such supply is an important driver of an intervention’s success. This is an important corollary to data on demand. If house prices are rising, but many new housing sites are being brought forward then the logic for intervention in the market is weaker than if there are very few active developments. Sometimes supply data tells a more accurate picture of how likely it is that an intervention will succeed. For example, if there are already lots of STEM courses on offer in local colleges but take-up is low, the correct intervention will focus on boosting take-up, or improving the quality of the existing offer, rather than further boosting supply.

**Second phase strategic fit assessment**

In the second phase, the aim of project assessors is to try and quantify strategic fit / impact in a consistent way across projects. Given that the project outputs are assessed separately, this is less about the numbers of outputs achieved and more about whether the project meaningfully advances the LCR’s progress towards its strategic objectives, and in what domains. Although these two elements (outputs and progress towards strategic objectives) overlap to a degree, there is a distinction between the two.

In order to simplify this assessment, there are three levels of impact for each strategic priority:

- High impact – i.e. the proposed project either completes the strategic priority or makes very significant progress towards its achievement.
• Medium impact – the proposed project makes some progress towards the achievement of this strategic priority, but further interventions are required to have a ‘high impact’.

• Low impact – the proposed project makes a small amount of progress towards the achievement of the strategic priority.

5.85 Of course, projects will not impact all of the LCR’s strategic priorities, so the above is only relevant for those priorities which are anticipated to be impacted by the project.

5.86 Progress towards a particular strategic priority must be tangible / realistic, not hypothetical. For example, it may be that a business loan programme will lead selected employers to invest in upskilling their workforce. However, unless this is an intrinsic part of the programme (e.g. if loans are conditional on having a robust training plan), such a benefit is hypothetical rather than a natural consequence of the intervention and so there should be considered to be ‘no impact’ for that particular strategic objective (i.e. relating to upskilling). As best as possible, project assessors should seek to be consistent with previous judgements on impact.

Assessing financial return

5.87 Financial return is assessed on a Net Present Value (NPV) basis to account for the opportunity costs associated with longer-term return profiles. As such, projects which show shorter-term financial returns will score more highly. Financial return to other bodies (private investors or local authorities) is not assessed as part of this process, on the basis that these organisations can and will manage their own assessment.

5.88 As part of the assessment of financial return, the investment team will review the assumptions about the returns from investment and the timescales for those returns. Project promoters should provide a clear model of assumptions, and evidence that supports said assumptions. Examples of suitable evidence include:

• Financial returns data from similar projects.

• Where the project involves loans – an assessment of the loan risk either individually or an assessment of the portfolio loan risk.

• Financial modelling with clear and evidenced assumptions.

5.89 Where evidence is lacking, but the project promoter is prepared to guarantee the CA’s financial return, then this should be considered provided that such a guarantee is credible.

5.90 Where assumptions are deemed to be unrealistic, the project assessors should request a revised submission that incorporates more realistic assumptions.
Assessing project risks

5.91 As part of the submission, the project promoter should produce a risk register showing the major project risks, the likelihood of these risks (very low to very high), the impact of the risks (very low to very high), and the mitigating actions that have or will be put in place to address these risks. Where the link between mitigation and risk reduction is not obvious, evidence should be provided that the risk will actually be reduced.

5.92 The project assessor should:

- Consider whether the identified risks represent all the important risks that could occur
- Consider whether the project sponsor's assessment of likelihood and impact is realistic
- Consider whether the mitigating activities will credibly reduce the risks identified based on the evidence provided

5.93 Subsequently, the project assessor should decide on the level of risk inherent in the project. By ‘project risk’, we mean the risk that a project will fail to meet its objectives in terms of:

- Outputs achieved (quality or quantity)
- Proposed timescales being attained
- Proposed financial return to the CA being attained
- Proposed financial leverage being attained

5.94 Accordingly the project should be judged according to the following risk categories:

- High risk: a project is unlikely to meet one or more of the above objectives to the detriment of the overall objectives of the project or the CA as a funder
- Medium risk: it is reasonable to think that the project may fail to meet one or more of the above objectives to the detriment of the overall objectives of the project or the CA as a funder
- Low risk: it is reasonable to think that the project will meet all of the above objectives.
- Very low risk: it is very unlikely that the project will fail to meet any of the above objectives.