BUSINESS GROWTH EXECUTIVE BOARD

Date: Tuesday 10 January 2017
Venue: 11 Broad Street West, Sheffield
Time: 2.00 pm

AGENDA

Item	Subject	Method	Speaker	Page
	Introduction			
1	Welcome and Apologies	Verbal	Chair	
2	Minutes & Actions of the Previous Meeting and Matters Arising	Paper	Chair	1 - 8
3	Declarations of Interest	Verbal	All	
4	Urgent Items/Announcements	Verbal	All	
	Business Items			
5	Growth Hub Performance Dashboard	Paper	David Grimes	9 - 28
6	Thinking Place Action Plan Response	Paper/ Presentation	David Grimes	29 - 38
7	Science and Innovation Audit	Paper	DCM	39 - 54
8	Micro Fund - Ex-Ante Report	Paper	David Hewitt	55 - 96
	Updates			
9	Northern Powerhouse Investment Fund	Paper	David Hewitt	97 - 122
	Actions & Forward Planning			
10	Agree Actions & Summary for Resolution Log	Verbal	Chair	

Item	Subject	Method	Speaker	Page
11a	Forward Plan	Verbal	Andrew Gates	
11b	Industrial Strategy	Paper	Ruth Adams	123 - 126
12	Any Other Business	Verbal	All	

DATE OF NEXT MEETING – 21ST FEBRUARY 2017

SCR BUSINESS GROWTH EXECUTIVE BOARD

15th NOVEMBER 2016

BROAD STREET WEST, SHEFFIELD

No.	Item	Action
1	**Welcome and Apologies** Present: Board Members Paul Houghton, LEP / Grant Thornton – Chair Diana Terris, BMBC Cllr Julie Dore, SCC In Attendance Andrew Gates, SCR Executive Team David Grimes, SCR Executive Team Richard Holmes, SCC / SCR Executive Team David Campbell-Molloy, SCR Executive Team Lee Viney, SCR Executive Team Ruth Adams, SCR Executive Team Julie Kenny, Pyronix Lloyd Snellgrove, SHU Simeon Leech, RMBC Andrew Denniff, BRCoC Edward Highfield, Sheffield CC Chris Scholey, Doncaster Bassetlaw NHS Foundation Trust Giles Searby, Keeble Hawson Craig Tyler, Joint Authorities Governance Unit + Philip Kelly (Enterprise Growth Solutions) for item 7 and John Till (Thinking Place) for item 8 Apologies were received from Cllr Lewis Rose (DDDC), Gavin Baldwin (LEP), Dan Swaine (LEP), Rachel Clark (SCR Executive Team), Steve Mawson, Peter Dale (DMBC) and Keith Jackson (JRI)	
2	**Minutes of the Previous Meeting** The minutes of the previous meeting held on 4th October were agreed to be an accurate record of the meeting. The following matters were noted as arising:	

	5. Growth Hub Full Business Case **Action: Andy to circulate the Full Business Case for information** 8. Spoke Updates Lloyd sought assurances regarding where and how updates on Innovation were to be reported to the Board. It was agreed to make this one of the standing matters on future Spoke Update reports. **Action: David G / Lloyd to incorporate into future reports** 9. Quarterly Inward Investment Update It was noted work will be undertaken in due course to provide the Board with a means of receiving regular Inward Investment updates, possibly incorporated into the performance dashboard reports. 10. Glass Futures It was noted further information is still awaited from Glass Futures to address questions raised by the assessment panel.	**AG** **DG / LS**
3	**Declarations of Interest** No declarations of interest in relation to the items on today's agenda were noted.	
4	**Urgent Items / Announcements** No urgent items were requested.	
5	**MIPIM Cannes Planning** Andy provided a presentation on plans in development for MIPIM 17. It was noted this is a key opportunity to build global awareness of the SCR and to generate international inward investment opportunities. It was noted that a steering group, supported by a lead officer and representative of all public and private sector partners, has been convened to oversee activities. Counter Context have again been engaged to assist with some bespoke activities including attracting the 'right people' to SCR's events. It was noted engagements will be based around the 6 key SCR messages (reliable, practical, straightforward, strong business culture, great place to live and enterprising).and will focus more tightly on the tangible investment opportunities afforded by AMID, DSA and urban regeneration. Activities will all be co-ordinated from SCR HQ where most events, briefings, meetings etc. will be hosted. Cllr Dore questioned usage of the above key messages, noting these had been accused by the CA and LEP of not being snappy,	

	strong or ambitious enough. It was suggested the key messages will be interpreted more positively for the MIPIM audience. Cllr Dore asked how MIPIM success is measured and whether year on year improvements can be identified. It was suggested that statistical achievements are hard to quantify as MIPIM is just part of the approach and successes are more anecdotal. It was confirmed that funding for MIPIM comes from the core SCR revenue budget. Members were asked to remember that MIPIM is essentially a property conference and it was suggested that messages to potential investors should be couched in terms that property investors would expect. i.e calls to action. It was therefore suggested that we need to be armed with enough information for each of the target projects to address any questions from prospective investors. It was suggested that the MIPIM UK event held in October was a useful undertaking and presented a number of ideas that will be benefited from ahead of the main MIPIM event. **Action: ALL questions regarding MIPIM to be sent to Andy**	**AG**
6	<u>**Porto / Sao Paulo Feedback**</u> Lee presented the Board with feedback from recent fact finding engagements with international places that have the same regenerative and growth ambitions as the SCR. It was noted a number of good lessons and ideas have been picked up which will feed into supporting our business growth activities. These include thoughts around branding and identity, innovation, international connections and inventive financing models. Noting these examples, it was suggested the SCR is actually already making strides towards achieving similar goals and is reasonably well placed to achieve success. To ensure we build on the effort undertaken to look at international examples of regeneration and growth, it was requested that the findings be distilled down into a number of key actions the SCR should be recommended to take forward. **Action: Lee to present to later meeting and circulate a copy of the presentation**	**LV**
7	<u>**Exporting for Growth**</u>	

