



Finance Yorkshire

Audit and Tax advisory services

Invitation to Negotiate Document

FY Contract FY 01/2023

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1 Summary of Procurement Details

Client	Finance Yorkshire Group Limited is the contracting body.
Contract Title	FY Contract FY 01/2023 – Procurement of Audit and Tax advisory services.
Contract Details	Procurement of a suitably qualified audit practice, having experience in auditing FCA regulated entities, to conduct audits of Finance Yorkshire Group Limited and its subsidiaries.
Contact Point	Alex McWhirter
Contact Details	alexm@finance-yorkshire.com
Reference title to be used for any correspondence:	Audit and Tax advisory services for Finance Yorkshire Group Limited
Closing Date for Receipt	By 1pm on Tuesday 7th February 2023
Office Address	1 Capitol Court, Capitol Business Park, Dodworth, Barnsley S75 3TZ

2 Purpose of this Document

The purpose of this document is to provide information to audit practices who potentially may wish to respond to this Invitation to negotiate (ITN) for the audit and tax advisory services for Finance Yorkshire Group Limited and its subsidiaries.

This document provides:

- i. Background information on Finance Yorkshire Group Limited and its subsidiaries
- ii. The range of audit and tax services required
- iii. The format of the response to this ITN
- iv. The scoring principles that will be used to assess responses to this ITN
- v. The format of the contract to the successful respondent

The Invitation to Negotiate work will be managed by Finance Yorkshire's Risk and Audit Committee and it will be responsible for assessing responses to the Invitation to Negotiate. It will also be responsible for taking a recommendation of the award of the Audit and Tax advisory services contract to the Finance Yorkshire Group Limited Board.

3 Background Information

Development of Finance Yorkshire Group Limited

Finance Yorkshire Group Limited (FYG) has been formed to consolidate the operating companies and the legacies generated from previous European Regional Development Fund (ERDF) supported Venture Capital and Loan Funds (VCLFs). These have provided small and medium-sized businesses (SMEs) with financial investment support in Yorkshire and the Humber since 2001.

In addition, FYG is responsible for ensuring that these legacies are invested in SMEs located in Yorkshire and the Humber. The ambition is that FYG will create an evergreen VCLF for the region.

The following narrative provides details of the previous and current VCLFs in Yorkshire and the Humber by timeline, and up to the advent of FYG.

Background to South Yorkshire Investment Fund

South Yorkshire Investment Fund Limited (SYIF) is a company limited by guarantee which was established as a European Objective 1 initiative under the 2000-2006 ERDF programme.

SYIF was formed in 2001 and provided investment support to SMEs in the former Objective 1 areas of South Yorkshire through several funds.

SYIF completed its investment activities in 2010.

SYIF was originally capitalised through grants from ERDF and commercial finance from Barclays Bank. The Regional Development Agency (RDA), Yorkshire Forward, provided capital to SYIF for specific investment activities.

Two government departments, the Department for Levelling Up, Housing and Communities (DLUHC and previously known as the Ministry for Housing, Communities and Local Government or MHCLG) and the Department for Business, Energy and Industrial Strategy (BEIS), are the stakeholders holding a proprietary interest in SYIF. BEIS is represented by British Business Bank (BBB).

The Barclays loan has been repaid and SYIF has realised and exited from all its investments, generating a legacy of £20.4m. SYIF has an interest in three portfolio investments, however, these have been valued at nil.

Background to Finance Yorkshire Limited

Finance Yorkshire Limited (FYL) is a company limited by guarantee. It was originally developed in line with the Joint European Resources for Micro- to Medium- Enterprises (JEREMIE) initiative as a £90m VCLF.

FYL was formed in 2009 and started its investment activities in 2010

FYL, through its associated funds, provided Seedcorn, Loan and Equity investments, ranging from £15,000 to £2 million. It invested in SMEs across all of Yorkshire and the Humber to address the gaps in the finance they needed for development and growth.

FYL was originally capitalised by grants from Yorkshire Forward, grants from the 2007-2013 ERDF programme and commercial finance from the European Investment Bank (EIB).

Following the abolition of the RDA in the period between 2010 and 2012, DLUHC and BEIS became the stakeholders in FYL. BEIS is represented by the British Business Bank (BBB).

