Northern Powerhouse Investment Fund – Ex-ante assessment
Supporting text from the Full Application

Article 37 (2)(b) – Consistency of the envisaged FI with other forms of public intervention

The following text, from s3.10 of the final Full Application for the project refers:

The British Business Bank operates a number of national level programmes that aim to increase the supply of finance to smaller businesses, which are targeted at addressing specific market failures. These include:

- The Enterprise Finance Guarantee programme that offers a Government-backed loan guarantees to lenders who provide loans to viable small businesses that lack security or track record.
- Start Up Loans support individuals looking to start a business, or with a business trading for up to 12 months and who have potentially viable propositions but find it difficult to obtain finance from a high-street bank.
- The Investment Programme aims to increase diversity in the supply of debt finance away from the 4 main high street banks. It builds on the previous BFP mid-cap and BFP small-business programmes. It invests in private debt funds, asset backed lenders, peer-to-peer lending platforms and contingent convertible bonds issued by challenger banks.
- Enterprise Capital Funds (ECFs) have been established to address the recognised equity gap affecting viable smaller businesses with the potential for high growth that are seeking modest amounts of equity finance. Government funding is used alongside private sector funds to establish ECFs.
- The Venture Capital Catalyst fund is a new variant to the existing Enterprise Capital Fund programme, co-investing on the same terms as private investors. The programme helps those funds to reach a satisfactory first close, enabling the funds to commence investment sooner than they otherwise would.
- The UK Innovation Investment Fund (UKIIF) supports the creation of viable investment funds which target UK high growth technology-based businesses. It invests through two underlying fund of funds which then invests into venture capital funds, which make investments in strategically important sectors to the UK, including digital technologies, life sciences, clean technology and advanced manufacturing.
- The Angel CoFund makes equity investments alongside syndicates of Business Angels. The CoFund invests in smaller businesses identified as having high growth potential and makes investments of between £100k and £1m alongside at least equal co-investment from business angels.

There is evidence to suggest market failures are more acute in Northern Regions, which will warrant additional assistance that NPIF will be able to provide, leading to lower likelihood of any policy overlap:

- Debt funding gaps: Existing EFG use is higher in regions outside of London, South East and East of England. The Academic researchers[1] have suggested that lower house prices outside of these areas may lead to less available collateral in those regions and therefore SMEs have less access to conventional lending sources.
- Equity funding gaps: The location of private sector VCs funds in the UK is heavily concentrated in London and the South East, and so the provision of equity finance is lower in NPIF areas with fewer existing providers of this type of finance. Existing VC interventions like ECFs have no geographic restrictions, but ECF investment are largely concentrated in London and the South East due to existing concentrations of

fund managers, the presence of JEREMIE funds previously operating in Northern Regions, as well as demand side factors. Therefore NPIF will encourage additional fund managers to locate in NPIF areas

Article 37 (2) (c) – State Aid implications of the envisaged FI

The following text, from s10.6, s10.7 and s10.8 of the final Full Application for the project refers:

State Aid Law

10.6 Please list all the organisations (if known) which may benefit from the funding of the project

The funding will flow through, or be managed by, the following entities:

NPIL, the fund of fund entity, will be the direct recipient of the funding; however it is a transparent pass through vehicle for State aid purposes.

BBFSL, the entrusted entity (who will manage the NPIF project as agent for BEIS and who will provide investment advice to NPIL) will be remunerated; however BBSFL is not an undertaking for State aid purposes and whilst it will be remunerated for its services, it is paid on a cost recovery basis and does not make a profit.

BBFSL will procure underlying **Fund Managers**. These will be financial intermediaries selected in an open, transparent and non-discriminatory call and will be remunerated on normal market terms, as such they will not be in receipt of State aid.
EIB and BBFL will provide senior and junior loans respectively to NPIL alongside the ERDF grant. EIB is considered "private sector" for the purposes of State Aid. BBFL is considered a public investor.

Ultimately, however, the funding will indirectly reach the **beneficiary SMEs** who will be the principal beneficiaries of the funding. There is State aid present at the level of the beneficiary SMEs.

