European Union
European Regional
Development Fund

Northern Powerhouse Investment Fund – Project Summary

Applicant	Department for Business, Energy and Industrial Strategy ("BEIS")		
LEP Areas Covered	Leeds City Region; Sheffield City Region; Humber; York, North Yorkshire and East Riding; Tees Valley; Cheshire and Warrington; Lancashire; Cumbria; Liverpool City Region; and Greater Manchester	**Investment Priority**	1B, 3A, 3C, 3D, 4F
Total Project Cost	£401,909,192	**ERDF Requested:**	£140,359,192

Summary

NPIF was announced by the Chancellor in November 2015. The Fund will combine ERDF, Single Programme legacy, loan financing from the European Investment Bank ("EIB") and a loan from British Business Financial Services Limited ("BBFSL") to create an SME focused financial instrument with a value of over £400m. The Fund will provide a range of much needed repayable products to SMEs with investments ranging from between £25,000 and £2m.

NPIF will be a Fund of Funds ("FOF") vehicle which will be delivered by an entity wholly owned by BEIS to be known as Northern Powerhouse Investments Limited ("NPIL"). NPIL will be advised by BBFSL on the day-to-day activities of the Fund. BBFSL is wholly owned by the British Business Bank ("BBB"), the UK Government's economic development bank. The Fund's structure is presented on page 17 of the Full Appraisal.

The project is responding to Ex-Ante Assessments (EAA) completed for the North West, Yorkshire and Humber and the North East which identified structural market failures affecting access to finance for start-ups and growing SMEs. The EAA identified increasing business start-up activity, SME growth and improving business confidence which is fuelling a greater demand for external finance. In response to the EAA, NPIF will provide the following products:

- Micro-finance: provision of small business loans (£25,000 to £100,000):
- Debt: provision of business loans (£100,000 to £750,000);
- Early stage and later stage: provision of equity funding (£50,000 to £2m).

The procurement process to create a framework of Fund Managers to deliver the product sub-funds has commenced. Mini-competitions will then be undertaken from the frameworks to appoint individual Fund Managers to manage the product sub-funds. It is anticipated that the first Fund

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Managers will be appointed during September 2016 with investments flowing thereafter.

The project will cut across a number of Investment Priorities from the ERDF Operational Programme, delivering much needed Outputs and economic benefits for the participating LEP areas.

Start Date	Financial Completion	Practical Completion	Activity End Date
September 2016	December 2023	December 2023	December 2023

Deliverables

Outputs	Units
C1 – Number of enterprises receiving support	2,536
C3 – Number of enterprises receiving financial support other than grants	1,391
C4 – Number of enterprises receiving non-financial support	1,145
C5 – Number of new enterprises supported	495
C7 – Private investment matching public support to enterprises (non-grants)	£407.5m
C8 – Employment increase in supported enterprises	5,262
C28 – Number of enterprises supported to introduce new to the market products	27
C29 – Number of enterprises supported to introduce new to the firm products	219

Strategic Fit

All 10 LEP's confirmed that NPIF fits strategically with the funds addressing the key market failures in the ex-ante assessment. Committees were supportive of the project and were content that this demonstrated fit with local development needs and opportunities as identified in their local ESIF strategies.

As agreed at the Growth Programme Board the outputs for NPIF will be contracted and achieved at an overall fund level. The MA will be accountable for managing NPIF outputs nationally and the outputs contracted at this level will be reflected as part of the LEP's overall output targets.

It was expressed by a number of committees that they felt the outputs presented were low especially when compared with the past performance of the 3 Northern JEREMIE's. The applicant advises these are realistic on what could be achieved due to the possibilities of a financial penalty being imposed for failure to meet the output targets.

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The MA had a number of lengthy discussions with BBB in order to secure the highest possible level of outputs for the fund. The ERDF Policy team have reviewed and approved the level of NPIF contracted outputs. However, the applicant will set the Fund Managers more stretching output targets so that the figures in the contract are a minimum that will be achieved. The Fund Managers targets relate to the minimum requirement that BBB will request at the mini competition stage. This however is a competitive process and the Fund Managers may well respond with higher targets.

The MA will monitor the progress towards achievement of the outputs through regular updates and meetings with the applicant. This will ensure that the fund is delivering the best possible VFM whilst working with the LEPs on the wider economic impacts of NPIF.