Additional funding for an Extension Fund to extend the investment period of FYL introduced the Regional Growth Fund (RGF) as a stakeholder. RGF is a UK government initiative and is managed by BEIS.

An additional £23m was established through the Extension Fund, increasing FYL's investment base to £113m.

FYL, through its JEREMIE Fund and Extension Fund, completed its investment activities in March 2017.

FYL is now in its portfolio realisation phase. The EIB has been repaid and the RGF project has been closed. FYL is realising its remaining investments and generating its legacy. The two government departments hold a proprietary interest in FYL and its legacy.

To date, FYL has generated £35.2m of legacy capital. It is anticipated that a further £20m will be realised from the remainder of its portfolios.

Finance Yorkshire Group and Finance Yorkshire Investments Limited

Contractually, DLUHC and BBB on behalf of BEIS have the right to direct where the legacy generated by FYL, SYIF (and others) is deployed. The Articles of Association of FYL and SYIF expressly prevent the members of the company from benefiting from any distribution of the legacy generated. The Business Plans for FYL and SYIF clearly state that any legacies generated should, in the future, be invested into SMEs in the Yorkshire and Humber region.

In consultation with MHCLG, BBB and other interested regional parties, FYL prepared a business plan proposing to consolidate the legacies of FYL and SYIF and invest the capital in small and medium-sized businesses in Yorkshire and the Humber. The business plan has achieved approval from MHCLG and BBB.

FYG was incorporated on the 16th October 2020 and is a company limited by guarantee.

The membership of FYG is James Newman, Jennifer Adams, John Warner, Nigel Ward, Arnu Misra, Sara Parker, Andy Tupholme, Alex McWhirter and The Secretary of State for BEIS represented by British Business Bank. BEIS has a 10% voting right and all other Members have a combined 90% voting right.

FYG is the sole corporate Member of FYL and SYIF. All previous Members of FYL and SYIF have withdrawn their Membership.

The deployment of the legacy funds is being managed through a new investment vehicle, Finance Yorkshire Investments Limited (FYI). FYI is a company limited by guarantee. FYG is the sole Member of FYI.

FYI was incorporated on the 10th March 2021.

Annex 1 provides the Group structure, the Membership and the Directors of FYG and its subsidiaries.

This structure permits other legacy funds to join FYG as subsidiaries in the future.

Finance Yorkshire Group and subsidiary investment activities

FYG is the overall group holding company for SYIF, FYL and FYI. As such it does not conduct any investment-related activities and it does not have any direct Fund management responsibilities.

SYIF is largely dormant. It has realised the proceeds for all its portfolio. It does not conduct any investment activities and it does not collect any investment-related data. It has one Fund management relationship with Enterprise Ventures (Mercia), however, that only exists through the management of 3 remaining portfolio investments (all of which are valued at nil).

FYL is in its final portfolio phase. It does not conduct any investment activities and it does not collect any investment-related data. It has two active Fund management relationships with Enterprise Ventures (Mercia) for its Seedcorn portfolio and Anticus Partners (Anticus) for its Equity portfolio. Those relationships will continue into 2023, during which most of the portfolio investments will be realised. FYL will then be similar to SYIF and will largely be dormant.

FYI is in the initial stages of its investment phase. It conducts investment activities through two Fund management companies, which were openly procured and appointed during 2021. The FSE Group (FSE) manages the Microloan and Loan Funds, although the Microloan Fund management is subcontracted by FSE to LDB (Let's Do Business). Anticus manages the Seedcorn and Growth Funds.

The characteristics of each of these Funds are:

Microloan Fund (£4.0m – indicative total Fund allocation)

Investment range from £5k to £25k

This will provide predominantly unsecured loans to businesses that may have already secured finance from banks and other small loan providers. These businesses often have little or no security but need small amounts of debt to start up, to purchase business equipment or for working capital requirements.

Loan Fund (£20.0m – indicative total Fund allocation)

Investment range from £25k to £250k

This will provide syndicated loans through to complete financial packages for businesses that may have already secured finance from banks as senior/secured debt, cashflow finance or have maximised their access to national/regional/LEP support. These businesses often have little security left to offer but where appropriate and possible, Personal Guarantees will be secured against these loans. Typically, these businesses need headroom to undertake a venture without shouldering unrealistic levels of risk. The range of investments could include cover for working capital, lower-level capital expenditure and investment in premises.

