# LIVERPOOL CITY REGION COMBINED AUTHORITY

# STRATEGIC INVESTMENT FUND

# INVESTMENT STRATEGY 2020

## Contents

# 1 Introduction and Context

1.1 The Liverpool City Region ("LCR" or the "City Region") Combined Authority (the "Combined Authority", "CA" or "we") signed a historic devolution agreement with Her Majesty's Government in 2015. This agreement passed control over certain powers and funding from central to local control, held by the Combined Authority, led by the elected Metro Mayor and the leader/mayor of each of our six constituent local authorities.

1.2 The Combined Authority exists to improve our residents' life chances and maximise the opportunities we all need to live well, to address major issues like inequality, environmental harm, climate change and adverse developments in the economy that prevent us, as a place, from achieving our potential. Well targeted, evidence-led, local policy decisions and funding will maximise the benefits of devolution across our City Region.

1.3 Devolution embodies our conviction that decisions made in our City Region will be best for our City Region. It provides our best opportunity to bring the economy of the whole region up to national and global levels of investment, innovation and growth, and to do so in a way that is environmentally sustainable and socially inclusive.

1.4 To manage our devolved funding, the Combined Authority established the Strategic Investment Fund (the "SIF"). The SIF's purpose is to invest in 'good growth'. This is economic growth which supports our ambitions for a **globally competitive, environmentally responsible and socially inclusive City Region**. These ambitions are informed by:

- the City Region's 2020 Local Industrial Strategy,
- the elected Metro Mayor's manifesto,
- the CA's economic recovery plan (the key document as we recover from the Covid-19 pandemic), and
- the CA's business plan.

1.5 The City Region's 2020 Local Industrial Strategy is our principal economic development strategy. This identifies the priorities that we believe can best improve the City Region's economy in an inclusive and environmentally sound way. The economic recovery plan sets out the short to medium term priorities which combat the impact of the Covid-19 pandemic on our City Region. Both documents inform the CA's business plan, which contains our medium-term objectives and actions. **SIF shall fund the relevant economic development components of these plans**.

1.6 From August 2020 for up to the next 18 months, our priority is to execute the Liverpool City Region economic recovery plan. We will review this as a central priority approximately every six months and update this Strategy as necessary.

1.7 This document provides our SIF investment strategy (the "Investment Strategy"), including its sources of funding, operating principles, investment priorities and management processes.

1.8 Since government funding tends to be allocated in distinct programmes with different themes and at different times, SIF acts as a platform to assemble, invest and manage these distinct programmes. The SIF also manages funds provided to the Liverpool City Region Local Enterprise Partnership (the "LEP")[1].

1.9 It applies to projects in highways and local transport, housing, land and property, infrastructure, low carbon, culture, visitor economy, business support and innovation, and skills and employment sectors.

1.10 It applies to the following sources:

- 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
- By CA agreement, 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
- Funding devolved to us from government agencies including UK Research and Innovation (UKRI) and Homes England

1.11 We will apply this Investment Strategy to all follow on and successor funds, and to new devolved funding streams, unless otherwise stated[2].

1.12 The Investment Strategy shall also be relevant to funding sources that relate to but do not currently form part of the SIF, specifically: Chrysalis and its successor Urban Development Fund (UDF); the Merseyside Special Investment Fund; and European Structural Investment Funds for 2014-2020. Each of these has a separate investment strategy and approval process; over time, they will be brought into greater strategic and operational alignment with the SIF.

[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.

## On Inclusive Economy

Liverpool City Region seeks to develop the most inclusive economy in the UK. A truly inclusive economy is one that creates meaningful economic success measured not just by GDP but by the health, wealth and wellbeing of all its residents. It is an economy with opportunities for all people and places to prosper and an economy that employs inclusivity as a driver of growth.

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.

Building a truly inclusive economy in the Liverpool City Region will set the blueprint for how to unlock a region's economic potential through disrupting inequality and disadvantage. This will create a stronger society, a healthier workforce, and more people who are able to enjoy the everyday essentials of life.

The first step to building a truly inclusive economy is to recognise the complexity of the challenge and the scale of the opportunity. The outcomes we want to achieve - an inclusive, resilient, and productive economy - are produced by whole systems, not discrete individuals, organisations, or programmes.

## 2 Operating Principles

2.1 The SIF aggregates funds from different sources. Each source typically carries its own objectives, requirements and restrictions covering timing, match funding, eligibility criteria and assessment requirements.

2.2 Funding is usually split between capital and revenue, indicating its requirement to either build physical capacity or to support projects' operations. It is therefore impracticable to provide a single set of investment criteria and the SIF must rely instead on a single set of operating principles, clear priorities and common management procedures. Our operating principles are as follows:

2.3 **We are committed to a fair process**. This means:

- We will follow our assurance framework in identifying, prioritising and funding projects.
- We will prioritise projects which have the greatest potential to contribute positively to our ambition to create a **globally competitive, socially inclusive and environmentally responsible City Region** with "no borough left behind". We have engaged with diverse places/sponsors across the entire City Region to help identify **projects with the highest economic, social and environmental impact potential, as well as sound operational footing**. Places will benefit in different ways and at different times. We will continue to engage with partners to grow the pipeline of impactful projects.
- This Investment 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.
- We will provide regular updates on the funding available and the conditions pertaining to it. Our commercial development and investment team (our "Investment Team") will also maintain regular contact with the City Region's businesses, including through the Local Enterprise Partnership, Sector Boards, and the CA's Policy and Strategic Commissioning Directorate, third sector and public sector on the availability of SIF funding.

2.4 **We work collaboratively**. This means:

- We will be data led, working with colleagues and partners to establish the evidence base we need to target interventions.
- Investments under this Investment Strategy may be further guided by our constituent councils' own investment and growth plans.
- Homes England is our key partner in housing funding; UK Research and Innovation (UKRI) in research and innovation funding; Growth Platform in delivering growth services to our business base; and our own integrated transport teams in delivering local transportation.
- We will deepen our private, public and third sector partnerships to maximise partners' investment into the City Region and deliver our shared objectives in a better way. We want to find, fund and deliver

projects together, innovate on collaborative working and even share resources where appropriate.

- We 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. Our aim is not simply a physical legacy but a human one, benefitting our residents and communities.
- We will work with advisory groups and partners to co-design, develop and deliver projects. We can assist with development funding, project management, policy, investment and other resource. Commissioned and co-developed projects have the best potential to meet our identified priorities. In return, we expect partners to work collaboratively with the Investment Team to agree credible, robust deliverables and financial structures, together with a clear legal and practical route to delivery, at the outset of the development process.
- The Investment Team’s role is an *active* one, improving deliverability and identifying project synergies to increase value and outcomes for the City Region.

2.5 **We will maximise our impact**. This means:

- We will balance what interventions our economy most needs with what investment opportunities are available, deliverable and offer best value for money in the market.
- Projects must demonstrate a **clear case for public investment**, be it to address market failure, create public goods and value, to provide the enabling infrastructure for growth and/or to capture an opportunity for the CA to achieve a financial return (this latter always in support of the investment priorities below). We will not fund in the absence of these rationales.
- Projects must **maximise value for money** to the public purse. This means both selecting the right projects and working to improve their value for money. There are two ways to improve a project’s value for money: (i) improve its economic, environmental and social performance and/or (ii) improve its financial performance. Projects should seek to do both.
    - Leverage, additionality and risk-return sharing are key to securing good value for money. We will optimise our project contributions and recycle as much funding as we can.
    - Projects should seek to complement existing SIF funding with new, public and private sources of capital, and to collaborate with commercial investors and lenders to fund priority projects and outcomes. The Investment Team’s role is to maximise the funding available to SIF as a platform and the co-investment provided to projects.
- **Projects must perform**. Approved projects that fail to meet agreed milestones or output and performance targets risk having their funding withdrawn, reduced or clawed back. Likewise, we will link sponsors’

performance in priority projects elsewhere in the City Region, be they SIF funded or not, to their ability to receive fresh funding. We therefore link funding to being a good City Region partner.

**Investment Allocations and Targets**

2.6 We will work to the following targets:

- Not less than 80% of our funding should go towards our strategic priorities outlined in the Economic Recovery Plan and in section three below. Not more than 20% shall be allocated for impactful opportunities that appear in the interim – as our investment approach matures, we expect to plan our interventions more.
- We will aim to recycle 40% of funding, focusing our efforts to recycle away from network infrastructure and public goods (see below for further discussion).

2.7 These targets apply after the investment of restricted funding. Therefore, our unrestricted funding will need to be moved amongst priorities and focused on areas for which we receive no restricted funding.

# 3 Investment Priorities

## Investment Horizon

3.1 We have a vision for a **globally competitive, environmentally responsible and socially inclusive City Region**. The Covid-19 pandemic has not changed this vision, but it has changed how we will achieve it.

3.2 **From August 2020 for up to the next 18 months, our priority is to execute the Liverpool City Region economic recovery plan.** We will review this as a central priority approximately every six months and update this Strategy as necessary.