	The Board welcomed Philip Kelly from Enterprise Growth Solutions (EGS) who delivered a presentation on their ERDF funded work undertaken on behalf of the Department for International Trade (DIT) to support the capacity of the SMEs to grow in regional, national and international markets It was noted the Export for Growth work is funded for 3 years and covers the Sheffield, Leeds and Hull city region geographies. It was noted EGS are working closely with the SCR Growth Hub team and have an officer embedded in the team as an export co-ordinator. Activity covers all 9 SCR districts and in respect of the East Midlands overlap, a partnership agreement has been put in place with DIT East Midlands to provide non-SY districts with access to both programme opportunities. It was confirmed that output targets for investment (number of businesses benefitting etc.) have been set by government It was noted that funding investment will be appropriately profiled for the programme and delivery emphasis will be on supporting clients where a genuine difference can be made, rather than merely chasing spend. The Board discussed the utmost importance of communicating opportunities to businesses. The Board was informed, however, that William Beckett has recently stood down from the group and new Chair will be appointed. It was noted that Experian data suggests there are up to 1,000 businesses in the SCR capable of exporting so there is potentially a lot of work to do in this area.	
8	**<u>Growth Hub Narrative and Messaging Research</u>** The Board welcomed John Till from Thinking Place who delivered a presentation on their recent study into how the SCR Growth Hub narrative and marketing plan might be improved. It was noted that Thinking Place's primary research was undertaken via a number of interviews with businesses across the SCR geography who are not yet engaged with the Growth Hub. Key findings from these interviews noted: • There is limited knowledge of the Growth Hub • Businesses currently receive support from a number of places • Some businesses may pay for Growth Hub support, depending what that support might be • Businesses don't want to be proactively contacted / 'petered' but do want to know how to contact the Growth Hub easily if they need to.	

	• The support most needed is mentoring and softer skills (HR, business planning, sales, signposting) • Networking events may be a waste of time unless they are focussed. • The biggest challenges experienced by businesses are attracting the right skills, cash flow and other specific matters. • Regarding nomenclature, the 'SCR' name is problematic as it isn't widely familiar and usage of the term 'Growth' may unintentionally repel start-ups. • The SCR needs a 'champion' to help generate awareness of opportunities. • More should be learnt from other Growth Hubs regarding usage of language and positioning. • The SCR lacks a coherent profile and is often misperceived as just being Sheffield. • Businesses understanding Yorkshire and South Yorkshire but not the SCR. • There needs to be greater clarity and promotion of what the Growth Hub is there to deliver, and for whom. • The Growth Hub may benefit from being more arms-length and being seen less as a Local Authority service. In addition to the interview based research, it was noted that benchmarking against other Growth Hubs suggests there are opportunities for a better, jargon free website, the convening of an increased number of more thematically focussed events, for activities to feel more private sector led and inclusive of all businesses and for the change of the 'SCR Growth Hub' name to 'SCR Business Support'. The Board noted broad endorsement for the presented findings and agreed these present the SCR with a number of challenges and opportunities. It was suggested there are some quick wins available and that we should perhaps be less focussed on how many businesses we engage and more assured that businesses know how to contact us when they need to. It was acknowledged that some of the findings, particularly in respect of SCR brand awareness and visibility, and SY v SCR transcend the Growth Hub and are important to the whole SCR initiative. It was agreed these should ideally be addressed via the other governance reviews currently underway and the Growth Hub should focus attention on matters of specific relevance to business growth. **Action: David G to present a Growth Hub development action plan to the next meeting.**	**DG**
9	**<u>Growth Hub Performance Dashboard</u>** The Board was presented with the performance dashboard. It was	

	agreed to defer detailed discussion on this item to the next meeting.	
10	**<u>Science and Innovation Audit Implications for the Board</u>** A report was presented to remind Members that the SCR, in conjunction with Lancashire LEP, was one of five LEP regions to be shortlisted by Government to undertake a first round Science and Innovation Audit (SIA), the purpose of SIAs being to analyse and evidence regional strengths, and identify mechanisms to help realise their potential. The report also confirmed our SIA was submitted to Government in September 2016 demonstrating the SCR's global leader status in high value manufacturing as part of a broader 'Northern Advanced Manufacturing Corridor' that stretches to Lancashire. It was noted that the LEP Board have requested that the full implications of the Science and Innovation Audit are considered by each of the SCR's respective Executive Boards, to debate the implications of this Audit for their respective agendas. The Board discussed whether it was worthwhile the Executive Boards discussing the report in detail if this is to be repeated at CA and LEP. It was suggested that the Boards should ideally be presented with their respective thematic components to enable consideration of matters in more detail than time at CA / LEP meetings would afford. **Action: ALL comments on the report to David C-M** **RESOLVED, that the Board notes that the implications of this Audit for the business growth agenda.**	**ALL**
11	**<u>SPOKE Updates (including TechTown)</u>** A report was received inviting the Board to note the SPOKE updates and identify further issues for attention. The information provided covered Access to Finance, New Business and also TechTown **RESOLVED, that the Board notes the contents of the report**	
12	**<u>Forward Plan</u>** Provided for information.	
13	**<u>Any Other Business</u>** No further matters noted.	
10	**<u>Date of Next Meeting</u>** Tuesday 10th January 2017, 2.00pm at Broad Street West, Sheffield.	

