



**TERMS OF REFERENCE FOR THE DEVELOPMENT OF A 10-YEAR BUSINESS
PLAN FOR A NEW VENTURE CAPITAL AND LOAN FUND**

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1. Introduction

Following the successful investment of a £113 million JEREMIE Venture Capital and Loan Fund in Yorkshire and the Humber, Finance Yorkshire (FY) is now developing a new Fund which will start investing towards the end of 2019. Planning work for the new Fund has started and several interdependent work streams are underway.

FY requires a full business plan to be developed for its proposed new Fund. The business plan follows on from an outline proposal of the new Fund that has received provisional approvals from its principal stakeholders.

FY wishes to invite appropriately qualified consultants to tender for the development of the business plan which will be used for full approval from its stakeholders to proceed and develop and launch its new Fund.

2. Background to Finance Yorkshire

FY was established as a company limited by guarantee in March 2010. The company was established as a Holding Fund for a new £90m Regional Venture Capital and Loan Fund in Yorkshire and the Humber through a Joint European Resources for Micro to Medium Enterprises (JEREMIE) initiative. It was capitalised through investment from (at that time) the Regional Development Agency (now managed by the Department of Business, Energy and Industrial Strategy (BEIS)), the 2007-13 European Regional Development Fund programme and commercial lending from the European Investment Bank (EIB).

In 2015 FY raised a further £23m, taking the total investment capital under its management to £113m.

FY was established to provide gap finance through debt and equity instruments to SMEs across Yorkshire and Humber, where the private sector was unwilling or unable to do so. Three sub-funds were managed by the Holding Fund:

- A Seedcorn Fund, investing in early-stage innovative technology or knowledge-based SMEs
- A Loan Fund, providing predominantly unsecured loans up to £250,000 as either standalone investments or co-investments where SMEs may have already secured some of their financial requirements for capital expansion or development plans
- An Equity Linked Fund, making equity-based investments (including mezzanine) up to £2m to support SME growth and capital expenditure.

FY completed its last investment in June 2016, at which point the Fund was fully invested. FY repaid its commercial loan to the EIB in July 2017. FY does not carry any debt on its balance sheet. The Fund is now in its portfolio phase, realising legacy capital through exits from its investment portfolio. The legacy generated will capitalise future investment activities.

Together with the legacy funds of South Yorkshire Investment Fund (SYIF), which is being merged into FY, £25m is available at present for investment in SMEs located in Yorkshire and the Humber. A summary background to SYIF is provided at Annex 1.

FY is not directly involved in any investment activities. These activities are currently delivered by three separate Fund Management teams which were procured in 2009. The Fund Management teams remain under contract and will continue to oversee their investment portfolios. Fund Management teams will be appointed to manage the investment activities of the new Fund through an open procurement procedure, complying with National Procurement Guidelines.

More information on Finance Yorkshire can be found at <http://www.finance-yorkshire.com/>

3. Rationale for a new Fund

Since it finished its investment activities, FY has continued to receive informal and formal requests for investment from SMEs, notwithstanding the fact that there is considerable awareness in the public domain that FY has completed its investment activities for the moment. Two aspects of market dynamics can be drawn from this. First, a market demand still exists, demonstrated by real-time enquiries, and second, that FY has established and been able to maintain its brand and identity in the market for SME finance.

FY established its position in the market largely by addressing gap finance through its Loan Fund and Equity Fund and taking a long-term investment view on innovative, technology-linked investments through its Seedcorn Fund.

From an SME business development perspective, the provision of risk capital from FY to SMEs has introduced and carried with it a significant level of financial rigour and discipline. As such, SMEs attracting investment not only benefit in the short-term through the financial support but also acquire and are supported with skills to further grow their businesses and attract other strands of financial investment in the longer term.

As the legacy from FY increases, the costs of FY's original activities start to reduce and the outputs tend towards a zero cost for the public sector. By creating a new Fund using legacy funds as the source of investment capital, a sustainable or evergreen fund can become established in Yorkshire and the Humber similar to that in the North East.

