

The North East Fund Limited
Invitation to Tender for Auditors



Invitation to Tender and Tender Specification

THE NORTH EAST FUND LIMITED

Audit and Tax Advisory Services

Tender Reference: TNEFL/2020/A

December 2020

**Suite D
Fifth Floor
West One
Forth Banks
Newcastle upon Tyne
NE1 3PA**



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1. INTRODUCTION

The Contracting Authority for this Tender is **The North East Fund Limited (TNEFL)**, a company limited by guarantee, with its registered office at Suite D, Fifth Floor, West One, Forth Banks, Newcastle upon Tyne, NE1 4PA. The members of the company are the seven North East Local Authorities: Durham County Council; Gateshead Council; Newcastle City Council; The Council of the Borough of North Tyneside; South Tyneside Council and Sunderland City Council.

The North East Fund is the holding fund manager for a venture capital and loan programme which invests in SMEs based in the North East. It is the principal investor and a limited partner in five funds which are set-up as limited partnerships and which are managed by independent, FCA authorised fund management companies: Maven Capital Partners; Mercia Asset Management; NEL Fund Managers and Northstar Ventures.

The North East Fund began operating in March 2018 and to date its sub-funds have invested c.£50m in 265 companies and are expected to invest a further £70m in c.300 more companies in the period to March 2023 – with the potential to continue investing until 2025. The realisation phase of the five sub-funds will continue at least until 2028, with the potential to be extended to 2032 – to allow time for the loans and investments made to be repaid and realised. Further information regarding the size and structure of TNEFL and its sub-funds is set out in section 2, below.

TNEFL has decided not to re-appoint its current auditor and so is inviting FRC registered audit practice firms to tender to act as its auditor and also to provide tax advice and support, including preparation and submission of annual corporation tax computation and return. The successful firm will be required to complete the audit for TNEFL's current financial year (ending 31 March 2021) which, due to obligations in the company's funding agreements, must be completed at the latest by mid-September 2021. The appointment as auditor will take effect from completion of the tender process in January / February 2021 and will be for a period of four years, subject to annual re-appointment. Please see section 2 below for the full specification.

Details are set out below of: what to include in your tender; the closing date for tender submissions and how to ask any questions you may have regarding the process. **The closing date for tender submissions is 12 noon on Wednesday 20th January 2021.**



2. BACKGROUND

TNEFL was established to operate as the successor to the North East JEREMIE Fund, which invested £160m in 950 SMEs from 2010 to 2016. It is owned by its members, the seven Local Authorities identified in section 1, which are also the constituent authorities of and represent the areas served by the North East Local Enterprise Partnership.

TNEFL's funds are projected to invest £120m in c.600 SMEs by the end of March 2023, though this may be extended by six months due to the impact of Covid19 on the rate of investment activity during 2020. The source of the £120m of investment capital is:

- up to £60m from the European Investment Bank (**EIB**);
- up to c.£50m from the European Regional Development Fund (**ERDF**), as part of the European Structural and Investment Funds Growth Programme 2014-2020. The Ministry for Housing, Communities and Local Government is the Managing Authority for England's European Regional Development Fund.
- up to c.£10m from North East Access to Finance Limited (**NEA2F**), as custodian of the returns on previous North East based, publicly supported investment funds – with the support of the Department for Business, Energy and Industrial Strategy and the British Business Bank.

The funding from the EIB is provided as a loan to TNEFL and from ERDF and NEA2F is provided to TNEFL as repayable grant. The profits from investments will be recycled for future regional SME finance initiatives following repayment of the EIB loan and operating expenses. TNEFL also receives funding from ERDF and NEA2F to contribute to the payment of TNEFL's operating expenses of the fund managers' fees. TNEFL employs seven full-time members of staff and has three non-executive directors and an Advisory Panel. Details of TNEFL's executive and non-staff and its Advisory Panel are available on TNEFL's website: www.northeastfund.org

A summary of the five funds and their managers is also provided on TNEFL's website. Each fund is constituted as a limited partnership, in which TNEFL invests as a limited partner alongside investment from the fund manager. TNEFL made initial capital allocations totalling 90% of the £120m to the five funds, which began investing in May 2018. The initial capital allocations and number of investments made to date are shown in the table, below. The funds have invested at differing rates and to date have invested between 35% and 60% of their current capital allocations. The balance will be invested by March 2023, with the possibility of some of the unallocated 10%



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(£12m) of capital being allocated to each fund over the next two years and of the investment phase being extended beyond March 2023.