Seedcorn Fund (£12.0m – indicative total Fund allocation)

Investment range up to £1.50m

This portfolio will support early-stage, equity-based, tranching investment in innovative technology or knowledge-based businesses. Clients are likely to be pre-revenue and high-risk but have potential for high growth and for good return realisation on exit. Investment may be made on two levels – Proof of Concept to finance activity that will establish a venture that has a feasible commercial basis in trading and on exit; and Commercialisation that will support the very earliest entry into markets.

Growth Fund (£22.0m- indicative total Fund allocation)

Investment range up to £1.50m

This fund will make equity-based investments (including mezzanine) alongside debt and private venture capital to support longer-term and higher value tranching investments up to £1.50m. This portfolio is likely to support a range of management buy-outs, product and market expansion, capital expenditure, acquisitions and some larger start-up ventures.

Further details for each of these Funds and the Fund managers can be obtained from the FYG website at www.finance-yorkshire.com.

FYG employs a full-time Executive team, a Board of non-Executive Directors and an Investment Advisory Panel. Further details can be obtained from the FYG website at www.finance-yorkshire.com.

It should be noted that Finance Yorkshire Group does not possess an internal audit function. As such, Finance Yorkshire Group will seek advice from its appointed audit practice for general advice and direction on audit related issues.

4 Audit and Tax advisory service requirements

FYG requires the following services to be completed:

1. The annual audit of FYG, its subsidiaries and Limited Partnerships (LPs) for each of the Funds in the Group structure (three LPs in FY and four LPs in FYI),
2. A review, assessment and a calculation of tax liability and the provision and filing of appropriate tax returns,
3. Guidance and advice on any other financial, tax and related matters to FYG and its subsidiaries if any such issues arise.

The Annual Audit of FYG

The independent auditor will report on the financial statements of FYG and its subsidiaries and review the operational financial records to provide an opinion on these. This opinion is required to cover whether the statements give a true and fair view and have been prepared in accordance with FRS102 and in compliance with the Companies Act 2006.

The independent auditor will be required to conduct the audits of the subsidiaries and LPs operational through FYG's subsidiaries. This will involve the audits of three limited subsidiaries in SYIF, three LPs in FY (Loan, Equity and Seedcorn Funds) and the audits of four LPs in FYI (Microloan, Loan, Seedcorn and Growth Funds).

Similar to other VCLFs and common in the venture capital sector, FY's investments in LPs are provided as loans. The auditor will be required to validate the value of the LP loans based on the valuation of the LP portfolio. Consequently, the auditor will be required to demonstrate a competence in such audit matters and the requirements for reporting on organisations operating in the financial services sector.

Tax advisory services

The independent auditor will be required to provide a range of tax related services to FYG. This will include but is not limited to the following:

1. Advise, explain and prepare computations in relation to corporation tax and deferred taxation to be made in FYG's annual financial statement,
2. Advise and prepare computations for corporation tax returns and arrange for these to be submitted to HMRC via iXBRL format,
3. Advise and provide supporting computations for any issues arising from HMRC following submission of tax returns and any other documentation,
4. Advise, explain and prepare responses to any claims arising through HMRC
5. Advise and prepare appeals arising from any claims made by HMRC.

Guidance and advice

The independent auditor will be required to provide a range of other services to FYG. This will include but is not limited to the following:

1. Arrange and attend meetings with FYG, its subsidiaries and its Fund managers in the preparation of the annual audit and all related matters,
2. Attend any meetings (where appropriate) with FYG's stakeholders,
3. Advise and provide commentary to FYG as it further develops its Group structure and subsidiary operating company base.

5 Response to the Invitation to Negotiate

Audit practices that are interested in responding to this Invitation to Negotiate, must formally comply with the following conditions:

1. The audit practice must confirm that it is registered with the ICAEW and provide documentation to support its registration
2. That the audit practice has sufficient resource levels and experience to conduct audits of businesses operating in the financial services sector
3. The audit practice must confirm that it has valid professional indemnity insurance and provide documentation to support this and the name of its insurer

Format of the formal response to the Invitation to Negotiate and assessment

The audit practice must prepare a formal written response to the Invitation to Negotiate as detailed in the following sections. Each of the sections carries an assessment mark that will be awarded by the members of the Risk and Audit Committee.