Expenditure

Capital investments into SMEs, £368,692,161;

Fund Manager fees, £33,217,031. (8.26%)

Match Funding

European Investment Bank, £183.65m;
British Business Financial Services Limited, £50m;
BEIS Capital grant, £27.9m;

Delivery Partners

British Business Financial Services Limited (“BBFSL”) will be included in the ERDF Funding Agreement as a Delivery Partner. BBFSL will provide a range of advisory services to NPIF to support the everyday operations of the Fund. BBFSL will be remunerated for their role in the project on an actual cost basis which will not include any element of profit.

Appraisal Summary

The application is clear in explaining what the project is going to deliver; a Fund of Funds will be created, Fund Managers will be procured and the sub-funds created will make repayable investments in SMEs through a mixture of financial products. The application confirms the proposed legal structure of the Fund, the timescales involved and the proposed beneficiaries. The application notes the involvement of BBFSL as Delivery Partner who will provide a range of services to the project at cost; these arrangements will need to be crystallised within a formal legal agreement. The Exit Strategy for the project will be detailed within the ERDF Funding Agreement and it is important that this will include provisions to review the Fund after the initial investment period prior to the commencement of the legacy phase. The objectives are not SMART and these will need to updated accordingly and reviewed prior to final approval of the project.

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Core selection:

The Full Application could have been stronger in aligning the proposal with the Ex-Ante Assessment (EAA). The ERDF Funding Agreement will condition that the applicant provides a formal engagement strategy to explain how they will engage and work with business support providers across the NPIF geographies. The financial model will need to be reviewed by an appropriately qualified accountancy firm prior to the first ERDF draw-down request. With the support of the EAA, the application presents a good additionality argument and aligns with national economic policy to support the finance needs of SMEs.

VFM:

The appraiser believes that the Ex-Ante Assessment provides a strong additionality argument for the project and will contribute to closing gaps in the provision of finance for SMEs. The MA and the applicant have been in protracted discussions about the level of acceptable outputs.

Management and Control:

The application has identified noted the proposed day-to-day delivery arrangements and overarching governance structure. Whilst the applicant has substantial experience in the delivery of large investment funds there is more limited experience of direct delivery of an ERDF project. It is recommended that any recruitment, where practical, considers the benefits of employing staff with direct ERDF experience. The appraiser is confident that the applicant has the appropriate infrastructure of systems in place to successfully deliver the project and these will be detailed further in the ERDF Funding Agreement. The applicant has demonstrated an awareness of the financial aspects of delivering an ERDF-funded Financial Instrument (tranche drawdowns, management fee levels, etc.).

Deliverability:

The application has given due consideration to project risks. The appraiser is comfortable that these have been appropriately identified and rated and suitable mitigation actions have been provided. In addition, the appraiser is confident that this process will continue effectively in the delivery phase of the project. However, whilst the application makes it clear that the applicant has experience of delivering high-value investment funds there is more limited experience of direct ERDF delivery. It is therefore recommended that the applicant gives consideration to recruiting additional resources with demonstrable ERDF experience. The applicant has outlined the match-funding package. The appraiser has been provided with terms of the EIB loan and this will crystallise into a final loan agreement. The ERDF Funding Agreement will not be issued until the applicant is able to evidence the availability of the full package of match-funding.

Compliance:

The appraiser considers the proposed structure to be consistent with the Regulations and Commission guidance. The applicant has outlined their procurement strategy for the project. One contract has been awarded to date for legal services at the FOF level and this will need to be reviewed at the Project Inception Visit to ensure compliance. The applicant has commenced the procurement of the Fund Manager framework through OJEU and mini-competitions will be run once the size and scope of the sub-funds have crystallised. Given the level of ERDF involved it is recommended that the framework procurement is reviewed by the National Compliance Team. The application has provided a State Aid analysis and has identified appropriate delivery routes for the different financial products. Fund Manager's will need to structure each investment to ensure State Aid compliance. The application has acknowledged ERDF publicity requirements and has explained how these will be adhered with during project delivery.

Cross-Cutting Themes:

The application has given suitable consideration to the Cross Cutting Themes and the appraiser is confident that the project will not have an adverse impact on principles of equality and diversity. The applicant has confirmed that their Equality and Diversity policy will underpin their day-to-day activities and obligations will be passed down to the Fund Managers.