



Ministry of Housing,
Communities &
Local Government



European Union
European Structural
and Investment Funds

ERDF Financial Instruments Part I

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What are Financial Instruments (FIs)?

- “Financial Instruments” - a generic term for contracts which provide their holder with a claim on an debtor.
- They are not an invention of the EC and have been used in the UK to distribute public money for at least 200 years.
- Unlike traditional grants, the investment or loan made (e.g. to a SME) is repayable. Thereby creating a ‘Legacy’ which can be re-invested as specified in the contract or Funding Agreement (e.g. in the same geographical area, and for the same purpose).
- FIs tend to be for Equity investments or Loans.



Why Financial Instruments?

- Smaller EU and national public budgets mean need to deliver more with less;
- Increase the efficiency of ERDF by leveraging in additional public, private or social co-investments;
- Bring in additional expertise from the private or public sectors improving the efficiency and effectiveness of the use of public money;
- Enables the recycling of funds in the long-term by the generation of legacy from loans and investments made;
- Enables enhanced achievement of programme outputs.



2000-06

- FIs first used in ERDF in the 2000-06 ERDF Programme – known as Venture Capital Loan Funds (VCLFs).
- 20 Funds covering 8 Regions.
- Invested £203m ERDF by 31 December 2008, leveraging in £673m Public and Private Sector Match funding. Total investment = £876m.
- Investments are now generating ERDF Legacy – latest estimate £111.4m generally maturing within the next 3 years. £41.1m ‘cash’ now.
- Worked with funds to utilise this Legacy in 2007-13 funds, in some 2014-20 financial instruments, and elsewhere for stand alone FIs.



2007-13

- 46 Funds delivering FIs, as Financial Engineering Instruments (FEIs) contracted in 2007-13 Programme, drawing down £425m ERDF and leveraging in £511m Private and Public Match funding.
Total Investment = £936m.
- Saw 2 'new' type of FIs developed:
 - Joint European Resources for Micro to Medium Enterprises Initiatives (JEREMIEs); and
 - Joint European Support for Sustainable Investment in City Areas (JESSICAs).



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- Outputs generated to end of programme in 2015:

- Jobs Created = 17,283
- Jobs Safeguarded = 15,140
- SMEs/Businesses Assisted = 2,189

with more following on beyond that.

- ERDF Legacy for 2007-13 is estimated as £390m. Most legacy unlikely to be available for re-use until 2019 and beyond – then used as per 2000-06 to reinvest in SMEs in same geographical area.



2014-20

- 2014-20 Single Operational Programme for first time covering all of England.
- Early decision taken in 2013 following consultation with 39 Local Enterprise Partnerships that single Financial Instrument (FI) would not be acceptable. Therefore, 4 FI 'models' developed.





2014-20 FI Models

- **Access to Finance** – large holding funds or smaller stand alone funds providing equity, loan and mixed investment to SMEs;
- **Urban Development & Energy Efficiency (non-domestic)** – holding funds focussing on creation and/or refurbishment of urban infrastructure.

Including: development of employment sites, creation of new commercial floor space, reclamation of derelict or contaminated land, provision of site servicing and infrastructure, supporting energy efficiency measures in buildings (public, commercial and residential), and making improvements to the waste infrastructure (including use of Biomass, energy from waste; recycling and waste management)



2014-20 FI Models

- **Social Housing (Low-carbon retrofit)** – revolving loan fund to support energy conservation and generation in existing social housing – proved to be insufficient demand and no funds supported by LEPs;
- **Local Impact Funds** – affordable loans to Social Sector Organisations.



Critical Mass

- Experience indicated Funds generally operate most effectively at a larger scale.
- Collaboration across broader geographical areas would bring efficiencies through pooling resources to meet establishment costs and on-going management costs.
- The size of fund must be neither too large nor too small for its market - this should be considered in an Ex-Ante Assessment.