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BUSINESS GROWTH EXECUTIVE BOARD

10th January 2017

Growth Hub Performance Dashboard

Purpose of Report

The purpose of this paper is to provide the Business Growth Board a first look at the Growth Hub Dashboard and discuss the actual performance to date after 6 months. With the opportunity to help identify any ongoing changes or additional requirements and any preferences for the Dashboard.

Thematic Priority

1. Ensure new businesses receive the support they need to flourish.
2. Facilitate and proactively support growth amongst existing firms.
3. Attract investment from other parts of the UK and overseas, and improve our brand.
4. Increase sales of SCR's goods and services to other parts of the UK and abroad.
5. Develop the SCR skills base, labour mobility and education performance.
6. Secure investment in infrastructure where it will do most to support growth.

Freedom of Information

This paper is not exempt under the Freedom of Information Act 2000.

Recommendations

The board are asked to review the 6 month figures of Growth Hub performance, and to comment on any proposed or requested actions in relation to the dashboard document and if any additional data is required or to be consolidated.

1. Introduction

1.1 SCR Growth Hub is part of the business growth strand of the Strategic Economic Plan and the key delivery mechanism as part of the response to the challenges facing the City Region's businesses over the coming decade.

The Dashboard will provide the Growth Board with an update on progress in line with BEIS reporting requirements and additionally include wider performance data for background and context if and where required, the format is open for discussion and amendment, if deemed necessary.

2. Proposal and justification

2.1 Appendix 1 sets out the performance Dashboard and includes metrics against which the Growth Hub has to report to BEIS. At the request of the Business Growth Board, it provides a breakdown of overall Growth Hub performance of support including programmes that are funded – co-funded or part of the core Grow Hub/spoke offer, along with separate breakdown of the internal growth advisor teams.
This does not include data from Local Authorities on the number and level of support that they are providing to businesses locally and possibly one the board may wish to include and review overall.

Appendix 2 includes the presentation to be made to the board which provides a breakdown and explanation of the Dashboard data. The attached Appendices include the actual Dashboard and the presentation for discussion.

3. Consideration of alternative approaches

3.1 This Dashboard represents the information required for reporting to BEIS and accounts for inclusive spoke programmes that are funded – co-funded or part of the core spoke offer. Core Growth Hub metrics are included and broken down separately along with headline programme activity, (for more detailed information on wider programmes - see separate dashboards).
As additional Growth Hub programmes go live and begin reporting, their headline performance data will be added to this dashboard in a manner that is agreed and acceptable to the board.

4. Implications

4.1 Financial

There are no financial implications arising from this paper.

4.2 Legal

There are no Legal implications arising from this paper.

4.3 Risk Management

Due to its nature, there are no risks that arise as a result of this paper.

4.4 Equality, Diversity and Social Inclusion (Equality Act - Public Sector Equality Duty)

There are no implications here as this paper is simply reporting on performance and for discussion of the Dashboard.

5. Communications

5.1 Intended for discussion at the Business Growth Board -

This will be communicated to BEIS and included in the Growth Hub Bi-annual report, in addition to relevant partners to inform of progress.

6. Appendices/Annexes

6.1 1. Growth Hub Performance Dashboard - November 2016 (6 Months)
2. Dashboard Overview Presentation

REPORT AUTHOR David Grimes
POST Head of the SCR Growth Hub
Officer responsible Ruth Adams
Organisation **SCR Combined Authority**
Email **Ruth.adams@sheffieldcityregion.org.uk**
Telephone **0114 2203442**

There are no Background papers used in the preparation of this report.

Other sources and references:
Programme Dashboards from Rise, Launchpad, AFCoE and Skills Bank used in the collation of Data.

N:\GROWTH HUB FOLDER\Dashboard Data

GROWTH HUB PERFORMANCE DASHBOARD - November 2016 (6 Months)

Version 1.1

OVERALL PERFORMANCE DASHBOARD - November 2016 (6 Months)

Growth Hub Reporting - (BIS - Growth Hub Framework – 2016 to 2018) Definitions

* *"Light touch" – interactions which do not consume significant dedicated resource eg interaction at conferences or events, website traffic (Interactive), telephone and signposting*
* *"Medium intensity" – interactions which use moderate growth hub resource, broadly aligned to the EU 3 hour metric for "Information, Diagnostic and Brokerage support only"1 eg business diagnostic with growth hub advisor, referral to business support schemes*
* *"High intensity" – interactions representing sustained support and using significant growth hub resource,(+3 Hrs) and roughly aligned to the EU 12 hour metric for "Enterprise Support"*

Growth Hub and Spokes

Engaged - 'Light Touch' (BIS - Growth Hub reporting Definition)	Total
Description: Any businesses actively engaged with the wider Growth Hub Offer, including website interactions (online diagnostics and online interactive support), general enquiries (telephone etc) and basic signposting.	**1539**
Growth Hub Only - Core and AFCOE	**691**

Core-Engaged Light Touch		Current Partner Programmes				
Core Hub	AFCoE	Rise	Launchpad	Skills Bank	Y Accelerator	TBA
437	**254**	**79**	**273**	**462**	**34**	_

Engaged - 'Medium Intensity' (BIS - Growth Hub reporting Definition)	Total
Description: This includes all businesses that have received signposting after gateway diagnostic, brokerage, advisor diagnostic/business reviews. also more intensive diagnostics leading to further support. This number will be inclusive of those that have progressed to more intensive support.	**1362**
Growth Hub Only - Core and AFCOE	**565**

Core Support		Current Partner Programmes				
Core Hub	AFCoE	Rise	Launchpad	Skills Bank	Y Accelerator	TBA
348	**217**	**52**	**273**	**462**	**10**	_

Total Businesses Receiving 'Intensive Support' (BIS - Growth Hub reporting Definition)	Total
Description: All businesses received or accessing significant support where accessing grant support or support via a Growth hub advisor etc, Includes in-depth advisor support time, ongoing AFCOE Support for BIF, Skills deals support and intensive support as part of accelerator programmes.	**912**
Growth Hub Only - Core and AFCOE	**419**