In brief, the characteristics of the five funds are as follows:

Innovation Fund – managed by Northstar Ventures – provides seed and venture capital funding, targeting early-stage businesses with high growth potential, including start-ups. Over 70 of investments made to date have been sub-£20k convertible loan-note investments in companies participating in business accelerator programmes. Maximum investment per funding round typically £500k.

Venture Fund – managed by Mercia Asset Management – provides venture capital funding, targeting early-stage and more established businesses with high growth potential and investing principally in equity. Maximum investment per funding round is £1m.

Growth Capital Fund – managed by NEL Fund Managers – provides unsecured loans / mezzanine finance typically between £100k and £500k to established, trading businesses.

Development Capital Fund – managed by Maven Capital Partners – provides equity finance and secured and unsecured quasi-equity/mezzanine finance, typically between £400k-£1m. Seeks companies with high growth potential, both established, mature businesses and some earlier-stage propositions.

Small Loan Fund – managed by NEL Fund Managers – provides unsecured loans on standardised terms from £10k to £100k to trading businesses of all stages and sectors.

Fund	Fund Manager	Capital Allocation	Principal Type of Investment	Current SMEs in Portfolio
Innovation	Northstar Ventures	£27m	Equity and convertible loan notes.	115
Venture	Mercia Asset Management	£27m	Equity.	20
Growth Capital	NEL Fund Managers	£18m	Unsecured loans / quasi-equity.	21
Development Capital	Maven Capital Partners	£27m	Mezzanine debt / quasi-equity and equity.	14
Small Loan	NEL Fund Managers	£9m	Unsecured loans.	100



3. SPECIFICATION OF REQUIREMENTS

TNEFL require the following services to be provided:

1. Annual audit of the accounts of TNEFL, including the potential audit of a covenant compliance certificate for the European Investment Bank;
2. Calculation of the corporation tax liability TNEFL and preparation of the relevant tax returns;
3. Such additional ad hoc advice on tax and associated compliance matters as TNEFL may require.

Audit Services

The external auditor will be required to report on the financial statements of TNEFL and to examine the statements and underlying records in order to reach an opinion on them. The opinion will be required to cover whether the statements give a true and fair view and have been properly prepared in accordance with FRS 102 under UK GAAP and the Companies Act 2006.

In accordance with market practice in the venture capital industry, TNEFL's investments in the five fund limited partnerships are advanced as loans and the auditor will be required to liaise with the auditors of each limited partnership to verify the carrying value of those loans based on the underlying value of the supporting portfolio in the LP. It is therefore a requirement of the contract that the auditor is familiar with, and preferably has experience of, the requirements and standards relating to reporting on businesses operating in the financial services industry, including the International Private Equity and Venture Capital Valuation Guidelines.

Taxation Services

The main requirement here is the provision of corporation taxation compliance services:

- a) To prepare, advise on and explain calculations to support the provision for corporation and deferred taxation to be made in the annual financial statements. This will include advising on the disclosure of taxation information in the financial statements under UK GAAP.
- b) To prepare corporation tax returns and supporting computations for timely submission to HM Inspector of Taxes via iXBRL. (Note: TNEFL is not VAT registered.)
- c) To notify TNEFL of due date(s) for payment of any corporation tax, recommending the amount(s) to be paid and advising on possible further payments on account.
- d) To advise TNEFL of HMRC's agreement to the returns and supporting computations, and of any tax liabilities or repayments arising, as well as updating draft computations.



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- e) To advise TNEFL of the necessary formalities in respect of claims and elections to the extent that they are not fully reflected in the return.
- f) To review potential claims and elections and to identify and make recommendations as to those that may be beneficial from a tax point of view.
- g) To lodge a formal notice of appeal against any incorrect assessments to corporation tax or determination of losses and other amounts available for group relief where notices of such assessments or determinations or copies thereof are received.