3.3 It is important to recognise that the SIF is one tool amongst many for the Combined Authority and that the Combined Authority is one partner amongst many in delivering this vision:

- Besides SIF, the Combined Authority may use its devolved policy making, transport network, engagement with HM Government, its own spending power and thought leadership to influence the development of the City Region economy. Money is not always the right or only answer.
- Besides the CA, our local authority partners, health and NHS partners, our schools, colleges and universities, our businesses and business networks like our LEP, our social, cultural, faith and third sector organisations all play a role locally in good growth.

3.4 **The SIF is intended to fund initiatives for which economic growth is the primary motivation** and should not be used to support our local authorities' statutory services nor to supplement their revenue budget. The SIF cannot and should not fund everything.

3.5 The SIF alone cannot develop an inclusive economy, but our investments will support good growth, i.e. economic growth initiatives that also embody social inclusion and environmental responsibility. Levering funds from third parties is crucial.

## Mainstreaming Good Growth

3.6 A project's potential to generate good growth, environmental benefits and social value is part of our appraisal criteria in committing public money. The Combined Authority will expect projects to include specific measures to drive this approach. 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.

3.7 We have three ways to realise good growth in our investments:

- The first is to seek projects that use positive action **explicitly to target reducing inequalities, environmental responsibility and/or social inclusion** and to focus our funding on these. The CA's Mersey Tidal energy project and Households into Work programmes are prime examples of this. This is by far the most potent of the three ways.

- The second is to **score projects for their good growth characteristics**. Two competing projects whose economic impact are otherwise equal can be prioritised on their capacity to serve our environmental and social objectives. Please refer to the below for details.
- The third is to use the CA's funding position to **require project sponsors to incorporate good growth elements**, such as a requirement to interview candidates from our skills and apprenticeships programmes, to support public transportation and healthy commuting and to achieve environmental standards.

Each of these three ways may work in combination.

3.8 Socially inclusive means the:

- Creation of stable jobs at real living wage
- Movement from unemployment or unstable employment to stable employment
- Seeking targeted interventions to increase employment and progression opportunities for underrepresented racial groups
- Assistance to move disadvantaged and vulnerable groups into stable employment
- Development of professional skills and opportunities, leading to career progression
- Recognition of workplace representation and trade unions
- Linking of people to jobs and opportunity, physically and digitally
- Coverage and the cost of local public transportation
- Improving the economic and social sustainability of key places like our town centres
- Empowering communities to generate jobs and growth for themselves
- Maximise social value through procurement practices

3.9 Environmentally responsible means the:

- Generation and distribution of sustainable, replicable low carbon energy
- Generation of carbon savings and, for SIF investment, realisation of associated financial value
- Building of housing and premises to high energy efficiency standards (to meet EPC Band B or above)
- Supporting the transition to low carbon business models across our economy
- Building transport networks and services with net carbon avoidance and pollution reduction as a primary driver
- Embedding green spaces into our major residential and commercial developments and town centre regeneration

3.10 Annex 1 provides additional sector specific good growth credentials which will impact our investment decision making. In progressing potential funding opportunities, **we will use a combination of qualitative assessment of projects' good growth characteristics combined with making funding conditional on minimum good growth performance**. We will specify these requirements when calling and commissioning projects.

# 4 Approval Process

## Identifying Projects

4.1 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. Our Policy colleagues, local authorities and the LEP play a key role in identifying opportunities.

4.2 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.

4.3 We will generate project opportunities in two ways:

- **Commissioned Projects:** The CA, working with our local authorities and partners, has commissioned priority projects against the Economic Recovery Plan. Not less than 80% of our funding shall be allocated for our strategic priorities.
- **Called Projects:** We may also publicly call for projects that address the investment priorities we specify. This allows us to invite solutions such as, for example, how best to attract high growth businesses to the City Region. We may call for projects in batches but will operate by preference under an "open call" system that allows projects to progress when ready. Called projects will submit an **expression of interest** to begin their engagement with the SIF process. Not more than 20% shall be allocated for impactful opportunities that appear in the interim Pre-development Funding

4.4 In order to commit SIF funds in an orderly way, the CA will – selectively and with caution - provide risk funding and expertise to help analyse markets, identify opportunities and develop projects towards a deliverable state. The Investment Team's role is an active one, improving deliverability, value and outcomes for the City Region.

4.5 The CA will allocate a portion, typically up to 5% of non-transport funding and up to 10% of transport funding, to the pre-development of strategic projects, attaching to it conditions to maximise the funding's impact and minimise the non-performance risk associated with funding pre-development.

## Approval Routes

4.6 The following graphic and table summarise the approval routes available:

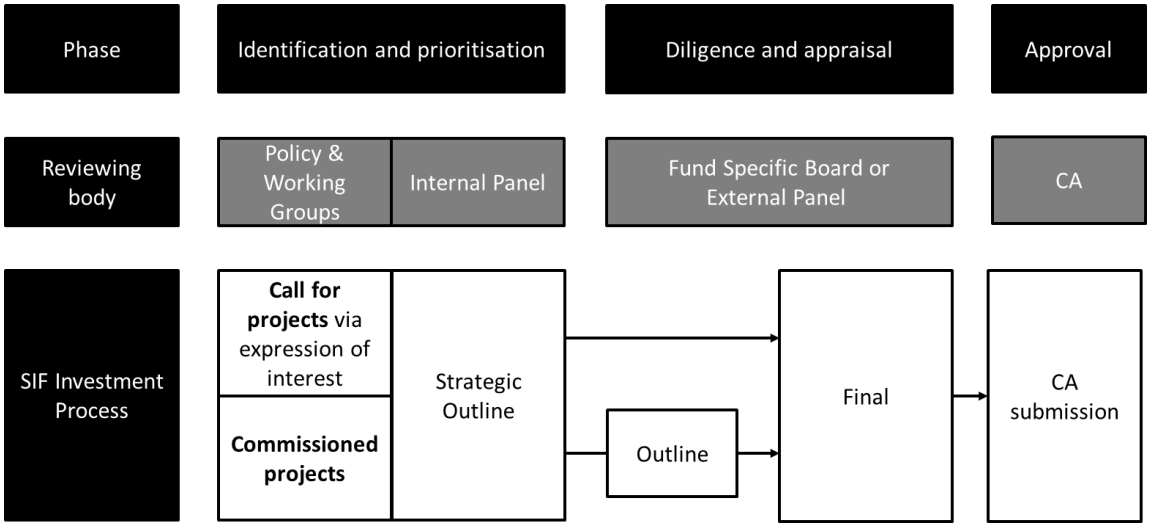


Table 1: Approval Routes

| **Commission or Call** | **SIF Commitment** | **Approval Process** | | | |
|---|---|---|---|---|---|
| | | **Strategic outline case** | **Outline business case** | **Final business case** | **Combined Authority approval** |
| **Commissioned Projects** | SIF commitments below £7.5m | Yes | No | Yes | Yes |
| | SIF commitments above £7.5m | Yes | Yes | Yes | Yes |
| **Called Projects** | SIF commitments below £7.5m | Yes | No | Yes | Yes |
| | SIF commitments above £7.5m and more complex or novel projects | Yes | Yes | Yes | Yes |

4.7 Each approval stage, and the steps necessary to reach that stage, is described in detail below.

| Stage | Purpose | Panel | Approval | Rejection | Resubmission |
|---|---|---|---|---|---|
| **Strategic Outline** | Assess a project's strategic fit, deliverability, potential value for money, affordability and good growth characteristics before committing resource to working it up.<br><br>This assessment will enable the progression of the most attractive options.<br><br>Please refer to **Appendix 1** for further guidance on the outline review. | **The Internal Panel**<br><br>A senior Combined Authority team | Projects that are selected to progress will follow the approval path summarised above, taking either the expedited or regular path to approval.<br><br>Progressing beyond this stage is no guarantee of final approval. | Projects which are rejected will receive a concise statement by the CA on what changes would be required in order to pass.<br><br>The Investment Team may consider co-funding the project's further development if its credentials appear promising at this preliminary stage. | Any projects that are subsequently resubmitted by the project sponsor must make clear how previous CA comments have been addressed.<br><br>Projects will be re-considered if key variables/parameters have changed, at the discretion of the Combined Authority.<br><br>The Combined Authority does not expect any project to be submitted to the Internal Panel more than twice and reserves the right to permanently exclude a project. |
| **Outline (for** | To understand in more detail the project and its value | **Fund-specific** | Projects that rate highly enough | Projects that do not rate highly enough at the | The Combined Authority does not |

| | | | | | |
|---|---|---|---|---|---|
| **funding requests greater than £7.5m)** | proposition<br><br>Options may still be considered at this stage<br><br>**Supporting information:**<br><br>• Indicative Heads of Terms for SIF support. These terms will include the quantum, return requirements (if any), milestones and principal conditions.<br>• Good growth, social value and diversity questionnaire,<br>• Environmental/ sustainability questionnaire,<br>• Equality Impact Assessment<br><br>Please refer to **Appendix 2** for preparatory information required for outline submission as well as sectoral guidance. | **Board <u>or</u> Investment Panel**<br><br>A body composed of senior CA officers and external experts | relative to their sectoral peers and to the rating of projects across the SIF portfolio will progress to detailed diligence.<br><br>The CA may need to conduct a gateway prioritisation at this stage but will prefer to work through open calls, with projects proceeding as they are ready | outline stage will not progress but will receive formal feedback.<br><br>This feedback will include steps available to improve and the support the Combined Authority is willing to provide in taking those steps, if any. | expect any project to be submitted at the outline stage more than twice and reserves the right to permanently exclude a project. |
| **Final** | To provide active scrutiny and endorse projects for | **Fund-specific** | The Board or Investment Panel | Projects that are rejected will received reasoned | The Combined Authority reserves the right permanently to |