10.7 For each potential beneficiary (including the applicant and any Delivery Partners) identify whether they meet the State Aid test. If you believe a potential beneficiary is outside the scope of State Aid, please provide the reasons. Applicants may wish to refer to the European Commission's "Notion of State Aid" guidance and the Department for Communities and Local Government's European Regional Development Fund guidance on State Aid law

We have noted above that the funding passes through, or is managed by, NPIL, BBFSL and the selected fund managers. For the reasons stated above, we do not believe there is any State aid at the level of these entities. There is, however, potentially State aid present at the level of the beneficiary SMEs as discussed below. All investments and loans made under the Call Off Contract into SMEs will be state aid compliant on the following basis:

Lot 1 – Equity

It is the responsibility of the Fund Manager to ensure that each equity and quasi – equity investment and instrument applied under Lot 1 - Equity is fully compliant with the requirements of Article 21 (and related provisions) of the GBER

Lot 2 – Debt

It is the responsibility of the Fund Manager to ensure that each debt loan made under Lot 2 - Debt is State aid compliant – either by (1) operating under the MEOP by lending pari passu with the private lender, or by applying as a minimum the

Reference Rate Communication for senior debt or the Brandenburg Methodology for subordinated debt; or (2) under Article 21 (and related provisions) of the GBER. If the Fund Manager does not have robust evidence to lend under MEOP or the Reference Rate Communication or Brandenburg Methodology then it must apply the GBER.

Lot 3 – Microfinance

It is the responsibility of the Fund Manager to ensure that each microfinance loan under Lot 3 – Microfinance is State aid compliant – either by (1) operating under MEOP by lending pari passu with the private lender, or by applying as a minimum the Reference Rate Communication for senior debt or the Brandenburg Methodology for subordinated debt; or (2) under Article 21 (and related provisions) the GBER; or under the De Minimis Regulation. If the Fund Manager does not have robust evidence to lend under MEOP or the Reference Rate Communication or Brandenburg Methodology then it must apply either the GBER or the De Minimis Regulation.

10.8 For each beneficiary that the applicant regards as being in receipt of State Aid, identify which exemption(s) they will be using to provide the aid in accordance with State Aid law[2].

Name of beneficiary or class of beneficiaries	Name of Exemption	Scheme reference number
As yet unidentified beneficiary SMEs	Article 21 of the GBER	NA
As yet unidentified beneficiary SMEs	Commission Communication (2008/C 14/02)	NA
As yet unidentified beneficiary SMEs	De Minimis Regulation (No1407/2013)	N/A

Where a project is funded under an exemption based on the General Block Exemption Regulations (651/2014), the Applicant is required to either (a) confirm that the project falls within the scope of Regulation 6(5) or (b) to submit a separate document to demonstrate incentive effect in line with Regulation 6(2) containing the following information:

(a) the applicant undertaking’s name and size
(b) a brief description of the project, including start and end dates
(c) the location of the project
(d) a full list of the project costs used to determine the allowable level of funding

[2] For notified schemes the answer should include the full name of the scheme and the Commission reference number.

(e) the form of the aid (f) the amount of public money needed for the project.
We confirm that the project is within the scope of Regulation 6(5) of the GBER.

Article 37 (2) (f) – Definition of the monitoring system in order to efficiently monitor the FI, facilitate reporting requirements and identify any improvements areas.

The following text, from s8.2, s8.6 and s8.7 of the final Full Application for the project refers:

The NPIF Fund Structure, Governance Structure and Project Structure set out the management and control systems project management and control systems. The implementation of the project is being overseen by an NPIF Steering group which includes members of BBB's Senior Management Team and Board. The NPIF Operations Group is responsible for implementation of the project plan and is comprised of senior BBB staff and work stream leaders. After go live the responsibility of running NPIF will move to the NPIF (steady state) team in VCS who will deliver in collaboration with BBB's corporate functions. All expenditure in the Fund will be subject to the Banks existing governance and control structure including Procurement guidance and Finance scheme of delegation.

A comprehensive requirements-gathering process is being carried out as part of the MI & Systems work stream in the project to establish NPIF. A key part of the requirements will be the regular reporting and supporting audit evidence required by ESIF. The requirements will be used to:

- Define the information that is to be collected by fund managers and remitted to NPIF for verification and storage: this information will form part of the contractual agreement with each fund manager.
- Define the controls necessary to ensure the completeness and accuracy of data submissions and to reconcile fund manager reporting with supporting evidence.
- Define systems developments to support data capture, storage and reporting.

The expectation is for data to be gathered electronically by fund managers and remitted to BBB on a regular basis via an agreed mechanism (e.g. secure file transfer or web portal) directly into the BBB Business Information BI System. Data validation checks will be carried out and the appropriate remedial actions will be taken where exceptions are identified to ensure the integrity of all reporting. Similar audit checks will be carried out on all data collected to ensure that supporting evidence is available which aligns with, and validates the performance reporting.

The BBB is committed to making finance markets work better for small business in the UK at all stages in their development. We are committed to continuous improvement and our markets and strategy team monitor trends in small business markets, carry out surveys and evaluate our programmes. We use this data to inform our business planning, improve our understanding of the use of finance by small business, understand the economic impact of our programmes and improve the design of our products. We will also use audit feedback and insight from the RAB and SOB to ensure that NPIF process and service is optimised to amplify the benefits and VFM extracted from public spend.