Additional requirements, as necessary:

- To co-operate and attend meetings with representatives of TNEFL as required, including presenting a summary of the audit findings to TNEFL's Audit Committee each year.
- To co-operate with representatives of the European Investment Bank, British Business Bank and Ministry of Housing, Communities and Local Government, as may be required.
- To manage conflicts of interest and carry out such other duties as may be necessary for the proper performance of the contract.
- To provide such further ad hoc advice on tax and associated compliance issues as may be requested by TNEFL.

4. TENDER RESPONSE

If your firm is interested in providing the services required by TNEFL, please submit a tender response which must consist of the following:

1. Confirmation that your firm is registered with the Financial Reporting Council;
2. Confirmation that your firm holds professional indemnity insurance with a minimum level of cover of £1m and of the name of the insurer;
3. A **tender proposal document** which provides your firm's proposals, in accordance with the requirements set out below; and
4. Your standard terms and conditions of business – see further at section 5, below.

Your **tender proposal document** should be a maximum of 20 pages long (not including your firm's standard terms and conditions) and should set out how your firm will meet the requirements set out at Section 3, above, and must be structured as follows:



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Tender Response Section	Max score
1) Summary of Your Firm's Technical Ability and Sector Knowledge, which should include: <ul style="list-style-type: none"> - Your firm's relevant experience and capabilities; - Demonstration of an understanding of the nature of TNEFL's business and how it will inform your delivery of the services required; - Demonstration of knowledge of the Venture Capital and SME loan finance sectors, including those which are publicly funded, and of experience of carrying out comparable audits. 	30
2) Delivery and Client Service <ul style="list-style-type: none"> - Summarise how your firm will deliver the services required as specified at Section 3, including how the work will be quality-assured; - Specify the individuals who will deliver the services – including identification of who will be the Audit and Tax leads and who will be the individual with overall responsibility for managing your relationship with TNEFL. - Provide short CVs of the individuals who will deliver the services. 	30
3) Price <ul style="list-style-type: none"> - Provide your pricing proposals for the contract, in accordance with the following. <p>Provide a fixed-price for the audit and corporation tax service for the four financial years covered by the initial term of this contract, as follows:</p> <p>Year 1 – Financial Year Ending 31/03/21 – Price = £A Year 2 – Financial Year Ending 31/03/22 – Price = £B Year 3 – Financial Year Ending 31/03/23 – Price = £C Year 4 – Financial Year Ending 31/03/24 – Price = £D</p> <p>The above is what will be evaluated as part of the tender process. To enable the possibility of extending the contract beyond the initial 4 year term (subject to reappointment), and of requesting additional ad hoc services, please also set out your proposal for setting pricing of further years audit + corporation tax services and also the hourly rates of your staff (by position/grade or individual, as appropriate) for the purposes providing of additional ad hoc advice.</p>	40

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Total	100

5. CONTRACTUAL ARRANGEMENTS

5.1 Contract Price

As indicated above, the contract price will be the **fixed price** payable in each year for the audit and corporation tax compliance work as specified in the tender proposal of the successful bidder.

If TNEFL requests an extension of the term of the audit contract and/or any additional ad hoc advice then it will request a price from the successful bidder at the relevant time, which must be based on the pricing proposals and any assumptions set out in the successful bidder's tender proposal document. If TNEFL, at its sole discretion, is not satisfied that the pricing proposal is consistent with the terms of the tender proposal document then it shall be entitled to withdraw the request for the additional services.

5.2 Contract Duration

The appointment shall be for 4 years, commencing February 2021 and covering the audit of TNEFL's financial statements for the period ending 31 March 2021, and the years ending 31 March 2022, 31 March 2023 and 31 March 2024 – subject to the annual approval of re-appointment by the company.

5.3 Contract Terms

TNEFL will engage the successful bidder in accordance with its standard terms of business – subject to any adjustments which TNEFL requests to reflect the terms of this Invitation to Tender and which are agreed in writing with the successful bidder. TNEFL reserves the right not to engage the highest-scoring bidder if it does not agree to any change requested by TNEFL to its standard terms and conditions, and to instead engage the next-highest scoring bidder.

This Invitation to Tender and the successful bidders Tender Proposal Document shall form part of the contract, which the following shall take precedence as the applicable contract terms: (1) the terms of this Invitation to Tender; (2) the proposals set out by the successful bidder in its tender proposal document; and (3) the successful bidder's standard terms and conditions



6. EVALUATION OF TENDERS

6.1 Selection pre-conditions

The following are pre-conditions to being awarded the contract pursuant to this tender:

- The provider must be registered as a provider of audit services with the Financial Reporting Council; and
- The provider must hold a current Professional Indemnity Insurance policy with a minimum level of cover of £1m.

