

Public Document Pack



18 October 2016

**To: Members of the Sheffield City Region Combined Authority
Appropriate Officers**

This matter is being dealt with by:

Gill Richards grichards@syjs.gov.uk 01226 772806

Dear Member

SHEFFIELD CITY REGION COMBINED AUTHORITY
Monday 24 October 2016

Please find enclosed Item 19 – JEREMIE Fund Terms and State Aid Implications, marked to follow on the above agenda.

Yours sincerely

A handwritten signature in black ink that reads "Gill Richards".

Gill Richards
Democratic Services Officer

Encs.

SHEFFIELD CITY REGION COMBINED AUTHORITY

**AMP TECHNOLOGY CENTRE, WAVERLEY, ROTHERHAM, S60 5WG 11.30 AM, 24
OCTOBER 2016**

SUPPLEMENTARY AGENDA

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SCR COMBINED AUTHORITY

24 October 2016

JEREMIE Fund Terms and State Aid Implications

Summary

- On 20 June 2016, the CA approved up to £2.5 of investment capital being used to bridge the gap between the current JEREMIE fund and the Northern Powerhouse Investment Fund (NPIF).
- Heads of terms have been agreed which are, on balance, outside the scope of this original decision.
- This note sets out the final proposed heads of terms and state aid mechanism for this investment.

1. Issue

- 1.1. Following on from the decision dated 20 June 2016, to seek CA approval of the terms of a grant made to support an interim fund to bridge the gap between the JEREMIE initiative and the Northern Powerhouse Investment Fund. To ensure that the state aid mechanism for this fund is clear prior to any agreement being made on the CA's behalf.

2. Recommendations

- 2.1. For the CA to delegate authority to the CA's Head of Paid Service to enter into an agreement on the CA's behalf in accordance with the terms set out in Paragraph 3.3 of this report.

3. Background

- 3.1. As set out in the paper considered by the CA on 20 June 2016, there is an “investment gap” between the current JEREMIE¹ initiative and the Northern Powerhouse Investment Fund (NPIF). The JEREMIE fund, which provides debt and equity finance to small and medium-sized businesses (SMEs) no longer has capital to invest and NPIF is expected to launch substantively in January 2017. This is slightly later than originally envisaged, but is reasonable given the fact that NPIF includes £162m of European Structural Funds, agreed prior to the EU referendum on 23 June 2016.
- 3.2. The CA considered this matter on 20 June 2016 and agreed to provide up to £2.5m of investment capital to support continued investment by Finance Yorkshire (who are the “holding fund” for the JEREMIE). At this stage, it was envisaged that these funds could be provided to Finance Yorkshire under the Market Economy Operator (MEO) principle i.e. at a market rate with a defined rate of return. This method would not require a state aid exception or gateway as it would technically be outside the scope of state aid rules.
- 3.3. Following the CA’s decision, financial models have been developed and heads of terms have been agreed with Finance Yorkshire. These terms are, in fact, outside the scope of the Market Economy Operator principle and rely on Article 21 (Risk Finance Aid) of the General Block Exemption Regulation (GBER).² In addition, the heads of terms proposed:
 - (a) Now include investing alongside Leeds City Region on an equivalent basis.
 - (b) Give the CA the ability to extend or vary this agreement, should there be an unexpected delay to NPIF.
 - (c) Do not provide a defined rate of return to the SCR (unlike a loan under MEO) but is forecast to deliver a small positive return. Unlike the MEO method however, this rate of return cannot be guaranteed.

¹ Joint European Resources for Micro to Medium Enterprises.

² Commission Regulation (EU) N°651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market.

(d) Make clear that fund manager fees will not be paid in the event of non-performance (i.e. if investments are not made within the investment period, no fund manager fees will be paid).

(e) Provide the circumstances in which the any unspent grant and legacy funds will be repaid to the CA.

3.4. This matter is being brought before the CA once again as these terms are (on balance) outside the scope of the decision made on 20 June 2016 by the CA.

4. Financial implications

4.1. An allocation of up to £2.5 from the SCR's Business Investment Fund was agreed on 20 June 2016, this report relates to the terms under which this allocation is made. The key difference between this proposal and the decision of 20 June 2016 is the distinction between a loan (with a guaranteed rate and schedule of returns) and a repayable grant (where the return is contingent upon the performance of the fund).

5. Legal implications

5.1. The key legal issue is the state aid mechanism used for the use of these funds – see Paragraph 3.3. The heads of terms agreed are set out in more detail in a separate contract between the CA and Finance Yorkshire.

6. Diversity implications

8.1 There are no direct diversity implications of this report.

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Background papers used in the preparation of this report are available for inspection at:	
Other sources and references:	
Key background document - <i>Sheffield City Region Combined Authority, JEREMIE fund – interim arrangements, 20 June 2016</i>	
http://meetings.southyorks.gov.uk/documents/s40494/17%20JEREMIE%20Fund%20in%20interim%20arrangements.pdf?zTS=B	

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