An evergreen fund is the best way to preserve and optimise value for public funds as it will generate further economic benefits and impact in the region from the same original investment capital.

4. Business plan objectives

There are two objectives related to the development of the new Fund business plan.

The first objective is to achieve full approval from FY's stakeholders for the development and launch of the new Fund using FY's legacy and other regional legacies that are available for investment in the region. FY's stakeholders in this context are the British Business Bank, the Ministry for Housing Communities and Local Government and the four Yorkshire Local Enterprise Partnerships. An outline proposal for the new Fund has been approved and endorsed by these stakeholders allowing FY to move ahead to this next stage of Fund development.

The second objective is to provide FY's Board with a business plan that may be used to monitor the performance of the new Fund when it starts its investment activities, particularly as it seeks to establish a self-sustaining evergreen investment model.

5. Scope of work

The work required to be conducted will be the development of a business plan incorporating a 10-year investment and financial forecast. The scope of work will include but not be limited to:

- i. Executive summary
- ii. Analysis of the market demand incorporating desk-based research of the data in the Northern Powerhouse Investment Fund ex-ante assessment for Yorkshire and the Humber, FY's investment performance and any other data available from national or regional access to finance initiatives
- iii. Analysis of previous forecasts used by FY in its JEREMIE Fund and Extension Fund against its performance
- iv. Review of the proposed design, development and implementation of the investment model including validation and arithmetic accuracy of the financial projections from the initial financial model and projection of investment returns over 10 years
- v. Comment/review of the holding company structure, management structure and governance arrangements
- vi. Comment/review of the proposed arrangement with Fund Management teams and the use of integrated management information
- vii. Comment/review of the marketing strategy and relationship with other investment Funds.

6. Information to be provided in Tender responses

Tenders must include the following information:

- i. A summary of how the development of the business plan would be managed and conducted and the proposed methodology that would be used
- ii. Details and CVs of staff who will undertake the work on this assignment including identification of the account manager who would be the main point of contact for FY
- iii. Details of relevant experience appropriate to the needs of FY
- iv. Details of relevant experience with similar organisations to FY
- v. Details of any relevant services which could be provided that may be appropriate to the needs of FY
- vi. Details of references that may be used by FY during the evaluation of the tender
- vii. Details of the consultancies/consultants insurance and indemnity provision.
- viii. Total price to develop the new Fund business plan including a breakdown of rates per staff member and identification of all anticipated costs. Costs should include VAT and include provision for all anticipated expenses (including travel costs), dealing with queries and clarifications on the draft business plan and a presentation of the final business plan to the FY Board. (Please refer to section 7: Business plan development timeframe).

In respect of any information submitted by a consultancy/consultant which it considers to be commercially sensitive, the consultancy/consultant should:

- i. Explain the potential implications of disclosure of such information

- ii. Clearly identify such information as commercially sensitive
- iii. Provide an estimate of the period of time during which the tenderer believes that such information will remain commercially sensitive.

7. Business plan development time frame

The development of the business plan is required to be completed by 28th May 2019 with the following milestones reached:

- i. Analysis of background documents by 5th April 2019
- ii. Market assessment validation by 26th April 2019
- iii. Draft business plan available by 4th May 2019
- iv. Final business plan available by 28th May 2019.

8. Expenses and losses

FY will not be responsible for, or pay for, any expenses or losses that may be incurred by any consultancy/consultant in preparing their tender proposals. It is the responsibility of prospective consultancies/consultants to obtain for themselves, at their own expense, any additional information necessary for the preparation of their tenders.

9. Lowest tender value

FY is not bound to accept the lowest cost tender.

10. Confidentiality

Consultancies/consultants should treat the tender documents as private and confidential between the consultancy/consultant and FY. Consultancies/consultants should note that FY will use the tender documents for the purposes of evaluation and that the tender documents will be retained in line with FY's document retention policy, stakeholder requirements and GDPR compliance. Copies of FY's document retention policy can be provided on request.