| | | | | | |
|---|---|---|---|---|---|
| | approval by the CA board<br><br>Supporting information:<br>• Satisfactory diligence<br>• Term sheet<br>• External appraisal | **Board <u>or</u> The Investment Panel**<br><br>A body composed of senior CA officers and external experts | may make recommendations for modifications to be made in the SIF commitment.<br><br>Projects endorsed for approval will be submitted to the Combined Authority. | feedback. | exclude a project. |
| **Approval** | Supporting information:<br>• summary project submission<br>• summary appraisal submission<br>• Investment Panel's commentary | **Combined Authority**<br><br>or to a sub-group nominated by the CA Board | Receive delegated authority for officers of the Combined Authority to enter into legal documentation and proceed to disbursing the SIF commitment.<br><br>**For the avoidance of doubt, no funding is committed until legal documentation is entered into and complete**. | Projects that are rejected will received reasoned feedback | The Combined Authority reserves the right permanently to exclude a project. |

| | | | | | |
|---|---|---|---|---|---|
| | | | | | |

Table 2: Approval stages

4.8 Our objective is to create a robust yet efficient journey to funding. Note that:

- Our 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 project materials to support the application and to enable third party diligence where requested. In exceptional circumstances, high value commissioned projects may follow an expediated route to approval. Sponsors will be advised accordingly.
- Project sponsors will carry the Combined Authority'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 we commit to fund the project. We will seek where practicable to agree these fees in advance with project sponsors.
- We will frequently use "programme facilities" that set common requirements and expectations of similar types projects and enable streamlined decision making. Current examples of this are our flexible loan fund, our inward investment facilitation package and our small grants programme.
- All projects must abide by the Combined Authority's branding and publicity requirements. This may include any publicity project sponsors might wish to undertake prior to approval.

**Appraisal**

4.9 The appraisal process for the SIF will be consistent with a proportionate application of HM Treasury's Green Book and Business Case Appraisal process[3], including supplementary and departmental guidance, such as the Department for Transport's (DfT) WebTAG appraisal guidance and MHCLG's Appraisal Guide. This will work from the five cases model:

- Strategic Case – which provides a compelling case for change and explains how the project provides fit with the objectives of the organisation and wider public sector agendas;
- Economic Case – which describes how the project/preferred option represents best public value;
- Commercial Case – which demonstrates that the deal is attractive to the market, can be procured and is commercially viable;
- Financial Case – which confirms that the proposed spend is affordable; and
- Management Case – which confirms that what is required from all parties is achievable.

[3] https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent.

4.10 We will use a combination of qualitative assessment of projects' good growth characteristics to determine how well a project serves our environmental and social objectives. This includes, but is not limited to:

- Social Value Questionnaire
- Environmental Impact Assessment
- Equality Impact Assessment

4.11 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.

**Diligence**

4.12 The Investment Team will undertake diligence on all potential projects, including market, operational, financial, legal and structural due diligence, to cover all aspects of project development, operation and exit/closure. Appendix 2 provides headline diligence requirements, including sector specific guidance in sections 2.i, 2.ii & 2.iii. Projects must meet our diligence requirements to proceed to appraisal and consideration for approval.

4.13 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, confirming 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.

4.14 Projects will undergo proportionate appraisal designed formally to assess their contribution to the Combined Authority's investment objectives under the SIF, including its value for money. The appraisal conducted will conform to the Single Pot Assurance Framework – National Guidance[4].

4.15 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.

**Monitoring and Evaluation**

4.16 The Combined Authority will undertake high quality project level monitoring and evaluation in order to understand the delivery progress, impact and effectiveness of its investments. This will provide robust and credible evidence that the Combined Authority will use to:

4 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/516215/Single_Pot_Assurance_Framework.pdf

- **Monitor and manage delivery progress** and provide the required returns to funders in respect of project expenditure and delivery of outputs and outcomes
- **Understand delivery quality** and explore how effectively and efficiently projects have been implemented and the factors underpinning this
- Understand and (where feasible) quantify the **economic, environmental, health and social impact** of SIF funded activities in the City Region
- Consider whether and **how SIF investments have helped achieve the aspiration** for a globally competitive, socially inclusive and environmentally responsible City Region
- Create evidence-based lessons about **what has worked, how and why** and use these to inform the design and implementation of future projects / investments.

4.17 During the approval process, all recipients of SIF funding are required to demonstrate that they are able to comply fully with the Combined Authority's monitoring and evaluation requirements. These are:

*1: A Requirement to Complete a Project Monitoring and Evaluation Plan*

4.18 All SIF applicants will be required to complete a SIF Project Monitoring and Evaluation Plan **before project approval**. The plan will provide a broad outline of scope and timing of monitoring and evaluation activity, as outlined in Annex 2.

4.19 The Investment Team and Evidence and Research Team will work with the project applicant to develop and agree the content of the plan. The final Project Monitoring and Evaluation plan will need to be signed off before the project can be approved for SIF funding.

*2: A Requirement to Collect Appropriate Project Monitoring Data*

4.20 SIF applicants are required to provide sufficient data and information to allow the Combined Authority to:

- Understand the project's delivery progress
- Identify and address any barriers to delivery and / or mitigate project risks
- Capture information and evidence about the direct outputs and (in some instances) outcomes arising as a result of project activities
- Meet the monitoring requirements of funders of the SIF
- Support effective future project evaluation.

4.21 The specific monitoring data requirements will be agreed during the SIF application process and detailed in the Project Monitoring and Evaluation Plan. Monitoring data requirements will be included within the project Funding Agreement.

4.22 All SIF funded projects will be expected to provide regular (at least quarterly, in some instances monthly) submissions which detail project expenditure and progress towards output targets. The format for these submissions will be

specified by the Combined Authority and the frequency of reporting will be specified in the project Funding Agreement.

4.23 Some projects will be asked to collect more in-depth monitoring data which is bespoke to the design of the project. The principle of proportionality will be applied here, and the Combined Authority will ensure that there is a clear rationale and purpose for all monitoring data requested.

*3: A Requirement to Participate in Project and Programme Evaluation*

4.24 All SIF funded projects are required to participate fully in any project or programme evaluation that is commissioned by the Combined Authority or organisations that provide funding into the SIF. This could include:

- Evaluation of a programme of activity of which the SIF funded project is a part. Here the SIF funded project would be examined alongside others and used as part of a wider evidence base to draw conclusions about the overall success or impact of the programme of activity.
- Evaluation of the SIF Funded Project. Participation in a project level evaluation commissioned or undertaken by the Combined Authority. Here the SIF funded project would be the sole focus of the evaluation activity and conclusions would focus on the impact and effectiveness of the SIF funded project.

4.25 In both instances, the Combined Authority will draw extensively on the information submitted by the applicant during the SIF application process and project monitoring data submitted during delivery.

4.26 Project sponsors and the project delivery team will be expected to provide reasonable inputs into the evaluation research, for example by:

- Providing access to project documents and information relating to the design and delivery of the project.
- Ensuring that strategic, managerial and operational members of staff will participate in any interviews, workshops or other primary research to inform project or programme evaluation
- Facilitating access to direct beneficiaries of the project's activities (eg SMEs using business support services, learners participating in training etc). Applicants will be expected to ensure that appropriate data releases are in place to allow contact details and background information on clients to be shared.

4.27 The likely focus and requirements of project level evaluation activity will be agreed with applicants during the SIF approval process. The Combined Authority will work to ensure that monitoring and evaluation requirements are proportionate to the scale and complexity of the project.

## Conditions to Funding

4.28 All public funding is provided with conditions. Besides the usual development, performance, monitoring and evaluation conditions, we may require projects to incorporate, among other things:

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

b) 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[5],
- sustainability performance[6],
- digital connectivity (dig once ducting)[7] or
- autonomous/electric vehicle infrastructure (charging points).

Please note that this list is not an exhaustive list.

4.29 The Investment Team will be clear in specifying these requirements.

## Change Control

4.30 Projects whose forecast performance changes materially after passing any approval stage will be re-considered. Depending on the level of change this consideration may be by the Internal Panel, the relevant fund-specific Board and/or the Combined Authority.