<p>Technical and Sectoral knowledge</p> <p>1. Knowledge of Finance Yorkshire Group The audit practice should demonstrate its knowledge of Finance Yorkshire Group and the way in which the company operates in Yorkshire and the Humber</p> <p>2. Financial Services sector experience and technical ability The audit practice should provide details of its experience and capacity to complete the audit requirements State how the audit practice will work with Finance Yorkshire Group, its subsidiaries and its Fund managers to complete the audit The audit practice should provide details of previous audits conducted on similar organisations to Finance Yorkshire Group</p>	<p>Maximum possible assessment mark</p> <p>35</p>
<p>Finance Yorkshire Group and audit practice relationship</p> <p>3. Interface with Finance Yorkshire Group The audit practice should detail the representatives who will be involved in the audit work and should provide short CVs (two pages maximum for each representative) of those individuals and particularly any representatives who will lead on specific parts of the audit (for example the lead representative for tax services) The audit practice should detail how these individuals will interact with Finance Yorkshire Group, its subsidiaries and its Fund managers and, if appropriate, how that interaction will be coordinated by the audit team</p> <p>4. Quality assurance The audit practice should provide details of how the audit work will be quality assured</p>	<p>35</p>
<p>Audit plans and costs</p> <p>5. Audit timeline The audit practice should provide an indicative timeline to complete the audit work based on its knowledge of the audit requirements (this may be a point of negotiation during any subsequent discussions with the audit practice)</p> <p>6. Audit costs The audit practice should provide a pricing proposal (either a fixed three year deal or variable annual price) for all audit and tax advisory services detailed in the Invitation to Negotiate for a three-year period</p> <p>7. Terms and Conditions The audit practice should provide its standard contract terms and conditions for completing the audit work and Tax advisory services</p>	<p>30</p>

The formal response document to the Invitation to Negotiate should not exceed 25 pages excluding CVs and the audit practice standard contract terms and conditions.

6 Assessment of Responses to the Invitation to Negotiate

Responses to the Invitation to Negotiate will initially be assessed against the first three conditions set out in section 5. Provided that audit practices fully comply with the criteria stipulated, the formal response document will be assessed.

For the first two sections (**Technical and Sectoral Knowledge** and **Finance Yorkshire Group and audit practice relationship**), an assessment mark will be awarded based on how complete the response meets with the requirements set out. The assessment marks will be awarded on the following basis:

Assessors observations	Assessment mark
Fully compliant, meets all of the requirements to a very high standard	35
Compliant, meets most or all of the requirements to a high standard	27.5
Acceptable, meets most of the requirements to an acceptable standard	20
Satisfactory, meets some of the requirements to a satisfactory standard	12.5
Inadequate, meets some of the requirements to a weak standard	5

For the final section (**Audit plans and costs**), the assessment mark will be awarded for the formal response that is able to demonstrate an economic value for money approach along with a timeline that is practical and deliverable by the audit practice. The assessment mark for this section may be moderated following discussions with the audit practice in question.

7 Confidentiality and anti-collusion

Audit practices should not discuss any aspect of their response to the Invitation to Negotiate with any executive, non-Executive Director, its Fund managers or anyone else associated with Finance Yorkshire Group. Clarification of any points in the Invitation to Negotiate should be made to the main contact for the Invitation to Negotiate and is provided in Section 9

Audit practices should not discuss any aspect of their response with any of their competitors and should not discuss or make any arrangements with other audit practices regarding their response, except in the case where a strategic alliance is being proposed in the formal response. In such a case, the audit practice would be required to demonstrate the advantages of such a strategic alliance and the benefits that accrue to Finance Yorkshire Group.

8 Finance Yorkshire Group conditions for the Invitation to Negotiate

Finance Yorkshire Group is not required to appoint the contract for Audit and Tax advisory services to the audit practice submitting the lowest cost response. Finance Yorkshire Group reserves the right to award a contract to a preferred audit practice based on the standards set out in Section 6.