Ex-Ante Assessment

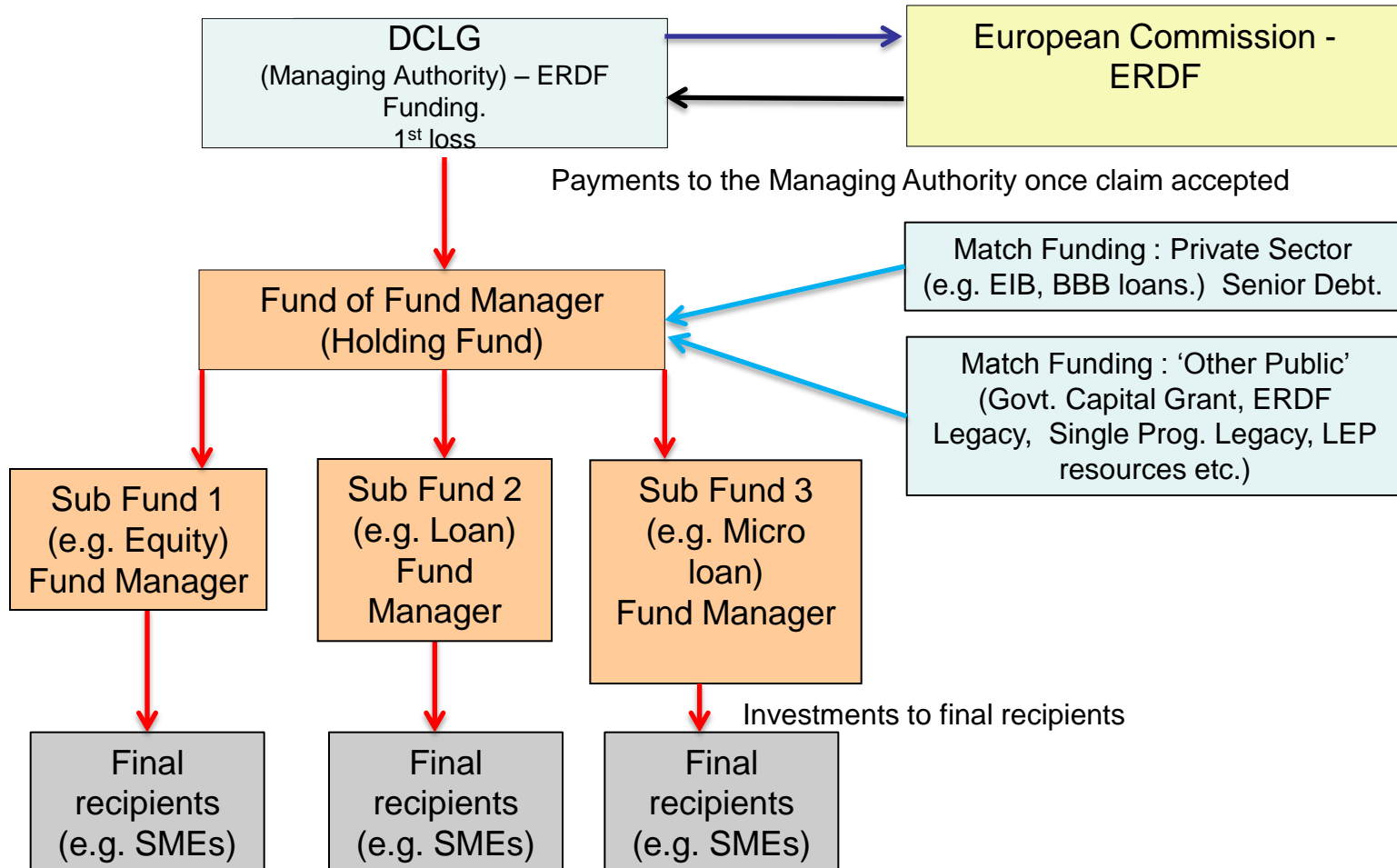
- Block 1 (Market Assessment)
- Block 2 (Delivery & Management)

Tranche Payments

- 1st payment of 25% of ERDF contribution
- 2nd 25% when 60% of 1st invested
- 3rd & 4th when 85% of earlier payment invested

FI Fund of Funds Structure

Claims to EC for ERDF paid to Fund of Funds Manager





2014-20 FIs

Table 1 - Projects Approved by 18th May 2018

Project	FI Type	Applicant	ERDF	Match	Total Investment
Northern Powerhouse Investment Fund	Access to Finance	BEIS (BBB)	£140.4m	£261.6m	£402m
The North East Fund	Access to Finance	North Tyneside Council (for 7 LAs in NELEP area)	£58.5m	£81.5m	£140m
Greater Manchester Fund of Funds - Urban Development Fund	Urban Development & Energy Efficiency	Greater Manchester Combined Authority	£60m	£60m	£120m
Midlands Engine Investment Fund	Access to Finance	BEIS (BBB)	£78.5m	£187.6m	£266.1m
Cornwall & Isles of Scilly Investment Fund	Access to Finance	BEIS (BBB)	£32m	£8m	£40m
Mayor of London Energy Efficiency Fund	Urban Development & Energy Efficiency	GLA procuring Fund Managers	£43m	£43m	£86m
Totals	-	-	£412.4m	£641.7m	£1,054.1m



