Cornwall & Isles of Scilly 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 September 2017.

Version	*Date Issued*
1	24 August 2017

Cornwall & Isles of Scilly Investment Fund Q&A

Q1. **What is the timetable leading to the launch of the Cornwall & Isles of Scilly Investment Fund (CIoSIF)?**

A1. We will agree the approach with the LEP and hope to sign off the Investment Strategy in August. We anticipate then launching the procurement in September with fund manager contracts in place by January 2018. This is an ambitious target and assumes that things run smoothly.

Q2. **Will there be flexibility around the debt/equity ratio? Would 2/3:1/3 be a possibility? The 50:50 split may over-estimate the demand for equity.**

A2. The 50:50 split feels the right place to start. The Fund Model has been designed in a way that will allow us to respond to market conditions and change that ratio if necessary.

Q3. **The timing looks like contracts will be signed too late to use the flexibility in ERDF funding rules to use it for follow-on investment? Will the fund be able to make follow-on investments?**

A3. We are clear that the funding for CIoSIF is secure and that we will adhere to the ERDF rules. We want the fund to be able to make follow-on investments and there should be recycled funds available to allow for this if the ERDF rules do not allow the use of grant at that point.

Q4. What is the length of the investment? What would follow this fund?

A4. The ERDF grant funding will run until December 2023. The successor to CIoSIF is a matter for the UK Government and the LEP.

Q5. Does the Bank have specific outcomes in mind with regards to the debt/equity ratio?

A5. The evidence shows that there is demand for both debt and equity in Cornwall & Isles of Scilly.

Q6. Would the Bank consider two fund managers working in collaboration? For example, would the Bank be happy with a joint venture?

A6. Joint Ventures are not excluded but there must be very clear responsibilities for delivery of the contract and this is difficult without a clear lead bidder.

Q7. Is co-investment on a deal by deal basis?

A7. Private sector co-investment alongside the fund will generally be required on a deal by deal basis for the fund to meet State Aid requirements, depending on which aspect of the rules are used. Separately, there will be agreed targets for Private Sector Leverage (C7) across the debt and equity elements. Private sector co-investment alongside the fund is distinguished from fund manager or third-party commitment into the fund.

Q8. Regarding follow-on investments, would the Fund Manager have to ask the Bank for permission on follow-on investments?

A8. Follow-on investments are allowed without permission where they fit within the fund's follow-on reserve provisions – those provisions will be detailed in the procurement process. Where the previous investment is from another fund managed by the manager or their associates the conflicts policy in the legal documentation will apply. Depending on the circumstances that policy may require investor consent.

Q9. Are we only offering loans to those companies who have been declined a loan from retail banks?

A9. No. This programme is offered as gap funding and the ex-ante work has determined that there is a gap. The Manager will not be required to seek evidence of a bank refusal as was the case in earlier programmes but will need to keep in mind the requirement to show that the funding is filling an otherwise unmet need. Article 6 (1) Commission Delegated Regulation CDR (EU) 480/2014 provides some clarification on this.

It will be possible to syndicate deals with retail banks where the CIoSIF may be filling a gap in the overall funding package.

Q10. Will there be any ability to invest outside of the geographical boundaries?

A10. No. Funding can only be invested in the Cornwall & Isles of Scilly region.

Q11. Could a Fund Manager provide loans to sole traders and partnerships?

A11. Yes. All businesses seeking funding above £25k are eligible for funding.

Q12. At what point would the Bank determine the debt/equity split?

A12. The 50:50 split feels the right place to start. However, the split will be agreed with the LEP as part of the sign-off of the Investment Strategy and agreed with DCLG as part of the ERDF grant agreement. We will update this Q&A once the strategy is finalised.

Q13. How much business support will a fund manager be required to do?

A13. The Bank is keen that the appointed Fund Manager works with the existing business support providers in Cornwall & Isles of Scilly as well as with the Growth Hub. We want to avoid any duplication with existing business support activity. Any targets for business support activity will be included in the invitation to tender.

Q14. Is there any specific requirement to work with Universities?

A14. No. There is a need to work with partners/outreach to ensure a good pipeline of deal flow and we would anticipate that the appointed Fund Manager will want to work the local Universities, but it won't be a specific requirement.

Q15. Is a large proportion of the money from priority access 1 or priority access 3?

A15. The split is approximately 50:50.

Q16. Will it be possible to develop a package of funding mixing debt and equity?

A16. This should be possible but will be subject to State Aid requirements being met for all elements of the package.

Q17. Will every deal require co-investment? Is there regional guidance specific to the LEP?

A17. The appointed Fund Manager will need to apply the appropriate State Aid rules and particularly the General Block Exemption Rules. Some forms of investment will require matching from private funding but others may not. Detailed guidance will be provided as part of the procurement process, including on Assisted Areas where relevant.

Q18. Could a Peer-to-Peer lender be a co-investor?

A18. Need to make a distinction between co-investment alongside the fund and commitment into the fund. There is no reason that a P2P loan wouldn't count towards co-investment.

Q19. What would the split of deals be? How many smaller deals would the Bank expect?

A19. This will be agreed as part of the ERDF funding agreement including the appropriate ERDF output targets. We will share details of these as once they are available.

Q20. Do you expect the funding to be split £20m debt and £20m equity?

A20. Broadly speaking, yes.

Q21. If the fund manager sourced a pot of private sector money, could this operate as 3rd party match funding?

A21. The funding must be compatible with the State Aid rules so some caution would be required over who controlled the funding, but it is possible.

Q22. Would other funds under management be considered as co-investment?

A22. Note the above point about the distinction between co-investment alongside and commitment into the fund (Q7 and Q20) and point around State Aid and who controls those other funds under management (Q24). This would count towards any Private Sector Leverage (C7) target.

Q23. What about State aid for lending?

A23. There is a need to meet State aid requirements but there is a wider spread of possible ways to do this, as well as making *de minimis* investment, the market equivalent operator (MEO) rules and other General Block Exemption Regulation provisions there is also the possibility of lending at above an EU reference rate.

Q24. Can a private sector investor provide matched funding directly into the Fund?

A24. Yes this would be welcome, but would have to be on the same basis as the Bank's investment i.e. 'pari-passu' to be State Aid compliant.