4.31 Table 3 below details the definitions of, and approvals required for, the three categories of change; Immaterial, Intermediate and Material.

| | Immaterial Change | Intermediate Change | Material Change |
|---|---|---|---|
| Approval | Director & Treasurer or Monitoring Officer | Internal Investment Panel | Fund-sFpecific Board/External Panel and Combined Authority |
| Financial | financial increments up to the greater of £100k or 5% of the value of the | Financial increments up to the greater of £250k or 10% of the value of the | Increase in funding requirement by more than 10% or £250k, whichever |

[5] The CA may require an additional Design Council review for those schemes either over 500 homes or having investment of over £10m

[6] Should meet EPC Band B or above

[7] The CA is currently procuring a specification for this ducting and will communicate its requirements with project sponsors once available, and in any case in time to complete sponsors' project design.

| | | | |
|---|---|---|---|
| | SIF funding approved; | SIF funding approved | is greater |
| Outputs | Changes in outputs which in the opinion of the Director of Commercial Development and Investment (or a nominated delegate) amount to an immaterial change; and | changes in outputs which in the opinion of the Internal Investment Panel amount to an intermediate change | Changes in outputs which the Internal Investment Panel deem amount to a material change |
| Timing | delays in timing in excess of the original funding end date (for either funding and/or outputs) of up to 10%. | delays in timing in excess of the original funding end date (for either funding and/or outputs) of up to 20%. | Delays of timing in excess of the original funding end date (for either funding and/or outputs) of more than 20% |

Table 3: Change thresholds

4.32 This change control process also 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**

4.33 We will review this Investment Strategy's approval process annually and may update our operations as a consequence of that review.

# 5 Financial Principles

## Economic and Financial Returns

5.1 All SIF commitments must generate an economic return (i.e. benefit the wider economy), but not all SIF commitments will generate a financial return (create a revenue stream and/or repay their SIF allocation). Where a financial return is possible, the SIF will use these receipts to fund future investments. *If we can recover a quarter of funds from four projects, we have the fifth "for free".* To achieve this, we will:

a) Recognise that *inter alia* certain public goods and services, like our road network, local bus services, public education and training cannot provide a financial return. This is the case even when a market for the services exists, as amongst higher education providers. We support these goods and services because they are necessary for a well-functioning society. It therefore follows that funds intended solely for the purpose of funding these public goods have no recycling requirement under SIF. Our role in such cases is to assure value for public money by maximising impact and assuring delivery.

b) Be clear about the financial benefits that may accrue from our addressing a market failure, funding innovation and providing growth infrastructure, and obtain a fair share of these. This means:

- For property and economic infrastructure, a share of land value uplift and/or profit (above thresholds where necessary to motivate a commercial partner)
- For innovation and commercialisation, a share of profits from licencing and IP, recognising that this financial value may be created in the long-term
- For business support and investment, a risk sharing model that provides for recycling from companies whose support/funding underpins profit growth
- Other tailored mechanisms may be developed to suit the financial benefits emerging from a particular project

c) Understand where cost savings or partial/ancillary profits are made and obtain a fair share of these. For example, a new road will not generate a financial return but the land value uplift around that road should form part of SIF's overage provisions, in order to recycle its funds into the next project.

d) Also invest SIF funding for a commercial return. SIF has a permanent role in funding public goods but its need to fill market failures should reduce over time.

5.2 We will be clear about our financial return requirements when launching programmes, identifying projects and offering terms to these projects. The financial return requirements will be specified by funding source.

5.3 Please refer to Section Two for portfolio and recycling objectives.

**Persistent Market Failure**

5.4 One of the Combined Authority's long-term objectives is to tackle market failures present in the City Region's economy which prevents us from achieving inclusive and sustainable growth and creating 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 require a specific analysis and action plan, to be used in structuring and appraising the intervention.

**Products**

5.5 The CA shall offer:

a) grant funding,

b) first loss instruments,

c) guarantees,

d) debt (whether senior, junior, corporate or other),

e) quasi-equity,

f) equity and

g) other risk sharing instruments in any combination it considers optimal.

5.6 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 either in the same project or across the portfolio of projects.

5.7 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**

5.8 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.

5.9 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.

5.10 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 government bodies, investors, lenders and intermediaries on crowding in other sources of funding. Our desire to crowd in investors applies at the project, programme and SIF levels.

### Underwriting Approach

5.11 We will appraise projects with reference to our assurance framework, informed in its turn by the Ministry of Housing, Communities & Local Government (MHCLG) Appraisal Guide, Treasury Green Book, WEBTag and good practice in benefit-cost analysis. In analysing the risk and return of financing, we shall have regard to best practice in the UK financial services industry.

### 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 government funding agencies (notably UKRI), the Chrysalis Fund, the UDF, and Homes England. Third parties may include private investors, enterprises and developers, and voluntary sector organisations.

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

### Equity Limits

5.14 The CA shall commit equity only alongside significant stakeholder (investor, management, client etc.) equity and shall remain as minority shareholder unless a compelling requirement to act as majority investor is present.

### Programming

5.15 Given the propensity of projects to slip in delivery, we will prudently over-programme SIF commitments until receipt of Combined Authority approval and entering into legal documentation, when they become legally binding. In order to maximise the use of funds, we will over-commit projects by up to 30%.

5.16 We shall review over-programming limits periodically.

5.17 **In every case, we will adopt a "use it or lose it" approach to projects**: no project may retain its commitment if it falls behind on agreed delivery progress. We will engage positively in helping projects recapture lost ground but will not allow any project negatively to impact portfolio delivery.

### Risk and Portfolio Management

5.18 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 in the performance of our committed finance and agreed outputs but also in 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).

## Annex 1 LCR Investment priorities

### Economic Recovery

| Objective | Priority | Good projects will |
|---|---|---|
| Support people focussed recovery | Reduce health-related barriers to employment and productivity | • Make a direct link between health improvements and economic growth<br>• Engage with relevant stakeholders: Public Health England, NHS, CCGs, Local Authority partners |
| | Improve our residents' skills, access to employment and success on the job: | • Be employer-led and aligned to identified, evidenced skills gaps<br>• Align with LCR Skills for Growth strategies<br>• Align to providing the skills needed to deliver the opportunities set out in the Local Industrial Strategy<br>• Support vocational and professional training for all residents of the LCR, ensuring inclusive access to career guidance<br>• Demonstrate a direct link to improved business performance<br>• Provide graduate level jobs including targeted interventions for underrepresented BAME groups |
| Foster a more competitive, diverse business ecosystem | Provide support in growth areas of high productivity | • Increase productivity with high intensity support targeted towards high priority businesses<br>• Be business-led, responding to well evidenced need and demand<br>• Be informed by best practice and what works in commercialisation/collaboration and LCR sector strengths<br>• Offer simple and coordinated access to intended beneficiaries<br>• Be based on a detailed options assessment that considers all available areas for development<br>• Be developed on robust evidence of need, including clarity of relationship between space, business support, networks and growth<br>• Reflect thorough understanding of business growth drivers and trends<br>• Improve the perception of the City Region as a location for competitive business |

| | | |
|---|---|---|
| | Improve access to finance | • Be based on evidenced need for finance filling identified finance gaps not provided by the private sector<br>• Support business from a diverse range of backgrounds<br>• Lever significant and sustainable third party finance |
| Develop a thriving innovation ecosystem | Deliver innovation led growth across sectors | • Smart specialisation approach: focus on maximising distinctive demonstrable world-leading assets and capabilities, notably but not exclusively those highlighted in the LCR+ Science & Innovation Audit<br>• Translate existing research and LCR sectoral/industrial strengths into commercialisation<br>• Lever collaboration with UKRI and/or centres of excellence and other leading industry partners and research clusters across the NP11 and UK<br>• Be industry led<br>• Have a clear operating model and logic chain for success<br>• Be delivered in partnership with business, universities and sector/process experts<br>• Diffuse innovation-related knowledge, expertise and technologies across the LCR business base<br>• Foster an innovation culture within LCR businesses<br>• Apply a challenge-led approach<br>• Attract new businesses to the City Region<br>• Deliver innovation Skills for Growth |
| Place and Infrastructure | Improve the LCR housing quality and choice through new development | • Align with the Liverpool City Region Housing Statement and Spatial Development Strategy<br>• Partner with Homes England and Housing Associations<br>• Maximise funding from Homes England and other sources<br>• Be accessible by design (Compliance with Building Regulations Part M4 (2))<br>• Demonstrate good design (Design Panel review and Building for Life principles (9/12))<br>• Be highly energy efficient (at least EPC Band B) |

| | | |
|---|---|---|
| | Neighbourhood renewal | • Improve the choice, quality, energy efficiency and accessibility of current housing stock particularly in the City Region's more deprived neighbourhoods<br>• Align with the Liverpool City Region Housing Statement and Spatial Development Strategy<br>• Take a holistic view to regeneration that considers design of place and promotes health and wellbeing of communities<br>• Be developed in partnership with Homes England, the Local Authorities and relevant housing associations |
| | Town Centres | • Align with the LCR Housing Statement and the Spatial Development Strategy<br>• Take a holistic view to regeneration that considers design of place and promotes health and wellbeing of communities<br>• Include elements of culture-led regeneration<br>• Consider liveability and healthy transportation<br>• Have engaged with and are informed by communities<br>• Build on other LCR and national initiatives e.g. Town Centres Fund |
| | Improve accessibility and urban liveability | • Improve the appeal of public transport<br>• Drive modal shifts towards active and sustainable modes<br>• Drive place improvement through healthy transport and community liveability interventions<br>• Reduce congestion<br>• Improve air quality<br>• Improve target communities' access to opportunity and maximise wellbeing<br>• Incorporate a robust asset management plan to ensure longevity of our investments |
| | Energy infrastructure | • To be aligned with the Low Carbon Plan |
| | Digital infrastructure | • To be aligned with the Digital Inclusion Plan |