Table 2 - Projects Estimated for Approval by end Quarter 3 2018

Project	FI Type	Applicant	ERDF	Match	Total Investment
London SME Fund	Access to Finance	Funding London	£32m	£68m	£100m
Totals	-	-	£32m	£68m	£100m



Table 3 – Other FIs in the pipeline

Project	FI Type	Applicant	ERDF	Match	Total Investment
Buckingham Thames Valley Investment Fund	Access to Finance	tbc	£2.6m	tbc	> £2.6m
Low Carbon Innovation Fund II (East of England)	Access to Finance	Norfolk County Council	£8m	£8m	£16m
Cheshire & Warrington UDF	Urban Development Fund	tbc	£10m	tbc	tbc
Lancashire UDF	Urban Development Fund	tbc	£15m	tbc	tbc
Liverpool UDF	Urban Development Fund	Liverpool CR	£25m	£25m	£50m
South West Energy Efficiency Fund / FINERPOL	Urban Development & Energy Efficiency Fund	Plymouth & Bristol City Councils - tbc	tbc	tbc	£100m tbc
Totals	-	-	Est min >£60.6m	Est min >£60.6m	Est min >£121m



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Part II - Delivery

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European Programmes and Local Growth Delivery



- The Northern Powerhouse Investment Fund, supported by the ERDF, provides commercially focussed finance through Microfinance, Debt and Equity Finance funds
- More than £400m of funding for SMEs in the Northern Powerhouse area (10 Northern LEPs excluding NELEP)
- LEP Governance structure – Strategic Operating Board / Regional Advisory Boards
- Scale of the fund EIB, BBB and match funding on a deal by deal basis
- Working with the local landscape inc. Growth Hubs, investment readiness etc.
- Fund managers working across the Northern Powerhouse region



Northern Powerhouse Investment Fund

£50m Invested





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**NORTHERN
POWERHOUSE**
Investment Fund



Delivered by British Business Bank

Northern Powerhouse Investment Fund - One Year Anniversary video

<https://vimeo.com/268938059>



European Union
European Regional
Development Fund



**European
Investment
Bank**

The EU bank



Department for
Business, Energy
& Industrial Strategy



Urban Development Funds

- An Urban Development Fund (UDF) is a vehicle to support ERDF investment in sustainable urban development projects
- Provides a long-term revolving and sustainable funding option that addresses identified market failures in the availability of commercial finance for property development
- Creates a high quality commercial environment to attract/retain occupiers
- Leverage match and unlocking complementary funding from developers
- Cost effective model utilising financial gains to offset operational costs
- Builds on the success of previous Financial Instruments e.g. JESSICA and provides a future vehicle for repayable investments



- Created under the 2014/20 ERDF Programme
- Delivered by Greater Manchester Combined Authority as 'entrusted entity'
- Fund of Funds manages £60m ERDF – matched by £60m of co-investment
- Two Urban Development Funds:
 - **Evergreen II** - £45m for property development – managed by CBRE – focused on science assets and Research, Development & Innovation activities.
www.northwestevergreenfund.co.uk
 - **Low Carbon Fund** - £15m – managed by GVA – focused on activities such as heat networks and production of renewable energy.
www.gmlowcarbonfund.uk



GM Fund of Funds Case Study: Citylabs 2.0



£12m loan from the Evergreen 2 Fund

Matched from a combination of 2007/13
legacy and private sector investment

The creation of a 92,000 square feet
office and laboratory facility focused on
innovations in predictive and preventative
medicine

- Delivered by Manchester Science Partnerships on the Oxford Road Corridor
- Links to devolved health budget, high class Universities and skilled labour pool
- Follows the success of Citylabs 1 biomedical centre completed in 2014 using ERDF investment from Evergreen 1



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Thank You

Any Questions

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