Core Support		Current Partner Programmes				
Core Hub	AFCoE	Rise	Launchpad	Skills Bank	Y Accelerator	TBA
215	**204**	**0**	**160**	**323**	**10**	_

Growth Hub reporting data is inclusive of spoke programmes that are funded - co funded or part of the core spoke offer. Core Growth Hub metrics are included and broken down seperately along with headline programme activity, for more detailed information on wider programmes - see seperate dashboards. As additional Growth Hub programmes go live and begin reporting, their headline performance data will be addded to this dashboard. For reporting purposes, 'Businesses' include individuals in the pre-start up or pre-registration stage. Core Growth Hub engaged 'light touch' figures of 691, include AFCOE numbers of 254, AFCOE figures are cumulative.

Total Number of Businesses Receiving Financial Support

Description: All businesses where approval of grant support has been confirmed..						**98**
Core Offer		Partner Programmes				
Core Hub	AFCoE	Rise	Launchpad	Skills Bank	Y Accelrt'r	TBA
0	**13**	**NA**	**NA**	**85**	**NA**	_

OVERALL PERFORMANCE DASHBOARD - November 2016 (6 Months)

Growth Hub Reporting Referrals (Growth Hub Core Data) - Including by Thematic Area

Growth Hub Core Data

Breakdown - Thematic Area Referrals

1

Thematic Area	Referrals
Access to Finance	204
Export	18
Growth Demand	215
Innovation	19
Local Authority/ External	18
New Business (inc Launchpad)	57
Skills	54
TOTALS	585

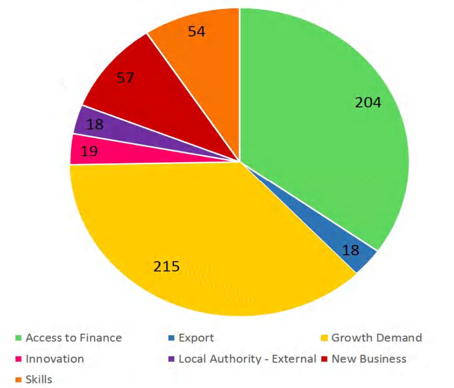
Referrals per Business

2

Number of Businesses	Referrals per Business	Total Number of Referrals
362	1	362
68	2	136
23	3	69
3	4	12
1	6	6
457	Totals	585

3

Referrals by Thematic Area



ADDITIONAL CORE METRICS

Page 15

Growth Hub Gateway Enquiries

Description: The Number of direct enquiries to the Gateway since May - Over a 5 month Period: Weekly call volume now reaching up to 35/40 calls per week	253

Expected Jobs Created from Support

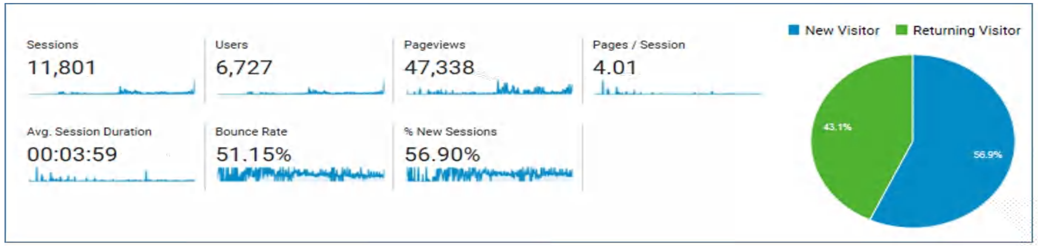
Description: The Number of expected jobs to be created from the support to date: includes 198 Jobs from Advisor support and 371 from Business Investment fund grants	569

Twitter Followers

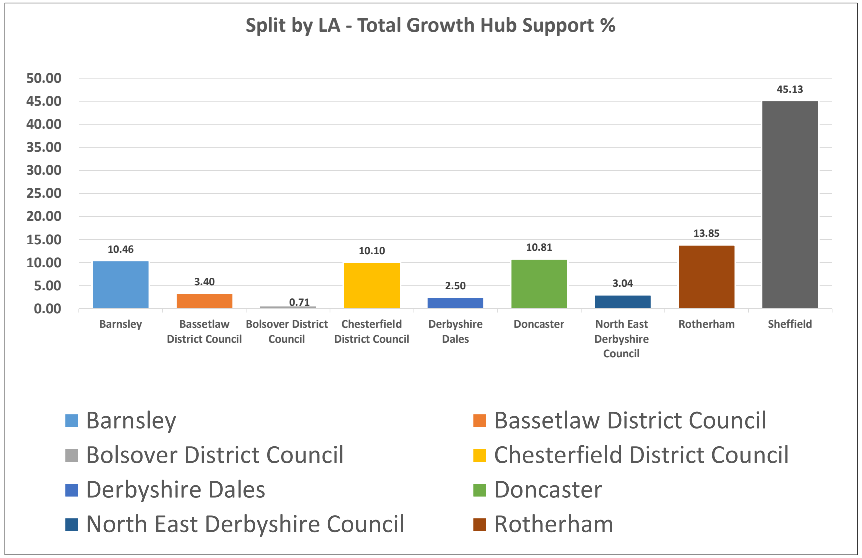
The Growth Hub already has nealy 1100 twitter followers - Social media is a key tool in raising awareness, as well as the profile of the Growth Hub and is a supplementary but useful metric.	1087

Website Visitors

The Growth Hub Website has had 11,801 visitors, spending an average of 4minutes on the site, with 6727 unique visitors, after just 6 months.	11,801



Region Split - Total Support



The combined Growth Hub totals of businesses engaged across the region by Local Authority area - as a percentage

OVERALL PERFORMANCE DASHBOARD - November 2016 (6 Months)

This Page will be developed to reflect each of the spokes as they develop and programmes go live etc.