**Capitalising on our Strengths and Opportunities**

| Ambition | Project activity types | Good projects will |
|---|---|---|
| Industrial Digitisation for Sustainability: *building a sustainable industrial future* | Business support for businesses to apply advanced manufacturing processes to deliver clean growth | • Improve productivity of businesses<br>• Work with key science and innovation assets and bodies across the City Region, and across the NP11 and UK where applicable<br>• Build on successful, existing LCR programmes, e.g. LCR4.0 plus legacy projects (LCR Start, LCR Holistic), and Made Smarter |
| Open Health Innovation: *transforming health and wellbeing through collaboration and innovation* | Health research, innovation and commercialisation projects | • Be in areas of existing demonstrable specialisms in the LCR<br>• Have a clear line to improving target residents' health<br>• Deliver new, commercial products or services, building on Health Matters<br>• Be developed in collaboration with partners across the health and social care system<br>• Seek to apply leading national/international specialisms to redressing local population health needs |
| | Open health clusters | • Grow and develop all parts of the open health innovation ecosystem, including primes and supply chain<br>• Develop and co-ordinate supply chain activity to be internationally competitive<br>• Build on existing LCR initiatives, e.g. 5G testbed, Civic Data Cooperative, Alder Hey Living Hospital, Liverpool Health Ventures |
| Global Cultural Capital: *a place where culture creates prosperity for all* | Specialist support for developing culture as an industry | • Work with existing cultural partnerships and networks<br>• Align with LCR Culture and Creativity Strategy and Cultural Compact Business Plan<br>• Contribute to the City Region's national and international profile<br>• Support, grow and develop cultural and creative business ecosystem e.g. music and film<br>• Better enhance and retain our creative talent base |

| | | |
|---|---|---|
| | | • Demonstrate health and wellbeing benefits<br>• Maximise the use of new technologies to develop new distribution models, e.g. immersive |
| Social Innovation: *new practices to solve society's deepest challenges* | Specialist support for the social economy | • Respond to gaps in existing provision<br>• Be demand-led, responding to an identified need |
| | New product and service development and innovations that address societal challenges | • Be demand-led and challenge-focused, with an identified end market<br>• Trial new models of public service delivery that 1) deliver material benefits and savings to society, 2) are replicable and 3) are reasonably likely to be promoted for funding by central government<br>• Work with the Innovation Eco System to link to R&D strengths |
| Clean Growth: Pioneering a zero-carbon economy | Infrastructure investment for energy transformation | • To be aligned with the low carbon strategy<br>• To be aligned with the Climate Action Plan |
| | Support for business growth in a zero-carbon economy | • Fill gaps in existing business support provision, building on legacy projects (Eco innovation and Eco-I)<br>• Provide tailored intensive support<br>• Maximise distinctive LCR science/research expertise and innovation assets |
| Data and AI: Being at the forefront of Tech for Good | Open data platform development | • Be developed with genuine citizen buy-in<br>• Provide commercial opportunities for LCR digital businesses<br>• Build on industrial and research strengths/expertise<br>• Explicitly seek to integrate with other initiatives to create greater scale and impact, and an open data ecosystem whole that is greater than the sum of its parts |
| | Tailored business support | • Improve productivity<br>• Improve the clarity and coverage of the support system<br>• Provide tailored, intensive support<br>• Directly interface with, build on/and/or apply lessons from successful existing programmes |

**Opportunities Allocation**

| Ambition | Project activity types | Good projects will |
|---|---|---|
| Opportunities allocation | Are compelling but not foreseen in the previous analysis | Offer strong strategic, delivery and value for money credentials<br>Lever external funding, especially funding from public funders like UKRI, Highways England, DCMS, ACE, NLHF |

## Annex 2 - Monitoring and Evaluation Plan Template

<table>
<tr><td colspan="5">Project Name:</td></tr>
<tr><td rowspan="2">SIF Request:</td><td>Capital</td><td>£ m</td><td colspan="2" rowspan="2">Finance type: Highlight any non-grant element</td></tr>
<tr><td>Revenue</td><td>£ m</td></tr>
<tr><td colspan="5">Applicant Name:</td></tr>
<tr><td colspan="5">Project Sponsor:</td></tr>
<tr><td rowspan="5">Logic Model Summary</td><td colspan="4">Project Inputs: Total project value and overall value of SIF requested.</td></tr>
<tr><td colspan="4">Project Activities:<br>Very concise (20 words max) summary of categories of activity to be delivered. Eg Construct new business floorspace and deliver business support programme, deliver sector development programme</td></tr>
<tr><td colspan="4">Project Outputs:<br>List the project outputs identified in the project logic model</td></tr>
<tr><td colspan="4">Project Outcomes:<br>List the project outcomes identified in the project logic model</td></tr>
<tr><td colspan="4">Project Impacts:<br>List the main categories of impact identified in the project logic model</td></tr>
<tr><td rowspan="3">Timetable</td><td colspan="4">Delivery start date: Anticipated start (just year and quarter)</td></tr>
<tr><td colspan="4">Delivery end date: Anticipated end (just year and quarter)</td></tr>
<tr><td colspan="4">Anticipated timing of outcomes and impacts:<br>Provide an estimate of when outcomes are likely to start to materialise. This should be based on the anticipated project start date, the expected timing of project activities and likely lag between activities, outcomes and impacts.<br>Based on expected timing of outcomes, the section should draw a conclusion about the likely timing of impacts and thus when impact evaluation should ideally take place.</td></tr>
<tr><td>Evaluation Objectives and Questions</td><td colspan="4">A concise statement of the overall objectives for the evaluation and the specific research questions that it will explore. All evaluations will need to answer the following generic research questions. The evaluation plan should specify any additional or more specific questions over and above these<br>• Project design and rationale: is the project well designed and underpinned by a strong intervention logic and clear rationale<br>• Delivery progress: has the project been delivered in line with expectations?<br>• Delivery and management: what factors have influenced the delivery and management of the project?<br>• Impact: Did the project achieve what it set out to? What is the overall social, economic and health impact of the project?<br>• Value for Money: how efficiently have these impacts been delivered?<br>• Additionality: what role did the CA play in enabling the project and maximising its impact?<br>Note: If the project is identified as a test and learn project or a pilot of some type, the research questions must relate closely to the aspects of the project model / delivery approach that are being tested in the pilot. That is, they must be based around the pilot's learning objectives.</td></tr>
</table>

| | |
|---|---|
| Phases of Evaluation Research | *The specific phasing of evaluation research needs to be developed in light of:*<br>• *Project size*<br>• *Project complexity*<br>• *Number of years over which the project will be delivered.*<br>*For smaller, more straight-forward and less risky projects a single evaluation phase (at the end of the project) will be sufficient to answer the research questions. Where projects are more complex or risky, the CA should consider a phased programme of evaluation research which would:*<br>• *Provide timely evidence and guidance to shape and improve delivery*<br>• *Give the CA objective evidence on delivery progress and performance and risks.*<br>• *Highlight emerging evidence of outcomes and impacts to either feed into further policy development or investment decisions or help shape and improve aspects of delivery.*<br>*Where a phased programme of evaluation research is needed, this could include:*<br>• *Two phases of research: a mid-term evaluation and a final evaluation*<br>• *A formative evaluation approach where the evaluator is involved at several stages of delivery to provide ongoing objective advice and guidance.* |
| Impact Assessment Methods | *What is the likely approach to assessing impacts:*<br>• *How should the evaluation identify change on the main outcome and impact indicators? Will this require primary research, analysis of secondary datasets*<br>• *How can this be attributed to the investment? Is there scope to develop a counterfactual using a control group methodology?* |
| Requirements on Applicant | *Which output, outcome and impact indicators will the project report against?*<br>*What frequency?*<br>*What additional information should projects hold to enable the evaluation methods set out above.* |
| | *What information will the applicant need to make available to the evaluators over and above the monitoring information*<br>• *Specific documents*<br>• *Specific information about beneficiaries* |

## Appendix 1 Strategic Outline Assessment

1. The Combined Authority will treat all project proposals received to an outline review before committing significant time to their progression. The strategic outline stage assesses projects for their **strategic fit, public value, deliverability, affordability and good growth credentials**. The purpose of the gateway is to ensure that only projects that are fundamentally orientated to the principles of the SIF and are deliverable progress to prioritisation, diligence and commitment.

2. A project is assessed at the outline phase against the investment priorities and its good growth credentials:

**Strategic Fit**

3. Projects must fit the priorities described in the Local Industrial Strategy, Metro Mayor's manifesto, the Economic Recovery Plan or the Business Plan, this document and any further priorities and guidance established in the funding call/commission.

4. 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. We will routinely work with logic models and theories of change to support our assessment of strategic fit.

5. It is incumbent upon the project sponsor to identify the causal logic in their proposed interventions and how these address the CA's strategic priorities, and to provide evidence that supports this logic.

