

Cabinet

14 September 2016

The North East Investment Fund (JEREMIE 2)



Report of Corporate Management Team

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Councillor Alan Napier, Cabinet Portfolio Holder for Finance

Councillor Neil Foster, Cabinet Portfolio Holder for Regeneration and Economic Development

Purpose of the Report

- 1 To seek approval to the Council's participation in a compliant governance structure to enable the North East Investment Fund (JEREMIE 2) project to proceed.

Background

- 2 JEREMIE funding is Joint European Resources for Micro to Medium Enterprises, which is a joint initiative of the European Commission and the EIB Group, mainly through the European Investment Fund, to enhance cohesion across the EU. The funding is provided to areas by Government via Implementing Bodies to provide funding opportunities for businesses who meet the relevant criteria and for specific purposes.
- 3 The proposed North East Investment Fund ('JEREMIE 2') Fund will provide a successor to the Finance for Business North East (FBNE) JEREMIE 1 fund, which currently provides access to finance (equity and mezzanine loans funds) to Small and Medium Sized Businesses in the North East. The JEREMIE 1 scheme is due to end in December 2016.
- 4 Other regional JEREMIE funds are being consolidated into the Northern Powerhouse Investment Fund (NPIF), with the British Business Bank acting as the Implementing Body, which will be operated from Sheffield.
- 5 The North East opted not to join NPIF, preferring to create a successor fund based in the North East, utilising existing expertise and infrastructure developed under the JEREMIE 1 programme. In 2015 Government approval, in principle, was provided to establish a North East fund operated by an Implementing Body located in the North East.

- 6 The need for continuing intervention via a renewed JEREMIE resource is demonstrated by an independent assessment report on the JEREMIE1 scheme. The resource will increase the amount of venture capital accessed by local businesses in order to support growth, jobs and to attract further external investors locally.

Proposed Arrangements – JEREMIE 2

- 7 The JEREMIE 2 Fund is proposed to make £120 million of investments, which will be financed by an ERDF grant of £60 million, matched by £60 million of loans from the European Investment Bank (EIB), plus the availability of circa £25 million legacy funding available from the JEREMIE 1 programme, which will cover the fund management costs. The EIB provided the commercial loan finance for the current JEREMIE 1 fund and has first call on resources as they are repaid.
- 8 The ERDF grant allocation from the County Durham transition region funding to the JEREMIE 2 Programme project is circa £12 million and thus leverages up to £24 million with match from EIB, which has to be spent in County Durham.
- 9 In order to satisfy the requirement of the scheme funders and Government Departments, the JEREMIE 2 Fund must be managed by a fully compliant Special Purpose Vehicle (SPV) as the Implementing Body set up specifically for this purpose. The SPV in turn will oversee the activities of individual fund managers operating specific funds providing the access to finance to businesses. The process to procure the individual Fund Managers is currently underway, following an EU compliant process.
- 10 In April 2016, the NECA Leadership Board agreed the principle of establishing the Fund and the SPV and authorised the procurement of the Fund Managers.
- 11 Officers from NECA and the North East Local Enterprise Partnership (NELEP) have been working with the Department for Business, Energy and Industrial Strategy (BEIS), the Department for Communities and Local Government (DCLG), European Investment Bank and HM Treasury officials to develop the most appropriate way of implementing the Fund.
- 12 The precise governance arrangements have been developed by the Local Enterprise Partnership (LEP) and North East Combined Authority (NECA) officer team tasked with the responsibility of implementing the North East LEP Area Fund of Funds.
- 13 The NECA Leadership Board considered the proposal that the NECA would be the sole member of the SPV. This option was explored however, as NECA has not yet been given the necessary borrowing powers, which would enable the loan to be made by the EIB directly to the SPV, this could not be taken forward.

- 14 It is now proposed that the most appropriate structure would involve all seven local authorities being the owners of the company, with a guarantee limited to £1 for each local authority.
- 15 On 20 September 2016 the NECA Leadership Board will consider a further report on the JEREMIE 2 Investment Fund. The report will propose that the seven constituent members of the NECA become members of the Implementing Body of the JEREMIE 2 funding project; this will be a publically owned Special Purpose Vehicle (SPV) and it will hold the investment funds.
- 16 This would be the limit of the direct financial cost and liability of each Council. No guarantee for the loan facility will be required to be given to the SPV and there is therefore no loan liability for the local authorities. In the future, if NECA received the necessary borrowing powers from the Government, it would be possible to novate the agreements so that NECA became the sole owner of the SPV, if this was considered to be appropriate.
- 17 The overall position of the seven authorities must be determined by written procedure of DCLG's ESIF (European Social Investment Fund) Committee at the beginning of October, 2016.