Growth Hub Reporting - Performance Vs Plan

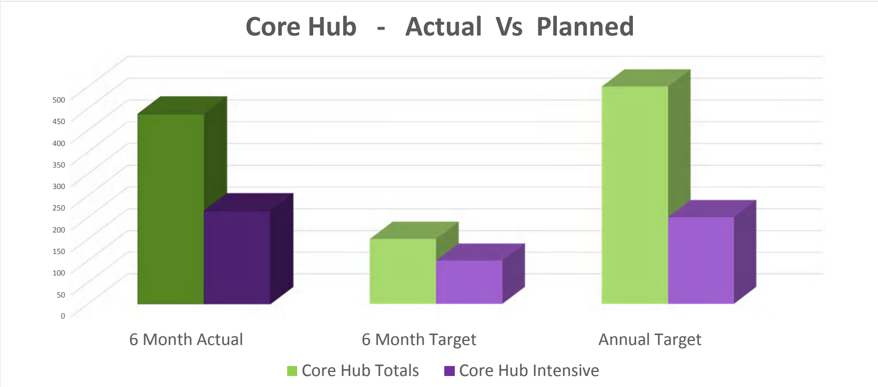
Growth Board Business Plan approved Metrics - (Approved and Agreed 23rd February 2016)

ANNUAL TARGETS

Core Growth Hub	Q1	Q2	Q3	Q4	Annual Target
Total Accessing Growth Hub Support	50	100	150	200	500
Total Accessing bespoke (High Intensity support)	50	50	50	50	200
AFCOE					
Total Accessing AFCOE support	25	25	25	25	100
TOTAL Businesses Accessing Grant funding	5	5	5	5	20
AFCOE Jobs Created	175	175	175	175	700
RISE					
total number of businesses supported	12	12	12	12	48
Launchpad					
New Businesses Created	*	15	15	15	45
Entrepreneurs/Enterprises assisted	50	125	125	125	425

ACTUALS AT 6 MONTHS

Core Growth Hub	6 Month Actual	6 Month Target	Annual Target	Current Against 6 month Plan	Current Against Annual Plan	6 month & 12 Month Targets
Core Hub Totals	437	150	500	291%	87%	✓
Core Hub Intensive	215	100	200	215%	108%	✓✓
AFCOE						
Total AFCOE	204	50	100	408%	204%	✓✓
Total Grants	11	10	20	110%	55%	✓
AFCOE Jobs	371	350	700	106%	53%	✓
RISE						
RISE Total	52	24	48	217%	108%	✓✓
Launchpad						
LP B' Created	8	15	45	53%	18%	
LP Entrpr Assists	273	175	425	156%	64%	✓



The performance of the Core Growth Hub demonstrates at 6 months it is overperforming significantly against the planned and agreed metrics both for the 6 and 12 months stagegates. Achieving a total of 437 businsses engagements** against an annual target of 500. In addition actively supporting 215 businesses intensively * (bespoke) against an annual target of 200.

AFCOE similarly is acheiving against agreed targets, with 11 businesses receiving grant offers against a target of 10 at the 6 month stage. Similarly all wider spoke programmes are performing against their individual planned targets, with RISE also achieving its planned annual target at 6 months.

*** Business Engagements are classified as per the BIS definition 'Light Touch' and described in the Busines Growth plan as ' Engagements from Website, advisors and events, telephone etc'*

** Bespoke Engagements are also classified as per the BIS definition as 'Intensive Assists'*

Appendix 1
Business Growth Board January

Sheffield City Region Growth Hub

Dashboard Presentation

David Grimes

The Original Plan

FOR DISCUSSION

SCR COMBINED AUTHORITY BUSINESS GROWTH EXECUTIVE BOARD

23rd February, 2016

Business Growth Executive Board Business Plan 2016/17

Summary/Purpose of paper

This paper introduces the Business Growth Business Plan for 2016/17. The Board are asked to comment on the plan and recommend this to the SCR CA for inclusion in the composite SCR Delivery Plan 16/17.

The business plan incorporates the key objectives for the city region as set out in the Strategic Economic Plan and the programme of activity in place as developed throughout 2015/16.

1. **Issue –** Topic & Timescale

1.1. This paper is presenting the final draft of the Business Growth Business Plan 16/17 for discussion and recommendation for inclusion in the composite SCR CA / LEP 16/17 Delivery Plan.

2. **Recommendations**

The Board are asked to:

2.1. Note the draft Business Plan for 16/17 presented at Appendix A and provide comments in order for that this plan can be recommended to the CA and incorporated into a composite SCR CA / LEP Delivery Plan for 16/17.

3. **Background Information**

3.1. The Business Plan has been developed based on the key strategic outcomes that are well established within the city region's Strategic Economic Plan and the programme of activity that the Board have been developing over 15/16. This is the first year where there will be a significant programme of activity in place delivering support to businesses within the city region as well as attracting new investors into the city region.

3.2. The Business Plan incorporates the development work currently underway across the Business Growth theme to develop a set of new products to support business growth as well as all projects approved and in delivery stage.

3.3. The plan includes a set of outputs and outcomes that the Business Growth Board will be held accountable to for delivery. These outputs and outcomes are drawn from the set of commissioned projects/programmes in place.