6. Project sponsors should also seek to highlight relevant existing or pipeline projects, and how they will differ from, interface with and add value to these rather than duplicate.

7. 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.

**Value for Money**

8. Projects must have the quantifiable potential to add public value to the communities and people of the LCR. The CA 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.

**Deliverability**

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

10. 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.

11. 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.

12. Projects must be affordable. We will analyse the proposed financial profile of the investment and identify potential funding and accounting issues.

**Good Growth**

13. We will compare the project's potential characteristics in Section 3 and in Annex 1 to identify a qualitative intensity of characteristics and therefore impact.

**Consideration**

14. The CA's Internal Panel shall consider each of the five criteria. This consideration, given the early stage of project development, potential for options within the project and "known unknowns", will necessarily reflect an element of interpretation. This is compliant with HM Treasury's Green Book methodology.

**Expression of Interest**

15. The expression of interest form is available on the CA web site and requires sponsors to provide the following at a minimum. We may choose to decline applications that cannot provide this minimum level of information.

## Appendix 2 Requirements for Outline Submissions

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

**Business plan**

- Outline business plan for the delivery and operation of the project, including 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.

**Value for Money**

- Outline economic impacts the project will deliver, and analyse whether the proposal presents good value for tax payers' money.
- Minimum requirements for the Outline stage will be an economic narrative and an initial analysis of the following:

a) The initial BCR;
b) Adjusted BCR; and
c) Adjusted + Indicative BCR

**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 from the last 3 years is available

**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

**Assessing deliverability of projects**

As part of phase one, the CA will 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:

a) 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?

b) 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?

c) Are there any particular challenges to the proposed project that are different from other typical projects of this type? What mitigating steps are planned?

d) 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?

e) Is the proposed project management / delivery team adequately resourced?

f) How could deliverability failure manifest itself and what would the implications be? (in terms of time and cost).

g) Is the submission sufficiently detailed and evidenced to be credible?

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.

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.

## Appendix 2.i. Business Growth Additional Information Requirements

The Combined Authority will consider providing business finance to support growth (in employment). Any discretionary funding under SIF would be expected to enable a 'project' involving capital investment in the Liverpool City Region. Any funding would generally be in the form of a loan and would exceed £1m since other business support packages are in operation below this threshold.

Loan agreements are likely to require significant business background and project projections but as a minimum the following should be provided.

**At the Outline Case Stage:**

*Current position*

The CA will require a good understanding of the previous activities and trading performance of the business. As a result, the following should be provided:

- Prior year full accounts showing profit & loss and balance sheet
- Short commentary on business performance – historic and any current changes
    - Products
    - Major suppliers
    - Major customers
    - Geographic spread
    - Competitors
    - External trading environment
- Details of management and staff including management CVs

*The project plan*

The definition of a 'project' will be determined by the applicant. The intention is that the Combined Authority funds a significant shift in activities which involve capital expenditure and new employment. The Combined Authority will not fund the working capital required to allow organic growth. As such the information required will be:

- Business plan explaining the project in terms of
    - Concept and scale
    - Objective
    - Evidence of demand
    - Capital spend and timing
    - Impact on employment
- Annual broad financial projections

*Funding*

- Outline of funding required for the project
- Likely requirement from the CA

**In addition, at the Final Business Case Stage**

*The project plan*

- Financial forecasts with and without project
    - Monthly cashflow to point of stabilisation
    - Annual profit & loss

*Funding*

In order to consider funding, the Combined Authority will need to understand the current financial structure of the business and the proposed funding approach including why the involvement of the Combined Authority is required.

- Explanation of current funding position
    - Shareholders
    - Loan finance – outstanding amount and terms
    - Other credit facilities
- Finance required for the project
- Proposed funding structure for the project
- Requirement from CA
- Reason for CA funding compared to other sources of finance
- State Aid implications

*Viability*

As part of the assessment, various aspects of business viability will be considered. As a minimum, the applicant will need to provide detail on:

- Sensitivity test demonstrating impact of risks (eg slower than expected market penetration)
- Other constraints or dependencies on the project

*Evidence*

Any aspect of the application may need supporting evidence although the following should be expected as a minimum:

- Financial statements – audited, or match Companies House records or match bank statement at relevant period end[8]
- Cost quotations for significant capital items
- Market demand study where relevant
- External state aid opinion where relevant

[8] Businesses will require a UK Company Registration and a UK Company bank account

## Appendix 2.ii Transport Business Cases and Appraisal

### Overview

This appendix provides guidance to applicants preparing transport business cases for consideration under SIF.

All business cases for strategic transport infrastructure that require Combined Authority (CA) approval for funding are expected to make use of the guidance provided in the Department for Transport's (DfT) **Transport Analysis Guidance** (TAG, formerly known as WebTAG)[9] to:

- set objectives and identify problems;
- develop potential solutions;
- create a transport model (if appropriate) for the appraisal of the alternative solutions; and
- conduct an appraisal that meets the CA requirements.

The application of TAG to non-central government funding, such as via SIF, provides a framework for best practice – therefore, **scheme sponsors should use TAG in *a manner that is appropriate* for their specific project or study**. It is also worth bearing in mind that funding routes may be subject to change during the development of a business case and any funding sought from central government would *mandate* the application of TAG, so adoption for SIF is a pragmatic approach to managing that risk.

| |
|---|
| Scheme sponsors and promoters are recommended to familiarise themselves with the transport appraisal process by reference to the specific TAG guidance for the senior responsible officer[10]. This document provides knowledge on how appraisal broadly works and how the evidence derived from the transport appraisal process can be used to support the Transport Business Case. |

The DfT also provides guidance on the preparation of the overall **Transport Business Case** commensurate with the Her Majesty Treasury's (HMT) recommended 'five case' model[11]; with TAG setting out the analytical and appraisal methodologies, compliant with HMT's **Green Book**[12].

Transport schemes submitted for consideration under SIF are expected to follow DfT's approach and provide a robust evidence based for:

- the **Strategic case**: demonstrating the case for change and strategic fit delivered by the proposal, providing a clear rationale for the proposed investment in the context of the CA's Investment Strategy;

[9] https://www.gov.uk/guidance/transport-analysis-guidance-webtag

[10] https://www.gov.uk/government/publications/tag-guidance-for-the-senior-responsible-officer-may-2018

[11] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/879795/dft-transport-business-case-document.pdf

[12] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685903/The_Green_Book.pdf (it should also be noted that the term "dimension" is now preferred over "case".

- the **Economic case**: assessing the Value for Money of the proposal. This considers all impacts delivered, and analyses whether the proposal presents good value for tax payers' money;
- the **Financial case**: analysing the financial profile of the investment, and identify funding and accounting issues;
- the **Management case**: demonstrating that project planning (phasing and delivery of implementation), risk management and stakeholder engagement has been addressed; and
- the **Commercial case**: demonstrating that financial implications, risks of proposed commercial deal, risk allocation and transfer have been addressed in the proposed procurement strategy.

The investment team will consider the evidence in all five cases when presenting a transport business case to the internal and external investment panels as a scheme progresses through the SIF assurance process to CA approval.

**Figure 1** illustrates the transport business case development as defined in TAG, within this context the SIF Investment Strategy is analogous with the box titled "decision making process".

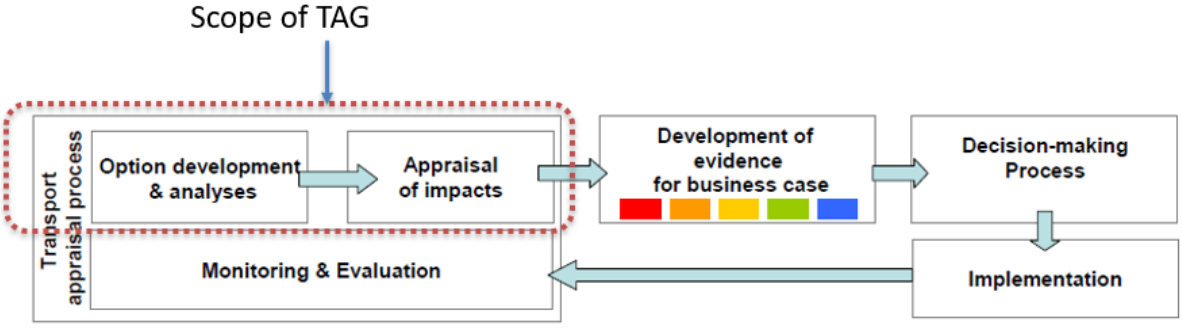


**Figure 1** – Relationship between the transport business case and the SIF decision-making process. (source: DfT TAG)

It is important to note, irrespective of DfT and HMT guidance, that the CA's Investment Strategy and prioritisation process still applies to transport projects, to ensure that they contribute to LCR's wider strategic economic objectives.

### Proportionality and (Web)TAG Compliance

A common concern of scheme sponsors is the requirement to achieve a "(Web)TAG compliant" business case and perceptions of the effort (resource, cost and timescales) to do so.

