

Leeds City Region Access to Finance Brief

European Structural and Investment Funds Programme

Context and background

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.

In July 2013 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.

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. £19.75m has been allocated to this programme area for the period 2015 to 2020.

Decisions have to be made imminently to how this money is to be deployed i.e. in terms of the operating model – via a Financial Instrument such as JEREMIE or via open calls for providers to deliver products such as micro finance and content funding where demand can be demonstrated, timing and the amount of money to be allocated to each type project area. The overall decision will lie with the newly established ESIF Local Sub-committee to which the recommendations from this piece of work will be presented to.

Strategic Background

Some SMEs across the City Region are not fulfilling their growth potential because of barriers relating to access to finance, which is holding back innovation and jobs creation.

It is well reported both at a national and local level that businesses still continue to face major challenges with regard to accessing finance to fund business growth.

We have recent local evidence from a survey of City Region businesses with almost a quarter (23%) reporting that they currently had a stalled investment project. For almost half of this group, there was more than one stalled project. The proportion of micro businesses (fewer than 10 employees) with stalled projects was higher than for larger firms, and the issue was more important for companies in construction, production, property & finance and finance & professional services. More than half the stalled projects were seeking funding of less than £100,000, while around 10% sought over £500,000. The latter figure equates to just over 2,000 projects across the City Region, the great majority of these larger ones being in construction and property.¹

Recent research for BIS² on bank lending to UK Small and Medium Sized Enterprises (SMEs) between 2001 to 2012 found that bank finance became more difficult for SMEs to obtain following the 2008-09 financial crisis, and has remained relatively difficult to obtain since, compared to the period before 2008. Bank of England figures have also shown a steady fall in lending to SMEs.

In addition firms which do not engage in innovation in the Yorkshire and the Humber region cite availability of finance and high cost of direct innovation as the major barriers to driving up their innovation performance. Thus there is a clear market failure in relation to SMEs' ability to gain access to finance and engage in collaboration for the most efficient market outcome, Leeds City Region has a comparatively poor track-record in securing nationally driven innovation resources such as TSB and Nesta, and these are not always properly aligned to the LCR priority sectors or local growth opportunities. The current Business Growth Programme has been successful

¹ *Leeds City Region Revolving Investment Fund: Detailed market testing*, Mazars, 2013.

² Bank lending to UK Small and Medium Sized Enterprises 2001 to 2012: evaluating changes, 7 May 2013, report by National Institute of Economic and Social Research (NIESR)

in bringing forward investment projects within businesses and unlocking finance from other sources e.g. banks and other loan providers. To date, the programme has committed over £19.5m of investment which will leverage a further £156m of business investment and create over 2,700 new jobs. As part of the recently-announced Growth Deal for Leeds City Region, government has agreed a further £18m of funding for our BGP over the three financial years from 2015-18. The programme will be accessed via the proposed Business Growth Hub, alongside other products and services for growth-oriented SMEs. We have also seen returns through investments made through our Growing Places Fund, which we have recently extended alongside our newly launched Revolving Investment Fund. Both funds aim to provide investment for projects that are unable to attract the full required funding from mainstream sources. Given the scale of the SME funding challenge, the LEP needs to work closely with its public and private sector partners to deliver suitable solutions within its current resources.

The LEP is currently exploring how best to provide Access to Finance for its businesses alongside other programmes of activity, as outlined above, as well as wider lending from other financial institutions such as banks.

To date we have been exploring the potential to expand the remit of Finance Yorkshire (FY), currently operating with the use of the Financial Engineering Instrument, JEREMIE, to include other elements of loan funding. This could also include micro-finance delivered via Community Development Finance Institutions (CDFIs) as well as content funding.

With regard to continuing and expanding the JEREMIE model, work is underway with neighboring LEPs (Sheffield City Region, the Humber, York/North Yorkshire and East Riding, together with Greater Lincolnshire) due to the need to create a pool of €50 million for the European Investment Bank (EIB) to invest in such a model. Outside of the JEREMIE approach, 50% match funding will need to be sought, although this is expected to come forward via private sector co-investment.

