

North Tyneside Council Report to Cabinet Date: 12 September 2016

ITEM 6k

The North East
Investment Fund
(JEREMIE 2)

Portfolio(s): Elected Mayor Combined Authority	Cabinet Member(s): Norma Redfearn Elected Mayor
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Report from Service Area;	Chief Executives' Office	
Responsible Officer:	Patrick Melia Chief Executive;	Tel: (0191) 643 2001
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Wards affected: All

PART 1

1.1 Executive Summary:

In April 2016 the North East Combined Authority (NECA) Leadership Board considered a report and agreed next steps towards the implementation of a North East Investment Fund (referred to as the JEREMIE 2 Investment Fund).

Officers from NECA and the North East Local Enterprise Partnership (NELEP) have been working with the Business Innovation and Skills Department (BIS), 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.

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.

Following the NECA's meeting, it will be necessary for each of the seven constituent authorities to consider and determine their individual positions to enable the proposals to be implemented. The overall position of the seven authorities must be determined by written procedure of DCLG's ESIF (European Social Investment Fund) Committee by .

1.2 Recommendation(s):

It is recommended that Cabinet authorise, subject to the decision of the NECA Leadership Board on 20 September 2016, the Elected Mayor, in consultation with the Cabinet Member for Finance, the Chief Executive, the Head of Finance and the Head of Law and Governance to determine the Authority'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.

1.3 Forward plan:

- 1.3.1 It has not been practicable to give twenty eight days notice of this report. However, it is required to be considered without the twenty eight days notice being given because there is a need to determine the Authority's position on this matter prior to the written procedure being undertaken by DCLG's ESIF (European Social Investment Fund) Committee .
- 1.3.2 In order for this matter to be taken forward, external specialist advice was sought; upon receipt of that advice the item was included on the forward plan that was published on 30 August 2016.

1.4 Council plan and policy framework

- 1.4.1 The report contributes towards the following priorities of the 2014-18 Our North Tyneside Plan:
- Our economy will grow by building on our strengths, including existing world class companies in marine technology and engineering, our economy will have the right conditions to support investment and create new jobs, especially apprenticeships and our economy will have local people that have the skills that businesses need.

1.5 Information

1.5.1 Background

- 1.5.2 JEREMIE funds are provided to areas by Government via Implementing Bodies to provide funding opportunities for businesses who meet the relevant criteria and for specific purposes.
- 1.5.3 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.

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. The North East opted not to join NPIF, preferring to create a successor fund based in the North East, utilising existing expertise and infrastructure. In 2015 Government approval, in principle, was provided to establish a North East fund operated by an Implementing Body located in the North East..

- 1.5.4 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.
- 1.5.5 The JEREMIE 2 Fund is proposed to make £120m 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), the EIB provided the loan finance for the current JEREMIE 1 fund.
- 1.5.6 In order to satisfy the requirement of the scheme funders and Government Departments, the JEREMIE2 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 in an EU compliant process.
- 1.5.7 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 referred to above. Since then the precise governance arrangements have been developed by the LEP/NECA officer team tasked with the responsibility of implementing the North East LEP Area Fund of Funds.
- 1.5.8 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.
- 1.5.9 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. This will be determined by the NECA Leadership Board on 20 September 2016, subject to the approval of the individual authorities. This would be the limit of the direct financial cost and liability of each council. No guarantee for the loan facility will be given by 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.

1.5.10 Next Steps

An application for ERDF funding of £58.5m has been submitted by NECA on behalf of the North East Local Enterprise Partnership. 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.

- 1.5.11 It is proposed, subject to the decision of the NECA Leadership Board meeting on 20 September 2016 that the Authority consider becoming a member of the company which will deliver the JEREMIE 2 Funds. Similar Cabinet decisions will be made by the constituent authorities.

1.5.12 As the Authority does not have a scheduled Cabinet meeting in the relevant time period, it is proposed that delegated authority is given to the Elected Mayor in consultation with officers to determine this matter following the NECA Leadership Board meeting on 20 September. Further detailed information will be included in a full report to the Elected Mayor to enable proper consideration of the delegated decision..

1.6 Decision options:

1.6.1 Cabinet may :-

1. Agree to the recommendations as set out in paragraph 1.2 of this report.
2. Not agree to the recommendations as set out in paragraph 1.2 of this report.

1.7 Reasons for recommended option:

1.7.1 Option 1 is recommended for the following reasons:

It will enable the Authority to consider and determine its position in relation to participating in the Special Purpose Vehicle within the required timescales. If the Authority participates it will enable the NECA area to have to access to the JEREMIE 2 funds.

1.8 Appendices:

There are no appendices to this report.

1.9 Contact officers:

Janice Gillespie, Head of Finance, tel. 0191 643 2430
Sarah Heslop, Manager Legal Services, tel. 0191 643 5456

1.10 Background information:

There are no background documents

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1. Finance and Other Resources

2.1.1 Over the life of the JEREMIE 2 Programme of up to ten years, it is envisaged that £120m 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 £20m, with a provision for the cost of the SPV of up to £5m, an average of £0.5m a year.

2.2.2 The business model assumes that the payback from businesses over the 10 year period will recover the full cost of the Fund of £145m. 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.

2.2 Legal

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

2.2.2 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.

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

2.3 Consultation/community engagement

On going consultation is being undertaken with Cabinet Members, the Chief Executive and Head of Finance 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.

2.4 Human rights

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

2.5 Equalities and diversity

There are no equalities issues arising from this report.

2.6 Risk management

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

2.7 Crime and disorder

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

2.8 Environment and sustainability

There are no environmental and sustainability implications directly arising from this report.

PART 3 - SIGN OFF

- Deputy Chief Executive x
- Head(s) of Service x
- Mayor/Cabinet Member(s) x
- Chief Finance Officer x
- Monitoring Officer x
- Head of Corporate Strategy x