

Cornwall and Isles of Scilly Investment Fund – Project Summary

Applicant	Department for Business, Energy and Industrial Strategy (BEIS)		
LEP Areas Covered	Cornwall and Isles of Scilly (CloS)	Investment Priority	1B, 3D.
Total Project Cost	£40,000,000	ERDF Requested:	£32,000,000

Summary

The European Structural and Investment Fund Strategy (ESIF Strategy), for the Cornwall and Isles of Scilly Local Enterprise Partnership (LEP) area published in June 2014, strongly supported a move away from non-repayable grants and envisaged the current programme being a mix of grants, loans, guarantees and other financial tools that enable the funds to be recycled and help to facilitate private sector investment.

The Cornwall & Isles of Scilly Investment Fund (CloSIF) will be a Fund of Funds (FoF) vehicle which will be delivered by an entity wholly owned by BEIS to be known as Cornwall and Isles of Scilly Investments Limited (CloSIL). CloSIL will be advised by British Business Financial Services Limited (BBFSL) on the day-to-day activities of the Fund. BBFS is wholly owned by the British Business Bank (BBB), the UK Government's economic development bank.

DCLG, BEIS and BBB have worked closely with the LEP to inform development of the FoF model and investment strategy. This is critical to the success of the fund, setting out key assumptions regarding the timing and value of loans and equity expected returns, legacy amounts, default rates and management fees and expenses. It also incorporates the regulatory limits applicable to management costs and fees.

- The project is responding to Ex-Ante Assessment (EAA) completed for the South West which identified structural market failures affecting access of finance for start-ups and growing SMEs. The CloSIF aims to deliver debt and equity funding to eligible SMEs across Cornwall and the Isles of Scilly in amounts ranging from £25,000 to £2m. In response to the EAA, CloSIF will provide the following products: Debt: provision of business loans (from £25,000-£1m);
- Early stage and later stage: provision of equity funding (from £50,000-£2m).

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It is anticipated that the first Fund Managers will be appointed during the first quarter 2018 with investments flowing thereafter.

Start Date	Financial Completion	Practical Completion	Activity End Date
1 January 2018	31 December 2022	31 December 2027	31 December 2023

Deliverables

Outputs	Units
C1 – Number of enterprises receiving support	184
C3 – Number of enterprises receiving financial support other than grants	184
C4 – Number of enterprises receiving non-financial support	10
C5 – Number of new enterprises supported	6
C7 – Private investment matching public support to enterprises (non-grants)	£32,413,324
C8 – Employment increase in supported enterprises	314
C28 – Number of enterprises supported to introduce new to the market products	2
C29 – Number of enterprises supported to introduce new to the firm products	19

Strategic Fit

The CloSIF instrument and supporting fund manager agreement, therefore, demonstrates a strong alignment with the overarching aspirations of the Operational Programme and its supporting Priority Axis and cross-cutting themes.

Whilst the CloS ESIF Strategy provides the strategic context for the LEP area. Micro, small and medium-sized enterprises are an integral and central component of the Cornwall and Isles of Scilly economy and a key driver of growth and employment. 99.8% of the 21,105 enterprises in Cornwall and Isles of Scilly in 2012 are classified as small and medium-sized enterprises – 88.7% are micro-enterprises, 10% are small enterprises and 1.2% medium enterprises.

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This high percentage of SMEs is similar to the national trend, although an important factor is that Cornwall and Isles of Scilly has a lower proportion of employees in the larger sized businesses than the UK average. This presents the continuing challenge of ensuring priorities and actions identified to support businesses are relevant and accessible to SMEs and micro-enterprises. As the dominant size of firm, the ESIF Strategy states that “a small improvement in their productivity could have a significant effect on the economy.” The ESIF Strategy also states that the ability of these enterprises to access finance and in particular working capital is vital to ensure that businesses reach their growth potential and increase productivity.

The Cornwall and Isles of Scilly economy is dominated by micro-businesses employing fewer than ten employees and whilst the majority of these businesses remain relatively stable in employment and growth terms, a small proportion of ‘high growth’ companies have a disproportionately beneficial effect upon the wider economy.

Recent analysis by NESTA suggests that high growth companies accounted for 1.9 million new UK jobs between 2002 and 2005 (out of a total of 3 million) and 1.3 million out of 2.4 million new jobs between 2005 and 2008. These companies fell within the definition of SMEs and were more likely to grow organically and create employment rather than grow through acquisition (as is often the case for their larger counterparts). These high growth SMEs enjoy rapid growth over short time periods as a result of their ability to innovate and react quickly and competitively to market opportunities, either by themselves or within various tiers of larger supply chains. The ESIF Strategy outlines the priority to invest in these high growth companies and encourage productivity improvements through a culture of innovation and the provision of high quality business support, access to finance and export assistance.

Expenditure

Capital investments into SMEs, £32,000,000;

Fund Manager fees, £8,000,000

Match Funding

Sources of funding	Amounts	Type
ERDF Allocations	£32m	Grant
Growing Places Fund	£5m	Grant
Private (co-investment)	£3m	Repayable

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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 CloSIF 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 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 this will include provisions to review the fund after the initial investment period prior to the commencement of the legacy phase.

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 plan to explain how they will engage and work with business support providers across the CloSIF geography.

Value For Money (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 Managing Authority and the applicant have been in discussions about the level of acceptable outputs the project could deliver. A full assessment will be required following completion of the procurement of the Fund Manager(s), and confirmation of the investment profile on a monthly basis.

Management and Control:

The application has identified 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. Although it is rapidly gaining these through two other 2014-20 Programme financial instruments it runs with British Business Financial

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Services Limited: the Northern Power House Investment Fund (NPIF), and the Midlands Engine Investment Fund (MEIF). 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. This has been mitigated by their recent experience delivering the NPIF and MEIF projects.

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. The applicant is finalising the procurement documentation which will need to be forwarded to the Managing Authority once complete. Given the level of ERDF involved it is recommended that once complete the framework procurement is reviewed by the National Compliance Team prior to ERDF drawdown. The application has provided a state aid analysis and has identified appropriate delivery routes for the different financial products. The fund manager 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 however they will need to explain how the requirements of this theme will be passed onto the fund manager(s).