Project Background

The LEP has an allocation of £19.75m to invest in access to finance over the period 2014-2020 EU programming period. As outlined in the ESIF and the Strategic Economic Plan for LCR, the funding needs to be used to improve the competitiveness of SMEs and to support their growth.

There are presently an array of funds and partners who support the City Region's access to finance aspirations, the main ones being:

- A holding fund which manages a series of fund managers focussed on seed corn funding, business loans and equity linked finance. This follows an integrated JEREMIE model and operates under the Finance Yorkshire brand, and is arguably more dominant than in other regions where JEREMIE funds operate. It is presently a £90m fund, coinvested through EIB and European Regional Development Funding (ERDF), and projected to be fully invested by the end of 2015. Current investments total £73m (<http://www.finance-yorkshire.com>);
- Content Funding currently managed by Screen Yorkshire, which invests in film, TV, gaming and digital content across Yorkshire. To date, it has secured £15m of investment from ERDF, and works on a co-investment model providing the match at the project level investing largely in film and TV. (<http://www.screenyorkshire.co.uk/>);
- Micro finance currently provided by three CDFI's across LCR (West Yorkshire Enterprise Agency Ltd, Business Enterprise Fund and Goole development Trust) all providing micro finance as the lender of last resort following the national model.
- Other loan and grant facilities – including the LEP's Business Growth Programme, Growing Places Fund and recently launched Revolving Investment Fund, alongside lending from other financial institutions such as banks. Seedcorn funding is also available to support innovative early stage businesses through the Yorkshire Innovation Fund and the TSB.
- Legacy Funds eg. via Partnership Investment Fund Limited, as well legacy funds generated as a result of ex Regional Development Agency programmes across the Yorkshire and Humber Region, which collectively LEPs may wish to consider if looking at a 'pooled' revolving investment fund in the future. The British Business Bank has been asked by BIS to consider the value of the legacy funds and how they can be best be used in the future with LEPs.

Brief

Purpose of Brief

Looking forward, the City Region needs to identify how to obtain the best return on its proposed £19.75m investment.

To do this it will need to:

- Review the **market demand**, confirming and identifying gaps in the market, 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 will be achieved by ;

- Undertaking a robust challenge of the current operating models in the LCR/Y&H region considering issues such as duplication, displacement and strategic added value.
- Providing an impartial impact analysis of the current operating model on SME growth, and how it meets demand and provides a continuum of finance to grow SMEs in the market place.
- Presenting a series of financial intervention options/scenarios that could be deployed across the City Region identifying the preferred option / operating model for delivery and the reason why this has been chosen over the others.

The research will be presented to the LCR Access to Finance Expert Group for consideration. They in turn will use the information presented to make a set of recommendations to the newly established ESIF Local Sub-committee that will make the final decision in how best to deploy the £19.75m over the ESIF Programming period.

Market Demand

The advisor needs to consider:

- Existing research on access to finance issues in the SME market, including (though not exclusively) the recent Regeneris Report produced for Humber and York, North Yorkshire & East Riding LEPs, the recent audit of the Growing Places Fund, and work carried out by PWC in the development of the LEP's Revolving Investment Fund, Mazaars Report;

This desk review will be undertaken by two members of staff from the Leeds City Region Enterprise Partnership (Marc Eatough and James Hopton who will be able to provide 5 days (between them) to support this high level literature review) under the Advisors guidance.

Relevant national datasets on supply/demand, which are expected to be considered include *for example*;

- Small Business Survey
- SME Finance monitor
- British Banking Association
- British Venture Capital Association stats
- Capital for Enterprise investment data
- National evidence on supply/demand side market failures is also provided in the following BIS paper from Dec. 2013 (pages 29-34)

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266304/bis-13-1320-smes-key-enablers-of-business-success.pdf

- Data and analysis supplied by Finance Yorkshire, Screen Yorkshire and the local CDFI programmes on their interventions to date and their contribution to economic growth across LCR. The analysis should include a robust challenge of the data and the current operating model considering issues such as duplication,

displacement and strategic added value. This, in turn, should provide an impartial impact analysis of the current operating model on SME growth, and how it meets demand and provides a continuum of finance to grow SMEs in the market place.