It should be noted that Finance Yorkshire Group may choose not to accept any of the responses to this Invitation to Negotiate.

Finance Yorkshire Group reserves the right to cancel the Invitation to Negotiate procedure at any point. The release of this Invitation to Negotiate does not commit Finance Yorkshire Group to enter into any contract discussions with any audit practice.

It should be noted that Finance Yorkshire Group will not reimburse any costs to audit practices responding to this Invitation to Negotiate for any time and associated work and expenses in the preparation of a formal response.

9 Submission of Responses to the Invitation to Negotiate

If your audit practice intends to submit a response to the Finance Yorkshire Group Invitation to Negotiate for Audit and Tax advisory services you should register your interest to Alex McWhirter, Chief Executive at Finance Yorkshire using the following email:

Alexm@finance-yorkshire.com

If you have any questions related to the Invitation to Negotiate, you should send these to Alexm@finance-yorkshire.com. All questions and answers will be shared with all other interested audit practices.

When your audit practice submits its response to the Finance Yorkshire Group Invitation to Negotiate for Audit and Tax advisory services, it should email the response to:

Alexm@finance-yorkshire.com

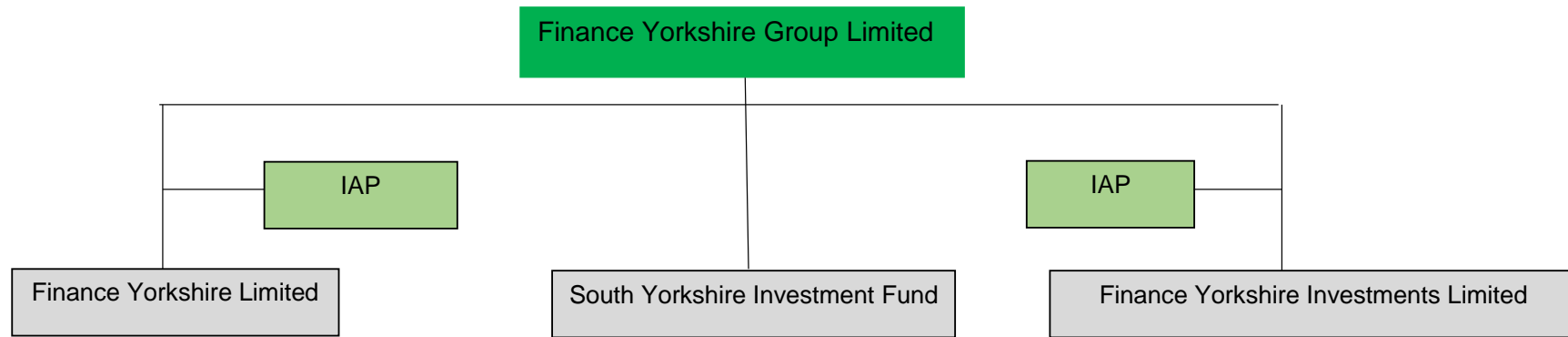
The formal response email should be clearly marked with the subject title:

CONFIDENTIAL Invitation to Negotiate Audit and Tax Advisory Services FY Contract FY 01/2023

**Annex 1. Finance Yorkshire Group Structure
Members and Directors**

FY Group Members: James Newman, Jennifer Adams, John Warner, Nigel Ward, Arnu Misra, Sara Parker, Andy Tupholme, Alex McWhirter, The Secretary of State for Business, Energy and Industrial Strategy represented by British Business Bank (10% voting right)

FY Group Directors: James Newman (Chair), Jennifer Adams, John Warner, Nigel Ward, Arnu Misra, Sara Parker, Andy Tupholme, Alex McWhirter (Chief Executive)



Members: FY Group (Corporate Member)

Directors: James Newman
Jennifer Adams
John Warner
Nigel Ward
Alex McWhirter

Members: FY Group (Corporate Member)

Directors: John Warner
Tony Parsons
Angela Stopforth
Alex McWhirter

Members: FY Group (Corporate Member)

Directors: James Newman
Jennifer Adams
John Warner
Nigel Ward
Alex McWhirter