Next Steps

- 18 An application for ERDF funding of circa £60million has been submitted by NECA on behalf of the North East Local Enterprise Partnership to DCLG's ESIF (European Social Investment Fund) Committee. The application is being considered by written procedure of the ESIF committee at the beginning of October 2016. The NECA Leadership Board will meet on 20 September to consider a report regarding the proposals for the structure and governance of the SPV.
- 19 It is proposed, subject to the decision of the NECA Leadership Board meeting on 20 September 2016 that the Council consider becoming a member of the company which will deliver the JEREMIE 2 Funds. Similar Cabinet decisions will be made by all the NECA constituent authorities.
- 20 As the Council does not have a scheduled Cabinet meeting in the relevant time period, it is proposed that delegated authority is given to Corporate Director, Resources and Corporate Director, Regeneration and Economic Development, in consultation with Cabinet Portfolio Holder for Finance and Cabinet Portfolio Holder for Regeneration and Economic Development to determine this matter following the NECA Leadership Board meeting on 20 September.

Recommendations

- 21 It is recommended that Cabinet note the report and authorise, subject to the decision of the NECA Leadership Board on 20 September 2016, the Corporate Director, Resources and Corporate Director, Regeneration and Economic Development, in consultation with Cabinet Portfolio Holder for Finance and Cabinet Portfolio Holder for Regeneration and Economic Development to determine the Council's membership of the Special Purpose Vehicle for the North East Investment Fund (JEREMIE 2) and associated matters to enable it to be appropriately established.

Background Papers

None

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Appendix 1: Implications

Finance -

Over the life of the JEREMIE 2 Programme of up to ten years, it is envisaged that £120 million will be provided as Financial Instrument support to Businesses. The cost of the fund managers, which will also provide important support and guidance to businesses and work with businesses to secure the return of the funding is estimated to cost up to £20 million, with a provision for the cost of the SPV of up to £5 million, an average of £0.5 million a year.

The ERDF allocation from the County Durham transition region funding to the JEREMIE 2 Programme project is circa £12 million and thus leverages up to £24 million with match from EIB, which has to be spent in County Durham.

The business model assumes that the payback from businesses over the 10 year period will recover the full cost of the Fund. The first receipts must be used to repay the EIB loan facility, with further payments creating a legacy fund in the SPV to fund future rounds of financial support to business. The EIB are making a purely commercial loan with repayment at their risk, with this decision being based upon their assessment of the track record of previous loan schemes and their confidence in the robust and experienced fund management arrangements that they require to be established. No guarantee for the loan facility will be given by the SPV and there is therefore no loan liability for the local authorities. It is expected that any financial risk associated with the ERDF grant and EIB loan will be managed through the governance arrangements to be put in place by the SPV.

Further detailed financial implications will be contained in a full report to the NECA Leadership Board on 20 September, 2016, which will enable proper and full consideration of the delegated decision to be taken.

Staffing –

There are no staffing issues arising from this report.

Risk -

Any risks identified regarding the Special Purpose Vehicle will be monitored and reported accordingly.

Equality and Diversity / Public Sector Equality Duty -

There are no equalities issues arising from this report.

Accommodation –

There are no accommodation issues arising from this report.

Crime and Disorder -

There are no crime and disorder implications directly arising from this report.

Human Rights -

There are no human rights implications directly arising from this report.

Consultation -

On-going consultation is being undertaken with Cabinet Members, the Chief Executive and Corporate Director Resources and Corporate Director Regeneration and Economic Development around the proposals detailed in the report. Ongoing consultation is also being undertaken with the NECA Leadership Board and Interim Chief Finance Officer for the NECA.

Procurement –

There are no procurement issues arising from this report.

Disability Issues –

There are no disability issues arising from this report.

Legal Implications -

The Fund Managers will be appointed following an EU compliant procurement process. Those bidders providing the most economically advantageous tender shall be appointed.

A Special Purpose Vehicle shall be established following agreement from the Leadership Board and the constituent authorities. The creation of the SPV shall comply with EU Procurement legislation and EU Commission Guidance.

Further detailed legal implications will be provided in a full report to the Elected Mayor to enable proper consideration of the delegated decision.