1.4. What outcomes and outputs will be generated by these investments

The table below sets out the key outputs and outcomes generated from our investment in 16/17:

		Q1 Apr-Jun 2016	Q2 Jul-Sept 2016	Q3 Oct-Dec 2016	Q4 Jan-Mar 2017
Core Growth Hub inc enhancement, export and innovation champion	Website, advisors and events programme	50 business accessing bespoke support 50 business accessing Growth Hub offer	50 business accessing bespoke support 100 business accessing Growth Hub offer	50 business accessing bespoke support 150 business accessing Growth Hub offer	50 business accessing bespoke support 200 business accessing Growth Hub offer
Access to Finance	Access to Finance brokerage service (AfCO) and Business Investment Fund	25 business accessing AFCO 5 businesses accessing Grant Funding 175 Jobs created / safeguarded	25 business accessing AFCO 5 businesses accessing Grant Funding 175 Jobs created / safeguarded	25 business accessing AFCO 5 businesses accessing Grant Funding 175 Jobs created / safeguarded	25 business accessing AFCO 5 businesses accessing Grant Funding 175 Jobs created / safeguarded
Exports	Joint SCR / UKTI programme (inc Matchmaker, ESIF programme) and Trade Missions	25 new exporters 12 experienced exporters operating in new markets 125 businesses engaged	25 new exporters 12 experienced exporters operating in new markets 125 businesses engaged	25 new exporters 12 experienced exporters operating in new markets 125 businesses engaged	25 new exporters 12 experienced exporters operating in new markets 125 businesses engaged
Inward Investment	Core activity (inc targeting companies with expansion plans)	80 firms with expansion plans engaged	80 firms with expansion plans engaged	80 firms with expansion plans engaged	16 new investors 400 jobs created 80 firms with expansion plans engaged
	Foreign Owned Companies programme	5 companies engaged	20 companies engaged	20 companies engaged	20 companies engaged 600 jobs created or safeguarded
New Business	SCR Launch Pad		15 new businesses supported 125 entrepreneurs assisted	15 new businesses supported 125 entrepreneurs assisted	15 new businesses supported 125 entrepreneurs assisted
Innovation	RISE programme	12 businesses supported to grow (new to RISE) 20 Graduate internships created	12 businesses supported to grow (new to RISE) 20 Graduate internships created	12 businesses supported to grow (new to RISE) 20 Graduate internships created	12 businesses supported to grow (new to RISE) 20 Graduate internships created

Note: BIF outcomes (and investment) is staggered over the lifetime of a project i.e. a £500K investment may be made over 18 months, with outputs and outcomes to follow thereafter.

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total number of businesses supported	12	12	12	12	48

Launchpad					
New Businesses Created	*	15	15	15	45
125 Entrepreneurs assisted	50	125	125	125	425

The Dashboard

OVERALL PERFORMANCE DASHBOARD - November 2016 (6 Months)

Growth Hub Reporting - (BIS - Growth Hub Framework – 2016 to 2018) Definitions

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Growth Hub and Spokes

Page 23

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Core Hub	AFCoE	Rise	Launchpad	Skills Bank	Y Accelerator	TBA
215	204	0	160	323	10	_

Headline Totals

Growth Hub reporting data is inclusive of spoke programmes that are funded - co funded or part of the core spoke offer. Core Growth Hub metrics are included and broken down seperately along with headline programme activity, for more detailed information on wider programmes - see seperate dashboards. As additional Growth Hub programmes go live and begin reporting, their headline performance data will be addded to this dashboard. For reporting purposes, 'Businesses' include individuals in the pre-start up or pre-registration stage. Core Growth Hub engaged 'light touch' figures of 691, include AFCOE numbers of 254, AFCOE figures are cumulative.

Total Number of Businesses Receiving Financial Support

Description: All businesses where approval of grant support has been confirmed..						98
Core Offer		Partner Programmes				
Core Hub	AFCoE	Rise	Launchpad	Skills Bank	Y Accelrt'r	TBA
0	13	NA	NA	85	NA	_

Sheffield City Region GROWTH HUB

OVERALL PERFORMANCE DASHBOARD - November 2016 (6 Months)

Growth Hub Reporting - (BIS - Growth Hub Framework – 2016 to 2018) Definitions

- *"Light touch" – interactions which do not consume significant dedicated resource eg interaction at conferences or events, website traffic (Interactive), telephone and signposting*
- *"Medium intensity" – interactions which use moderate growth hub resource, broadly aligned to the EU 3 hour metric for "Information, Diagnostic and Brokerage support only"1 eg business diagnostic with growth hub advisor, referral to business support schemes*
- *"High intensity" – interactions representing sustained support and using significant growth hub resource,(+3 Hrs) and roughly aligned to the EU 12 hour metric for "Enterprise Support"*

Growth Hub and Spokes

Collective Total

Engaged - 'Light Touch' (BIS - Growth Hub reporting Definition)	Total
Description: Any businesses actively engaged with the wider Growth Hub Offer, including website interactions (online diagnostics and online interactive support), general enquiries (telephone etc) and basic signposting.	1539
Growth Hub Only - Core and AFCOE	691

Core-Engaged Light Touch		Current Partner Programmes				
Core Hub	AFCoE	Rise	Launchpad	Skills Bank	Y Accelerator	TBA
437	254	79	273	462	34	_

Core Hub Totals

Engaged - 'Medium Intensity' (BIS - Growth Hub reporting Definition)	Total
Description: This includes all businesses that have received signposting after gateway diagnostic, brokerage, advisor diagnostic/business reviews. also more intensive diagnostics leading to further support. This number will be inclusive of those that have progressed to more intensive support.	1362
Growth Hub Only - Core and AFCOE	565

Core Support		Current Partner Programmes				
Core Hub	AFCoE	Rise	Launchpad	Skills Bank	Y Accelerator	TBA
348	217	52	273	462	10	_

Total Businesses Receiving 'Intensive Support' (BIS - Growth Hub reporting Definition)	Total
Description: All businesses received or accessing significant support where accessing grant support or support via a Growth hub advisor etc, Includes in-depth advisor support time, ongoing AFCOE Support for BIF, Skills deals support and intensive support as part of accelerator programmes.	912
Growth Hub Only - Core and AFCOE	419