For transport schemes submitted to SIF, scheme sponsors are expected to use TAG in an appropriate manner, or in other words, to ensure that the appraisal process is *proportionate.* It is recognised that the degree of detail contained within a transport business case will vary and be dependent upon a number of factors such as:

- The scheme **value** (as distinct from the level of 'ask' from SIF, which may be lower);
- The **stage** of project development, i.e. strategic outline (SOC), outline (OBC) or final business case (FBC);

- The level of **risk** – in particular those risks affecting the deliverability of the scheme and thus the drawdown of SIF funds;
- The **sensitivity** and **criticality** of expected outcomes and impacts; and
- The **time** available (although this should not be at the expense of robustness and would not in itself be a strong argument for submitting a business case lacking in sufficient analytical rigour).

TAG is not explicit in defining the level of appraisal that is required for a given transport scheme (e.g. by value or by type). It recommends a proportional approach is undertaken that is based on consideration of the above factors but notes that **professional judgement** is also important.

TAG highlights that proportionality is most relevant to the level of effort that is expended on undertaking **transport modelling, appraisal of environmental impacts and consideration of distributional effects**. The requirement for sophisticated modelling techniques is generally commensurate with the complexity of the scheme. However, access to existing models, the requirement to develop new models, data and resource requirements present challenges and risks to development budgets and the speed at which schemes can progress through stages.

Inevitably there will be trade-offs between resources invested in data collection and analyses, and the pursuit of more accurate results. In balancing these trade-offs, scheme sponsors must consider the degree of confidence that can be placed in the results of their appraisal, whilst ensuring that the approach is proportionate in achieving sufficiently robust conclusions.

Echoing the approach in TAG, the **SIF does not provide detailed guidance on proportionality**. Whilst such guidance may be desirable and welcomed by scheme sponsors, the range and scale of potential interventions within the transport sector makes it unfeasible to present such a catch-all document. However, applying the TAG principles on proportionality enables a "**lighter touch**" appraisal to be undertaken for schemes submitted to SIF that:

- Are at **early stages** of development when identifications and sifting of many options would warrant the use of appraisal using simpler methods; and/or
- Are **smaller interventions** (i.e. less than or equal to £7.5m in value) and considered to have a low delivery risk and in most cases can advance through the SIF assurance process via the expedited route.

Ultimately, for a transport scheme to progress through the SIF assurance process the anticipated material impacts of the scheme must be demonstrated to have been appraised using **methods and tools suitable** for:

- Developing appropriate options, including the counterfactual/without scheme;
- Measuring costs and all relevant impacts; and
- Considering the risks and uncertainties to provide confidence in the assessment.

A scheme sponsor undertaking an appraisal following the three elements above that would satisfy the requirement of complying with TAG. As discussed later in this appendix, the value of completing an **Appraisal Specification Report** (ASR) to agree what proportionality looks like for a given scheme is a fundamental

requirement for all projects other than those that are following the expedited route for approval.

### The Transport Appraisal Process

The SIF transport appraisal process will mirror Stage 1 and Stage 2 as illustrated in **Figure 2**. The associated decision points in this figure align with the SIF Investment Strategy for a transport project that is moving to approval through the **regular route** (albeit that the term SOC is used rather than SOBC).

For those transport schemes that fall in the **expedited** category, it is expected that subsequent to SOC approval they will advance straight to FBC. **Complex** or **high value** projects will be reviewed at OBC and FBC. This extra step reflects the increased scale and scope of the appraisal and evidence that will be required to develop the business case for such schemes.

In terms of the information expected at each stage, applicants should refer to the *minimum* requirements set out in the summary tables within DfT's "The Transport Business Case". A document that is signposted clearly around these requirements should be submitted.

The SIF Assurance Process stipulates that prior to submission of the FBC an **external appraisal** is undertaken of the business case. This appraisal will take an independent view of the robustness of the business case as a whole and provide commentary for the investment team's consideration as part of their overall due diligence. All documents, models and supporting analysis should be made available for the external reviewer.

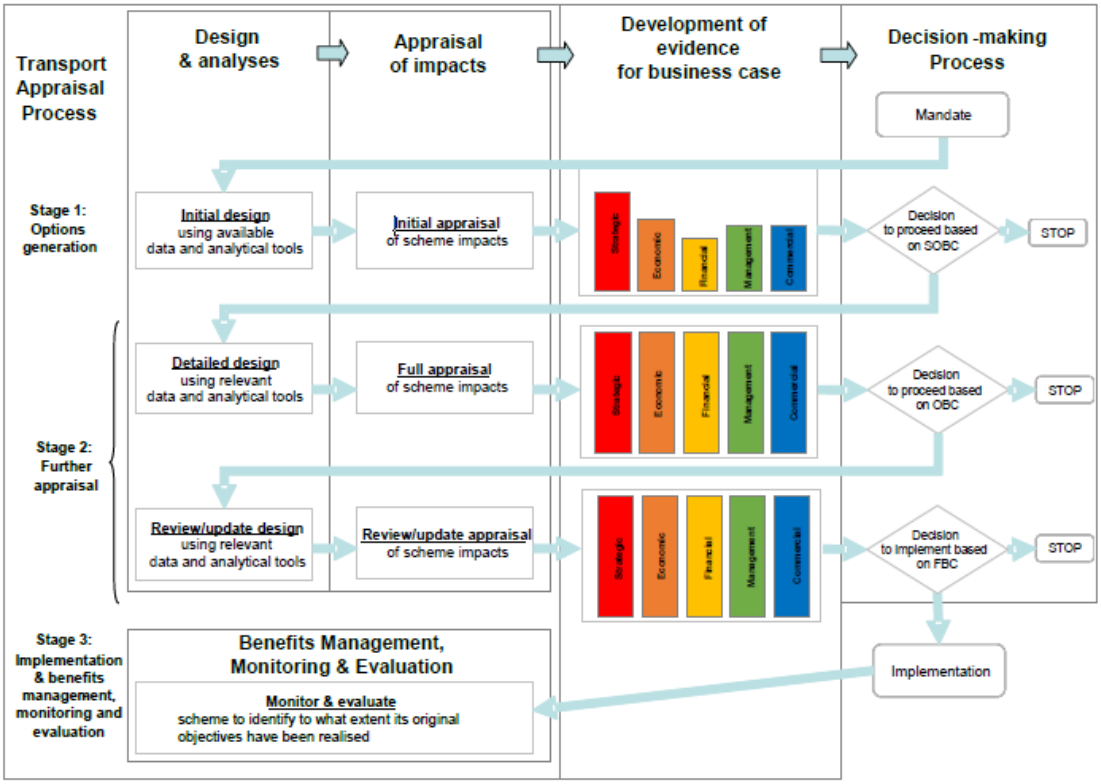


**Figure 2 –** Transport Appraisal Process (source: DfT TAG)

**Additional Outputs Required to Support the Transport Business Cases in SIF**

For those transport projects defined as either *regular* or *complex* transport projects the following must be provided as part of the business case submission:

*Options Assessment Report (OAR)*

To be produced at the end of the Stage 1, clearly demonstrating: the problems and case for change to be addressed by the transport study; objectives; generation of long list; and sifting to a short list of options based on an assessment against the criteria in the 5-case model. The short-listed options would be carried forward for further appraisal in Stage 2.

For expedited projects, a discrete OAR is not a strict requirement; however, the principles of option generation and identification of a preferred option (alongside those discarded) must still be adhered to and documented.

*Appraisal Specification Report (ASR)*

The submission of an ASR at the end of Stage 1 is an important requirement that will enable the investment team to agree with the scheme sponsor the breadth and depth of the appraisal activity.

**The ASR will fulfil the function of establishing the framework for a proportional appraisal** and a well-produced document will not only provide a useful planning tool for the project sponsor (for development costs and programme) but also help to mitigate risk in the appraisal process itself (for example, in considering the use of existing, or developing, new models) and avoid abortive work.

For high value projects that will require an Outline BC, the ASR should provide an indication of how the appraisal will develop as the business case progresses. This may be of particular relevance to the appraisal of social and distributional impacts and the requirement to undertake environmental appraisals where a scoping exercise is undertaken to understand which impacts to include and extent of more detailed analysis.

*Appraisal Tables*

Regular and complex projects are expected to present the results from the scheme appraisal in the following TAG appraisal tables and in the format prescribed in TAG[13], i.e.:

- Transport Economic Efficiency (TEE)
- Analysis of Monetised Costs and Benefits (AMCB)
- Public Accounts (PA)
- Appraisal Summary Table (AST)

For expedited projects, abbreviated/amalgamated forms of these tables can be presented, as long as it is clear on the impacts of the scheme and the value for money metrics.

**Value for Money**

[13] https://www.gov.uk/government/publications/webtag-appraisal-tables

The value for money (VfM) should be presented in line with the Dft's Value for Money Framework[14], which considers separately the VfM *metric*, the VfM *category* and the VfM *statement*.

The framework provides sponsors with detailed advice on how the appraisal of the following enable a VfM statement to be arrived at:

a) Monetised and non-monetised impacts;
b) Established, evolving and indicative monetised impacts; and
c) Risk and uncertainty.