All tenderers must provide confirmation that they satisfy the above requirements (including details of their PI insurer and level of cover) and must, on request, exhibit evidence in support of these.

6.2 Award Criteria

Bids which satisfy the selection pre-conditions will be assessed against the award criteria below.

The contract will be awarded to the bidder who submits the most economically advantageous tender, as determined by the application of the award criteria set out below.

Criteria	Max score
1. Technical Ability and Sector Knowledge <ul style="list-style-type: none">- Demonstration of experience and capabilities relevant to the Specification of Requirements at Section 3 of this ITT;- Demonstration of an understanding of the nature of TNEFL's business and ability to tailor services to its requirements;- Demonstration of knowledge of the Venture Capital and SME loan finance sectors, including those which are publicly funded, and of experience of carrying out comparable audits.	30
2. Delivery and Client Service <ul style="list-style-type: none">- Demonstration of appropriate approach to delivering the services required as specified at Section 3, including how work will be quality-assured;	30

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<ul style="list-style-type: none"> - Specification of appropriately qualified and experienced individuals who will deliver the services – including identification of those who will lead on Audit and Tax work and who will have overall responsibility for managing the relationship with TNEFL. - Provision of CVs of individuals with appropriate qualifications and experience to deliver the services specified at section 3. 	
3. Price and value for money: <ul style="list-style-type: none"> - The maximum 40 marks will be awarded to the lowest priced bid for the aggregate fee quoted for audit and corporation tax services in Years 1-4, i.e. the total of £A+£B+£C+£D. Other scores will be reduced in proportion to the additional cost. 	40
Total	100
Scoring Principles in relation to criteria 1 and 2 <i>In relation to Criteria 1 and 2 above, tender proposals will be scored as follows:</i> <ul style="list-style-type: none"> • <i>Excellent, meets all of the requirements to a very high standard: 30 marks</i> • <i>Strong, meets most or all of the requirements to a high standard: 25 marks</i> • <i>Acceptable, meets all of the requirements to an acceptable standard: 20 marks</i> • <i>Satisfactory, meets most but not all of the requirements to an acceptable standard: 15 marks</i> • <i>Weak, does not meet most of the requirements to an acceptable standard: Nil.</i> 	

7. TENDER SUBMISSION

If you intend to bid, **please register an expression of interest** by emailing alastair.smith@northeastfund.org. Responses to any questions received and/or any supplementary information issued will be emailed to all parties which register an interest.

The closing date for tenders to be received is **12.00 noon on Wednesday 20th January 2020**. Your tender should be limited to a maximum of 20 pages of A4, including the CVs of team members.

Please email your tender document, clearly marked ‘**Confidential - Tender ref TNEFL/2020/A**’ to alastair.smith@northeastfund.org. Any questions about this tender should also be emailed to Alastair Smith at this address.



8. CONFIDENTIALITY AND TRANSPARENCY

To ensure a fair and transparent process, no approach of any kind should be made to anyone associated with TNEFL in connection with this tender other than your formal tender documentation and any clarification requests. Failure to comply with this may result in disqualification.

You must not disclose to anyone else any prices or other information contained in your submission before the decision on award of the contract is notified to you, and you must not make any arrangement with another party about whether or not they should bid. You must not try to obtain information about anyone else's tender before the decision on award of the contract is notified to you.

9. CONDITIONS APPLICABLE TO TENDER PROCESS

Tender submissions should remain open for acceptance for a minimum of 90 days from the tender submission deadline.

TNEFL reserves the right to cancel the tender process and reject all tenders at any time prior to the award of the contract. The issue of this invitation to tender in no way commits TNEFL to enter into any contract pursuant to this tender process.

TNEFL reserves the right, in its absolute discretion, to disqualify any submission that does not, in the evaluators' opinion, comply with the requirements of the ITT or any other requirement of TNEFL in connection with the tender process.

TNEFL shall not accept any liability for any costs resulting from the cancellation of this tender process nor for any other costs incurred by those tendering, who do so entirely at their own expense.

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