



Midlands Engine Investment Fund

Q&A

Respondents are invited to direct questions in advance of submitting a response to sally-ann.rogerson@british-business-bank.co.uk

Questions (posted anonymously) and answers in relation to the policy, objectives or information schedules will be made available to all respondents in this document to ensure that all respondents have access to the same information about the process. This document will be updated periodically as and when new Q&A becomes available.

Questions can be submitted until the formal procurement process starts, which we expect to be in August 2016.

<i>Version</i>	<i>Date Issued</i>
2	23 August 2016

Midlands Engine Investment Fund Q&A

Q Will the fund have priority sectors or sectoral funds?

A. The Midlands Engine Investment Fund (MEIF) provides gap funding for the whole Midlands Engine area. Following the ex-ante assessments it was felt that funds should be sector agnostic.

Q. At the Small Business Loan level, will loans be made only after having been declined by the high street banks? Will a letter of decline be required from the bank?

A. The delegated regulations do not stipulate a requirement to seek evidence of bank refusals however there is a requirement at Article 6 (1) Commission Delegated Regulation (CDR) (EU) no. 480/2014 that fund managers shall ensure that:

1. (a) final recipients receiving support from financial instruments are selected with due account taken of the nature of the financial instrument and the potential economic viability of investment projects to be financed. The selection shall be transparent and justifies on objective grounds and shall not give rise to a conflict of interest;

(c) financial instruments provide support in way which is proportionate and has the least distortive effect on competition;

Fund Managers will need to demonstrate that they are not competing (or not distorting the market unnecessarily) and this addresses the market failure identified in the ex-ante assessment and will be a key requirement under the MEIF Investment Operational Guidelines (IOGs).

The funds will be established on the basis that they will be (a) operating in markets that are underserved by the banks/investors; (b) not investing or lending on terms more favourable than the private sector would offer; or (c) any support offered at below-market terms is State Aid compliant.

BBB as Holding Fund manager may consider Fund Managers include a self-declaration for SMEs to complete to show they have been unable to source funding from elsewhere but to comply with Article 6(1) there is no specific requirement to get evidence that a bank will not lend.

Q. Will the procurement be for a framework?

A. Yes the procurement will be for a framework. Once the framework is in place there will be mini-competitions for the initial tranche of fund managers.

Q. At the small business loans level will the MEIF be providing Capital Investment or Cash Loans?

A. The MEIF will be looking for growth opportunities rather than providing cash flow funding, but cash-flow could form a component of the investment.

Q. Do you know the split between debt and equity?

A. The Bank is consulting with stakeholders on the allocations and final allocations have not yet been decided. There are some external factors to take into consideration, for example, the Bank will need to develop a model to repay the EIB senior debt and the EIB generally expect funds to comprise around 50% debt instruments. MEIF will also need to deliver the expected economic outputs and some forms of funds are better at delivering these than others.

The Bank is trying to avoid imposing caps or ceilings on funds and the tender will be as flexible as possible within the procurement regulations to allow for changes to the economy or the possible availability of additional funding.

Q. Will the innovation criteria for MEIF be the same as for NPIF?

A. We expect they will be very similar, with investment strategies driven by the needs identified in the ex-ante assessments and the need to meet State Aid and lender requirements.

Q. In the past the required outputs included jobs created, Gross Value Added (GVA) and Business Rate Income. Will similar criteria be required?

A. The funding for the MEIF comes with specific output requirements that we are working with DCLG to agree final numbers on which will be included in the tender documents. Jobs safeguarded and GVA are no longer a measured output but jobs created and numbers of businesses assisted will be.

Q. To what extent can the Bank bring fund managers together to work collaboratively?

A. It is not the role of the Bank to bring fund managers together, but there will be the possibility for fund managers to form consortia or other forms of joint working.

Q. Will gearing/leverage be calculated at the Fund level or the level of the individual investment?

A. This will be calculated at two levels. The funders encourage leverage at the fund level including looking for some manager co-investment ('skin in the game'). The ERDF output is calculated at the level of the individual investments. The Bank recognises that it will be difficult for prospective fund managers to secure private sector investment in the time they have to respond to the tender, so we will look at any evidence to support any proposed private investment at that level.

Q. Would private investment from overseas be acceptable?

A. Yes, but prospective fund managers should have the right authorisations and money laundering procedures and processes in place.

Q. Will the MEIF be looking for different types of skill sets to deliver different types of funds e.g. early stage or growth equity investments because it is difficult for fund managers to cover the whole spectrum and they tend to specialise in different types of investment activity?

A. The Bank is not wholly convinced either way on this argument. The Bank will be looking for evidence or feedback from these events either way. However, it is worth considering the general investment restrictions and particularly the GBER eligibility criteria, which will require that investments are predominantly early stage.

Q. Will there be a maximum size for any type of fund?

A. Yes because there is a limited amount of funding available.

Q. Will there be guidance provided on management charges and costs?

A. There is some guidance within the ERDF Regulations, but procuring the funds does give the Bank some flexibility. Prospective fund managers might look at the recent Northern Powerhouse Investment Fund ITT to get an indication of what the Bank's approach might look like. Because this will be a tender process we will not be giving any indication of expected fee levels.

Q. Will the MEIF have to have invested a certain amount by 2018?

A. There are targets for the amount of the ERDF Programme committed in England by 2018 to which the MEIF will have to contribute.

Q. Is there a timetable leading to the launch of the MEIF?

A. We expect to be launching the procurement in August 2016 with fund manager contracts in place by the end of the year. This is an ambitious target that reflects the desire of all parties to get this money working.

Q. What effect will the European Referendum have on the MEIF?

A. The Bank will follow guidance on “purdah” rules covering marketing and promotion, but we do not anticipate any requirement to change the planned procurement timetable as a result of the referendum. Our understanding is that the ERDF funding is already with DCLG and the funding committed and the EIB have indicated that it will not affect their lending decision.

Q. Can successful fund managers co-invest with other EU funds?

A. Any co-investment will need to be compliant with State Aid regulations as well as with any rules and restrictions which apply to any of those other funds. This may be difficult to achieve.

Q. How are interest rates set?

A. Fund managers will indicate the interest rates they propose to apply as part of the tender process.

Q. Who keeps any fees charged to companies?

A. Fees charged to companies, such as arrangement and monitoring fees, will accrue to the funds and not the manager.

Q. How will part-time members of fund manager teams be scored for the tender evaluation? Will a full-time member of a fund manager’s team with less experience score more highly than a part-time member with greater experience or track record?

A. The assessment of the management team will be done by aggregating the skills and time commitments of those proposed into a team score.

Q. Can equity be geared?

A. The fund is already geared through the EIB and BBB loans. It is unlikely that further gearing would be possible as the EIB will require a first charge.

Q. What are the implications of the Chancellor's statement on ESIF funding after the UK leaves the EU?

A. The assurances for ESIF applicants set out by the Treasury in the Chancellor's statement of 13th August 2016 include:

- All multi-year projects with signed contracts or funding agreements in place signed before the Autumn Statement will be fully funded, even when these projects continue beyond the UK's departure from the EU;•
- That Treasury will work with departments, LEPs and other relevant stakeholders to put in place arrangements for considering those ESIF projects that might be signed after the Autumn Statement but while we still remain a member of the EU.

Full details of the announcement can be found in the letter from the Chief Secretary to the Secretary of State for Exiting the European Union on GOV.UK:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/545767/CST_letter_to_SoS_for_DExEU_August_2016.PDF

BBB are working closely with government departments and other stakeholders to reach agreement and sign-off before the Autumn Statement. BBB's aim is to enable funds to be available to businesses as soon as possible."