- Views of local stakeholders from the public and private sectors. Consultations could potentially cover issues such as:
 - Availability of SME finance and recent trends – this should be defined within finance products eg. seedcorn, equity, content, micro, debt finance etc
 - Current levels of demand and how this has changed – this should be defined within finance products eg. seedcorn, equity, content, micro, debt finance etc
 - Market failures and finance gaps and the types of businesses worst affected – this should be defined within finance products eg. seedcorn, equity, content, micro, debt finance etc
 - Is the right mix of financial instruments currently available

Consultees are expected to include some or all of the following (although not exclusive);

- local authorities in the Leeds City Region (*excluding Barnsley for the purposes of ESIF which sits within the Sheffield City Region ESIF Strategy*)
- banks and other financial institutions (some contacts can be provided)
- business representative organisations including sector groups (*the LEP could facilitate a meeting with the Business Communications Group of the LEP if required*)
- businesses who have sought different types of finance, through one or more focus groups
- Finance Yorkshire
- Yorkshire Association of Business Angels
- Chambers of Commerce
- Federation of Small Business
- Big Society Capital
- UK Steel Enterprise
- CDFIs
- Screen Yorkshire
- Key Fund and Charity Bank
- BIS/DCLG
- Capital for Enterprise
- Venture capital firms
- European Investment Bank
- others to be agreed with the Access to Finance Expert Group.

The advisor should then plot potential demand ranges for different products over the programme period, and make recommendations about how the funding should be apportioned to different finance products and through which operating model.

Outcomes

The advisor needs to consider:

- Potential scenarios based in different investment models across the markets within which current providers operate;
- Possible outcomes of the differing investment scenarios outlined above;
- Value for money - how the greatest economic impact could be realised for the City Region from the projected investment, with a clear focus on SME growth.

The advisor needs to present recommendations to maximise the impact of the investment portfolio.

Operating Model

The advisor needs to consider:

- Existing and future operating models of current providers in the City Region, , and potential alternative delivery options to achieve improved outcomes and/or increased value for money;
- The range of parameters which affect ERDF and access to finance delivery – e.g. regulatory, existing programme delivery, views and commitment of other investors locally and nationally – e.g. EIB, DCLG;
- The local impact of differing operating models, e.g. investment with individual partners, investment driven directly through Finance Yorkshire using the existing JEREMIE model, or other possible alternatives.
- The potential to leverage other public/private sector funds to match ERDF funding.;

The advisor needs to suggest an optimum operating model after carrying out the above assessment.

Deliverables

The advisor is expected to:

- Attend an inception meeting with the client;
- Conduct desk based research and face to face interviews with relevant stakeholders;
- Produce an interim and final report which will be presented to the client and its expert panel.

The client for the study will be Leeds City Region Enterprise Partnership. The Access to Finance LCR Expert Group will be the recipient of the final report.

The day to day contact will be Heather Waddington, Lead Project Manager for the new European programme: heather.waddington@leeds.gov.uk; telephone 07891 275257.

Proposal

You are invited to submit a proposal which outlines your:

- Understanding of the key issues (400 words);
- Your proposed approach to the assignment (800 words);
- Your relevant experience (400 words);
- Personnel and their role on the assignment (400 words);
- Fee and breakdown of rates and time inputs by individual.

The capped fee for this assignment is £18,000 including expenses but exclusive of VAT.

Timetable

Delivery Objective	Start date	Deliverable	Completion date
Stage 1	12 th August 2014	Inception Meeting	12 th August 2014
Stage 2	13 th August 2013	Desk Research carried out by LEP staff under guidance from the Advisor including data sets considered and presented	Friday 29 th August 2014
Stage 3	13 th August 2014	Interim findings presented	19 th September 2014
Stage 4	13 th August 2014	Final Report presented to the LCR A2F Expert Group	w/c 6 th October 2014