

Report of: Project Manager (Lead on European Programmes)

Report to: LEP Director and Head of Economic Strategy

Date: 8th August 2014

Subject: ESIF Access to Finance Research Brief

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. The Government announced plans to streamline the management of EU Structural and Investment Funds (ESIF) in England as a single EU Growth Programme, with which the investment priorities of Local Enterprise Partnerships are aligned. LEPs were asked to develop strategies for the use of European Structural and Investment Funds 2014-2020 in their localities. The final strategy was submitted at the end of January 2014.
2. One of the areas outlined within the strategy was a programme which would enhance the offer to businesses by exploring the option to work with Finance Yorkshire (FY) to extend the current JEREMIE model, as well as how content funding and funding to support micro finance should be developed and supported.
3. There is an urgent need to progress a robust analysis of the current operating models in the context of market demand to identify how to obtain the best return on its proposed £19.75m ESIF investment. To do this it will need to (please refer to the attached brief for further information):
 - Review the **market demand** for the suite of products provided in the City Region, from seed corn and equity through to content and micro finance;
 - Identify the optimum **outcomes** from the analysis of the different investment-allocation scenarios;
 - Consider the most effective **operating model** to support its investment with an indication of how the £19.75m should best be deployed across the product range.

This work is essential for the Partnership; as Government require the LEP with its partners to agree and set out how it will use the funding by no later than October 2014. The formal approval of how the ESIF money is to be used will be undertaken by the newly established ESIF Local

Sub-committee. This piece of work will be used to make a set of recommendations for this committee to consider in its decision making.

4. This work will be supported by two members of staff in the LEP who will undertake the high level desk research/data gathering in order to keep costs to a minimum.
5. It is proposed to commission PWC for this work as they have a track record of working in this market and in particular in supporting the Council and the LEP in developing its Revolving Investment Fund. Their work is considered good value for money and is of a high quality. The brief is expected to cost between £17,500 to £20,000 maximum. Costs will be met through LCR Secretariat. Budgets are in place to cover these costs.

Recommendation

1. That the relevant contractor procedure rules are waived under Contracts Procedure Rules No 8.1 and 8.2 - intermediate value procurements, due to the exceptional circumstances PWC are awarded the contract from August 2014, as set out in the attached brief.

1 Purpose of this report

- 1.1 The work outlined below aims to provide external capacity and expertise to advise the Leeds City Region LEP on their approach to Financial Instruments (FIs) under the European Structural and Investment Funds (ESIF) 2014-2020 programme. The European Commission is seeking to increase the use of FEIs - the provision of equity, loan or hybrid investments as an alternative to conventional grants – through the 2014-2020 EUSIF programme.
- 1.2 The work to be commissioned is urgent work to support the decision making of the ESIF Local Sub-committee in how to best deploy and obtain the best return on its proposed £19.75m ESIF investment for supporting businesses to access finance to generate growth. The ESIF Strategy covers the whole of the Leeds City Region apart from Barnsley which sits within the Sheffield City Region ESIF Strategy. It is proposed that the work is undertaken by PWC - who have previously carried out similar work in parts of the city region in particular in the development of the Leeds City Region Revolving Investment Fund. They have a very good understanding of the specific demographic, economic issues as well as a substantial understanding of the financial market.
- 1.2 The work is urgent for several reasons. It is required to provide a robust set of recommendations for the ESIF Local Sub-committee to make decisions upon. This in turn has to be done, as instructed by Government, by October 2014 as part of the development of the ESIF Local Implementation Plan.

2 Main issues

Reason for Contracts Procedure Rules Waiver

- 2.1 To date no rigorous assessment and analysis has been undertaken to establish the best operating model for the financial instruments proposed in the ESIF Strategy. A case needs to be presented to the ESIF Local Sub-committee in October 2014 setting out recommendations to how to best invest the £19.75m. It is clear from past experience that a clear evidence base needs to be presented for partners to make decisions. As this is a programme that supports local businesses then it is essential that local businesses and other key stakeholders are involved and given a chance to influence future finance products which in turn should lead to growth in the Leeds City Region. Failure to complete an analysis will leave the LEP and the district at a significant risk of developing a model which is not fit for purpose, duplicates other provision, for example that provided by the banks, and wastes over £19m of public monies by
Waiver Report PUBLISH V1.0

not investing in the right product areas to meet local need and generate economic growth. Consideration of the evidence to date has shown that further detailed analysis is required over and above that currently available.