11. Right to issue further instruction/amendments to the Tender

During the tendering period, FY reserves the right to make changes to the scope of work/contract requirements. Consultancies/consultants will, without reservation, accept such changes. Should it be necessary for FY to amend any part of the tender documentation prior to receipt of tenders, update notices will be provided on FY's website. It is the responsibility of tenderers to ensure that they regularly check the tenders section of the FY website.

If consultancies/consultants require clarity on any aspect of this tender, they should in the first instance submit questions to the Chief Executive at tender@finance-yorkshire.com

Any questions submitted should use the subject heading **“Question related to the Terms of Reference for the Development of a Business Plan”**.

Responses will be provided to any questions related to this tender and will be posted on the tenders page of the FY website to ensure that all interested parties may view the response.

Tenderers shall not make direct contact with any employee, agent or consultant of FY during the period of this procurement exercise.

12. Assumptions

Consultancies/consultants should not make any assumptions that FY has prior knowledge of their organisation or their service provision. Consultancies/consultants will only be evaluated on the information provided in their response.

13. Evaluation of Tenders

Responses will be assessed on the following criteria:

- i. Experience of advising similar companies/Venture Capital and Loan funds to FY within the last three years
- ii. The relevance and quality of the experience of the proposed staff dealing with FY
- iii. Insurance and indemnity provisions for the consultancy/consultant
- iv. Service delivery and demonstration to cater for FY's requirements in reasonable timescales
- v. Value for money.

14. Submission of Tenders

Tenders should be submitted to FY by email to tender@finance-yorkshire.com

Tenders should be submitted using the subject heading **“Response to the Terms of Reference for the Development of a Business Plan”**.

Any tenders submitted after the closing date and time will be rejected by FY.

15. Procurement timetable

The procurement timetable is set out below. This is intended as a guide and whilst FY does not intend to depart from the timetable, it reserves the right to do so at any stage during the procurement exercise. In that event, a notice of the change to the timetable will be published on the FY website.

| Date | Stage |
|-----------------------------|---|
| 14 th March 2019 | Tender released on FY website |
| 21 st March 2019 | Closing date for questions – to be submitted by 5.00pm |
| 25 th March 2019 | Closing date for submission of tender – to be submitted by 5.00pm |
| 26 th March 2019 | Evaluation of tenders completed |
| 28 th March 2019 | Notification of contract award |

16. Feedback

Feedback will be provided by FY to unsuccessful tenderers on request.

Annex 1: Background to South Yorkshire Investment Fund

South Yorkshire Investment Fund (SYIF) was established to address the funding gap faced by SMEs identified through regional and national studies. The Fund was established as part of the 2000-2006 European Regional Development Fund (ERDF) programme and it provided gap finance to SMEs in the former Objective 1 area of South Yorkshire. SYIF became operational in 2001 and was the vehicle for investing £55m of private and public sector finance in SMEs.

SYIF was established as a company limited by guarantee. The Fund was made up of four sub funds:

- The Capital Fund – equity based venture capital (£10m)
- The Development Fund – equity and debt based mezzanine finance (£20m)
- The Small Business Fund – typically unsecured debt based lending to £150k (£20m)
- Seedcorn Fund – equity investments in technology based companies (£5m).

From its inception, SYIF's sub funds were managed separately by FSA accredited Fund Managers. The Fund Managers worked under the SYIF umbrella and were branded as SYIF. The Fund Managers delivered all aspects of investment activity for SYIF.

In line with its original business plan, SYIF ceased its investment phase at the end of 2009. Following this, it has been in its portfolio phase to realise the value of its investments.

SYIF has now largely realised its entire portfolio and that legacy is now available to Finance Yorkshire as investment capital in its new Fund. SYIF has terminated all its Fund Management contracts apart from its Seedcorn portfolio where a Fund Management team continues to manage a small number of investments.

SYIF's legacy will be invested in the former Objective 1 area of South Yorkshire to comply with its original ERDF contractual requirements.

The SYIF legacy and all executive operations are managed through a service level agreement with Finance Yorkshire. The SYIF Board remains in place but will transfer to the proposed Group structure for the new Fund when it is formed.