Core Support		Current Partner Programmes				
Core Hub	AFCoE	Rise	Launchpad	Skills Bank	Y Accelerator	TBA
215	204	0	160	323	10	_

Growth Hub reporting data is inclusive of spoke programmes that are funded - co funded or part of the core spoke offer. Core Growth Hub metrics are included and broken down seperately along with headline programme activity, for more detailed information on wider programmes - see seperate dashboards. As additional Growth Hub programmes go live and begin reporting, their headline performance data will be added to this dashboard. For reporting purposes, 'Businesses' include individuals in the pre-start up or pre-registration stage. Core Growth Hub engaged 'light touch' figures of 691, include AFCOE numbers of 254, AFCOE figures are cumulative.

Total Number of Businesses Receiving Financial Support

Description: All businesses where approval of grant support has been confirmed..						98
Core Offer		Partner Programmes				
Core Hub	AFCoE	Rise	Launchpad	Skills Bank	Y Accelrt'r	TBA
0	13	NA	NA	85	NA	_

Page 25

Info on Referrals

OVERALL PERFORMANCE DASHBOARD - November 2016 (6 Months)

Growth Hub Reporting Referrals (Growth Hub Core Data) - Including by Thematic Area

Growth Hub Core Data

Breakdown - Thematic Area Referrals

1

Thematic Area	Referrals
Access to Finance	204
Export	18
Growth Demand	215
Innovation	19
Local Authority/ External	18
New Business (inc Launchpad)	57
Skills	54
TOTALS	585

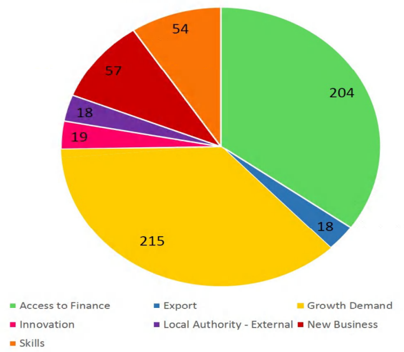
Referrals per Business

2

Number of Businesses	Referrals per Business	Total Number of Referrals
362	1	362
68	2	136
23	3	69
3	4	12
1	6	6
457	Totals	585

3

Referrals by Thematic Area



ADDITIONAL CORE METRICS

Supplementary Metrics

Growth Hub Gateway Enquiries

Description: The Number of direct enquiries to the Gateway since May - Over a 5 month Period: Weekly call volume now reaching up to 35/40 calls per week	253

Expected Jobs Created from Support

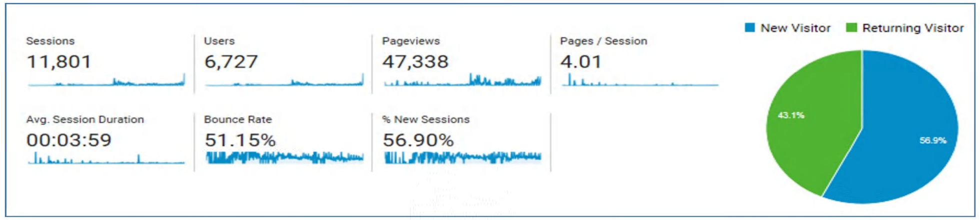
Description: The Number of expected jobs to be created from the support to date: includes 198 Jobs from Advisor support and 371 from Business Investment fund grants	569

Twitter Followers

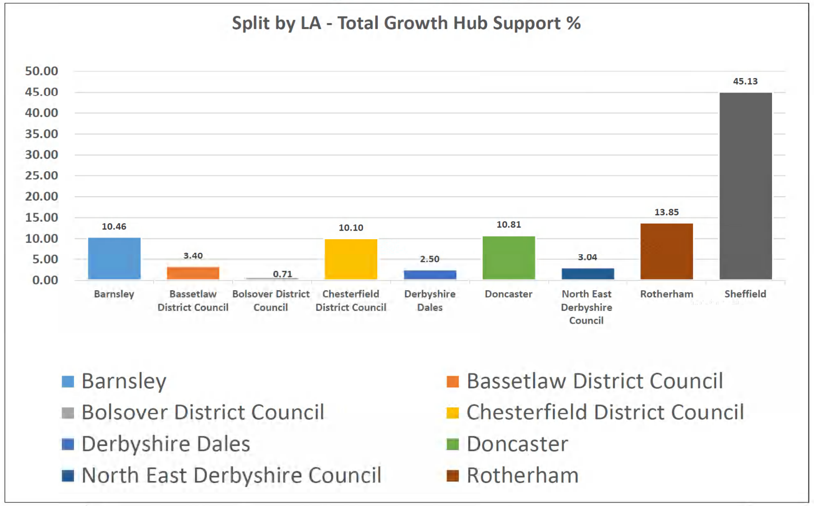
The Growth Hub already has nealy 1100 twitter followers - Social media is a key tool in raising awareness, as well as the profile of the Growth Hub and is a supplementary but useful metric.	1087

Website Visitors

The Growth Hub Website has had 11,801 visitors, spending an average of 4minutes on the site, with 6727 unique visitors, after just 6 months.	11,801



Region Split - Total Support



The combined Growth Hub totals of businesses engaged across the region by Local Authority area - as a percentage

OVERALL PERFORMANCE DASHBOARD - November 2016 (6 Months)

This Page will be developed to reflect each of the spokes as they develop and programmes go live etc.