*Monetised and non-monetised impacts*

The value for money of a transport scheme submitted to SIF will be informed by the appraisal of monetised and non-monetised impacts, with *established* and *evolving* monetised impacts used to derive the initial and adjusted VfM metrics as presented in **Figure 3.**

| Established Monetised Impacts | Evolving Monetised Impacts | Indicative Monetised Impacts | Non-monetised Impacts |
|---|---|---|---|
| *Included in initial and adjusted metrics* | *Included in adjusted metric* | *Considered after metric using switching values approach* | |
| Journey time savings<br>Vehicle operating costs<br>Accidents<br>Physical activity<br>Journey quality<br>Noise<br>Air quality<br>Greenhouse gases<br>Indirect tax | Reliability<br>Static clustering<br>Output in imperfectly competitive markets<br>Labour supply | Moves to more/less productive jobs<br>Dynamic clustering<br>Induced investment<br>Supplementary Economy Modelling* | Security<br>Severance<br>Accessibility<br>Townscape<br>Historic environment<br>Landscape**<br>Biodiversity<br>Water environment<br>Affordability<br>Access to services<br>Option and non-use values |

**These are a class of models rather than a specific economic impact*
*** A widely-used methodology for monetisation exists, but this is not included in WebTAG guidance because of concerns about its robustness. Detailed guidance is found in the Supplementary Guidance on Landscape.*

**Figure 3** – Typical impacts of a transport proposal and treatment in VfM metric (source: DfT TAG)

## Economic Impacts

Applicants are encouraged to include analysis regarding any economic impacts of the transport scheme, where the strategic case has a identified a logic chain that points towards outcomes from the project that would lead to significant impacts.

14 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/885721/value-for-money-framework.pdf

Where economic impacts are to be included, the applicant will be expected to demonstrate that the principles and guidance as set out in within documents in the **TAG A2 units "Economic Impacts"** has been followed.

The inclusion of economic impacts within transport business cases should be considered an integral part of the appraisal design and not an add on at the end of the process; as such the approach must be justified on the basis of the scheme's objectives and a proportional methodology presented within the ASR.

As Figure 3 suggests, methodologies for monetising wider economic impacts are currently less well developed than those to quantify other transport-related benefits and hence reporting of values should be reported separately within the indicative monetised benefits. Such analysis would normally be expected to be presented within an **Economic Narrative** and included within the main body of the Economic Case. For full transparency it is acceptable to show within the economic case (with reference to Figure 3):

- The initial BCR;
- Adjusted BCR; and
- Adjusted + Indicative BCR

*Value for Money Category*

The initial and adjusted metrics for the Benefit Cost Ratio (BCR) and Net Present Value (NPV) should be presented and used to directly inform the VfM category as per Figure 4.

**Box 5.1 Standard Categories**
***(Transport cost outlays exceed revenues or cost savings)***

| **VfM Category** | Implied by…* |
|---|---|
| Very High | BCR greater than or equal to 4 |
| High | BCR between 2 and 4 |
| Medium | BCR between 1.5 and 2 |
| Low | BCR between 1 and 1.5 |
| Poor | BCR between 0 and 1 |
| Very Poor | BCR less than or equal to 0 |

**Relevant indicative monetised and/or non-monetised impacts must also be considered and may result in a final value for money category different to that which is implied solely by the BCR. This chapter provides guidance on how to select the final value for money category.*

**Figure 4** – Value for Money Categories (source: Dft TAG)

*Value for Money Statement*

A *VfM Statement* that articulates concisely to the investment team the conclusions from the VfM assessment must be included within the Economic Case.

Scheme sponsors should consider that whilst the VfM is informed by the BCR, it is not just about the raw number:

- Additional elements:
    - Recognises (some) wider economic impacts
    - Recognises (some aspects of) non-monetised impacts

- Identifies ‘uncertainty’ in the underpinning BCR
    - What happens if parameters in the scenario change?
    - What will it take to move from one BCR to another?

**The VfM statement will articulate clearly the impacts, risks, assumptions and uncertainties** present in the analysis and their implications for their proposal.

A series of questions that can be used for developing the VfM statement is provided in Chapter 6 of the DfT’s Value for Money Framework.

It should be noted that the VfM is part of the wider decision-making process – *all* five cases within the business case will be considered by the investment team:

- Strategic – is there a good case for change?
- Economic – is it value for money?
- Financial – is it affordable?
- Commercial – is it commercially viable?
- Management – is it achievable?

## Appendix 2.iii Land & Property Additional Information Requirements

The Combined Authority will consider providing financial support for projects which unlock key land and property sites for future development within the LCR. These schemes usually address a market failure. We want to correct that failure over time. Good schemes will have a credible, well-articulated plan for attracting demand for the space developed. They will also have a credible articulation of how they improve the viability and/or economic performance of their location and/or target sector.

Our funding to these schemes should seek some recycling, even if long-term and/or incomplete. We are most open to straightforward grant when meeting obvious abnormal costs, an acute strategic need and/or backing a transformative project.

The below table provides a summary of the information required from the applicant at the outline and full stages of the appraisal process. It is indicative and the CA will specify its project specific requirements in each case.

| Area | Outline | Full |
|---|---|---|
| **Viability** | Draft development appraisal to include sources and uses of finance inc. SIF funding requested | Development appraisal / financial model |
| | Development programme | Final development programme |
| **Use and Valuation** | High level evidence which supports occupancy and rental performance inc. rate free/void assumptions | Red book valuation on site/scheme |
| | High level market demand report | |
| | Confirmation of any pre-let enquiries | Confirmation of pre-lets |
| | Draft exit strategy | |
| | Outline marketing strategy | Full marketing strategy |
| **Site Specifics** | Area in Hectares | Red line boundary plan |
| | Current ownership inc. details of title and relevant restrictions | Application legal position over the site (lease or ownership) |
| | Purchase price/book value | Confirmation of purchase price |
| | History of public sector investment | |
| | Outline technical and environmental situation | Technical and environmental reports |
| | Existing income streams | |
| **Planning** | Details of dialogue with planning authority | Outline planning and / or date for full planning approval |
| | Timeline for full submission | |
| **Sustainable** | Statement of proposals for compliance with CA | Appointment of BREEAM assessor and confirmation of |

| | | |
|---|---|---|
| **Design** | requirements | target rating. |
| **Development Specifics** | Outline elevations/CAD drawings | RIBA stage 3 design<br>GIA/NIA schedules |
| | | Outcome of site investigation reports/surveys |
| | Outline specifications | Remediation strategy |
| | | Construction cost plan broken down into quantities and rates for the project<br>Full breakdown of all professional fees & rates applied<br>Confirmation of the professional team and contract structu re inc. allocation of risks and liabilities<br>Approach to contingencies and risk<br>Full breakdown of any other costs<br>Approach to developers return |
| **Applicant** | Grant support received over the last 5 years | |
| | Track record of delivering similar projects | |
| | Company / group structure | |
| | Financial accounts and track record | |
| | Details of key personnel and contractors | |
| **Other Funding** | Outline funding strategy | Confirmation of other funding sources |
| | | Justification for funding rates |
| **State Aid** | State aid solution | Accepted State aid opinion |

Unless otherwise agreed, all costs and risks sit with the applicant until such time that the CA enters into legal documentation for the project. The CA will not share the independent appraisals of the project with the applicant.

**Further Guidance on Sub-Commercial Approach**

We will approach projects that require a sub-commercial / grant element in the following way. The list applies best to business funding, and land and property projects.

*State aid*: Projects must meet a known exemption (typically de minimis or GBER) or be accompanied by a bespoke legal opinion. Note that the requirement to comply with state aid legislation probably continues beyond Brexit.

*Costs*: The CA will commission independent assessment of all costs and values to determine the minimum amount and terms of public support required to deliver the project. Development costs may be available depending on the nature of the project and of the applicant.

*Eligible costs*: The state aid exemption drives our definition of eligible costs (typically GBER). Where project specifics require us to diverge from this, we will identify an alternative eligibility framework.

*Land*: In proposals with a land component, we will allow for its contribution for grant purposes at the lower of cost plus reasonable holding expenses (if the land acquisition took plan within the preceding five years) or open market value. Land held for longer than five years may be contributed at value.

*Acceptable returns and profit*: We will allow profit at the lowest level necessary to motivate a project sponsor to deliver the project. We will consider a total return from land, development management fees, profit and any other sources. We will identify, for each project, an industry standard profit range / return requirement and operate within that range in offering funding terms. We will specify this range in our investment submissions, for comment by the investment panel.

We shall routinely consider both NPV and IRR, including for projects with a property element. Our starting view is that markets like ours support long-term commercial viability and we will prefer financial structures that match that long-term view.

*Risk sharing*: We always expect sponsors to share in the risk of their project and will adjust their permitted return for their willingness to take risk.

*Overage* / *profit sharing*: If a project generates higher than expected financial value, we expect to claim a share. After the return of the funders' capital plus a reasonable profit, we expect to receive the majority of remaining profit until our grant is repaid and a minority share of profits thereafter. The CA may request a reappraisal of the project should there be a change to the structure/deliverability of the project before practical completion of the building.

Our standard overage position is to obtain 70% of overage returns until repayment of our commitment and 30% thereafter.

*Projects with the public sector*: when we invest alongside public authorities, we will expect *pari passu* returns unless by exception. We will make fair provision for project costs borne by the other party/parties.