- 2.2 PWC has an excellent track record of working with Leeds City Council and the City Region Partnership with regard to assessing the need for intervention through financial instruments and loan/ grant models to business. Their rates are considered very competitive and they have the detailed knowledge and expertise and the capacity to carry this work out within the timetable required. The cost to undertake this work will be between £17,500 to £20,000 maximum. Costs will be met through LCR Secretariat. Budgets are in place to cover these costs.

Consequences if the proposed action is not approved

- 2.3 There would be a risk of the LEP and its partners not being able to respond to the Government in October 2014 with regard to being able to clearly set out where resources are to be deployed and in what way, without being seen to sufficiently demonstrate market failure and that a full gap analysis has been undertaken. This in turn could have two immediate consequences. Firstly that the LCR ESIF Programme cannot spend as fast as other areas due to a delayed start – this in turn will put the money notionally allocated to LCR at risk in future years. Secondly the LEP and its partners need to also demonstrate to its key stakeholders a clear rationale for its decision making which in turn could impact on the reputation of the LEP and its respective partners as they must be seen to be operating in an open and transparent way to meet the EU regulations and standards with regard to the Code of Conduct on Partnerships set out by the European Commission.

Advertising

- 2.4 No advertising has or is proposed to take place for this commission due to the necessary short timescales for undertaking the work, and the past experience, knowledge and positive track record of PWC of undertaking similar work for both the Council and the LCR Partnership.

3 Corporate Considerations

3.1 Consultation and Engagement

- 3.1.1 The Leeds City Region Partnership have established an Expert Group to help them provide an independent review necessary to aid decision making required for the ESIF strategy. The Expert group consists of representation from the Banks (Natwest and Lloyds), Chambers, British Business Bank, Schofield Sweeney and a member from the LEPs Investment Panel as well as PWC. At a meeting on the 7th August 14 this group considered who could best undertake this work based on knowledge, expertise, capacity and timeliness. It was decided PWC would be asked to do the work supported by the wider Expert Group due to their experience to date working with the LEP together with the need to complete this work in an extremely short timescale by early October 14. PWC have declared a conflict of interest due to their seat on the expert group.

3.2 Equality and Diversity / Cohesion and Integration

- 3.2.1 There are no equalities and diversity issues with this commission or cohesion and Integration issues at this stage.

3.3 Council Policies and City Priorities

3.3.1 The ESIF Strategy was endorsed by the LCR Chief Executives before its final submission.

3.4 Resources and Value for Money

3.4.1 As noted above, it is considered that the additional fee proposed of £17,500 to £20,000 maximum for this additional work is good value for money given the urgency of the work coupled with the need to draw on immediate knowledge and expertise in the finance market to ensure we receive maximum return on our investment of £19.75m

3.5 Legal Implications, Access to Information and Call In

3.5.1 The Chief Procurement Officer has advised that this invocation report is required to meet the Council's obligations of transparency and openness and therefore this is a matter properly falling within Contracts Procedure Rules No 8.1 and 8.2 - intermediate value procurements. There are no other legal provisions requiring a further competition exercise to be undertaken.

3.6 Risk Management

3.6.1 The budgets are in place to fund work and the staff resources within the LCR Secretariat are in place to manage PWC.

3.6.2 The LCR Access to Fiancé Expert Group will act as the wider steering group for the work and will have the opportunity to comment on the work being undertaken. As experts in the market they they will ensure the findings are reasonable and sound before a set of recommendations are presented to the ESIF Local Sub-committee for final decision.

4 Conclusions

4.1 The analysis that is the subject of this Waiver is urgently needed; that PWC are invited to do the work have the capabilities and capacity to do it in the short timescales; and there are the budgets in place to fund the work. It is considered that the proposal offers value for money and can be delivered in a timely manner as is required.

5 Recommendations

5.1 The LEP Director / Head of Economic Strategy is recommended to approve the waiver of the following Contracts Procedure Rules No 8.1 and 8.2 - intermediate value procurements.

6 Background documents

6.1 Please see the attached Research brief.