Growth Hub Reporting - Performance Vs Plan

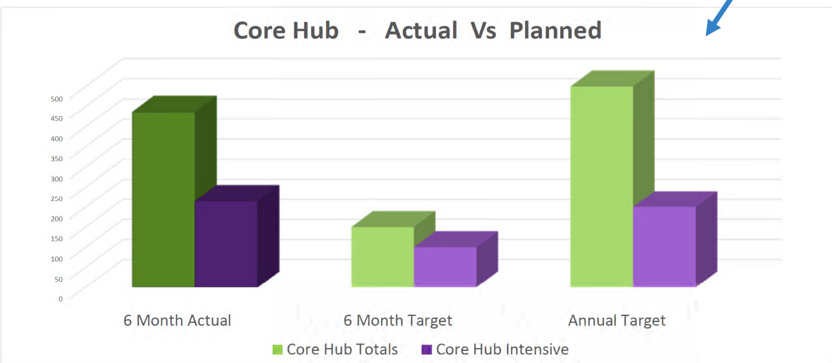
Growth Board Business Plan approved Metrics - (Approved and Agreed 23rd February 2016)

ANNUAL TARGETS

Core Growth Hub	Q1	Q2	Q3	Q4	Annual Target
Total Accessing Growth Hub Support	50	100	150	200	500
Total Accessing bespoke (High Intensity support)	50	50	50	50	200
AFCOE					
Total Accessing AFCOE support	25	25	25	25	100
TOTAL Businesses Accessing Grant funding	5	5	5	5	20
AFCOE Jobs Created	175	175	175	175	700
RISE					
total number of businesses supported	12	12	12	12	48
Launchpad					
New Businesses Created	*	15	15	15	45
Entrepreneurs/Enterprises assisted	50	125	125	125	425

ACTUALS AT 6 MONTHS

Core Growth Hub	6 Month Actual	6 Month Target	Annual Target	Current Against 6 month Plan	Current Against Annual Plan	6 month & 12 Month Targets
Core Hub Totals	437	150	500	291%	87%	✓
Core Hub Intensive	215	100	200	215%	108%	✓✓
AFCOE						
Total AFCOE	204	50	100	408%	204%	✓✓
Total Grants	11	10	20	110%	55%	✓
AFCOE Jobs	371	350	700	106%	53%	✓
RISE						
RISE Total	52	24	48	217%	108%	✓✓
Launchpad						
LP B' Created	8	15	45	53%	18%	
LP Entrpr Assists	273	175	425	156%	64%	✓



The performance of the Core Growth Hub demonstrates at 6 months it is overperforming significantly against the planned and agreed metrics both for the 6 and 12 months stagegates. Achieving a total of 437 businsses engagements** against an annual target of 500. In addition actively supporting 215 businesses intensively * (bespoke) against an annual target of 200.

AFCOE similarly is acheiving against agreed targets, with 11 businesses receiving grant offers against a target of 10 at the 6 month stage. Similarly all wider spoke programmes are performing against their individual planned targets, with RISE also achieving its planned annual target at 6 months.

*** Business Engagements are classified as per the BIS definition 'Light Touch' and described in the Busines Growth plan as 'Engagements from Website, advisors and events, telephone etc'*

** Bespoke Engagements are also classified as per the BIS definition as 'Intensive Assists'*

What the Graphs refer to........

ACTUALS AT 6 MONTHS

Core Growth Hub	6 Month Actual	6 Month Target	Annual Target	Current Against 6 month Plan	Current Against Annual Plan	6 month & 12 Month Targets
Core Hub Totals	**437**	150	500	**291%**	**87%**	✓
Core Hub Intensive	**215**	100	200	**215%**	**108%**	✓✓
AFCOE						
Total AFCOE	**204**	50	100	**408%**	**204%**	✓✓
Total Grants	**11**	10	20	**110%**	**55%**	✓
AFCOE Jobs	**371**	350	700	**106%**	**53%**	✓
RISE						
RISE Total	**52**	24	48	**217%**	**108%**	✓✓
Launchpad						
LP Created	**8**	15	45	**53%**	**18%**	
LP Entrpr Assists	**273**	125	425	**156%**	**64%**	✓

Columns Demonstrate % Overperformance

Column 3

- 1 tick means exceeded 6 month target...
- 2 Ticks means exceeded both 6 month and 12 month targets already.

Dashboard Presentation

Any Questions ?

Agenda Item 6

BUSINESS GROWTH EXECUTIVE BOARD

10th January 2017

Growth Hub - Thinking Place Review

Purpose of Report

Following the Thinking Places presentation to the Business Growth Board 15.11.16 the purpose of this paper is to outline a number of key actions to progress in the next phase of the Growth Hub development. Noting the LEP Board are scheduling a full discussion to consider and review progress and approve further development of the Growth Hub.

Thematic Priority

1. Ensure new businesses receive the support they need to flourish.
2. Facilitate and proactively support growth amongst existing firms.
3. Attract investment from other parts of the UK and overseas, and improve our brand.
4. Increase sales of SCR's goods and services to other parts of the UK and abroad.
5. Develop the SCR skills base, labour mobility and education performance.
6. Secure investment in infrastructure where it will do most to support growth.

Freedom of Information

This paper is not exempt under the Freedom of Information Act 2000.

Recommendations

The Board is asked to review the recommendations of the Thinking Places report against the original purpose of the SCR Growth Hub and recommend to the LEP Board actions for further development.

1. Introduction

1.1 SCR Growth Hub is part of the business growth strand of the Strategic Economic Plan and the key delivery mechanism as part of the response to the challenges facing the City Region's businesses over the coming decade. The vision and purpose of the Growth Hub, as detailed in the SCR Growth Plan (March 2014) was:

- To establish a Sheffield City Region Growth Hub… to act as a single point of expert contact and provide brokerage to growth services, ensuring that all businesses within the City Region have access to consistently excellent support.
- The most intensive support will be targeted towards those companies with the greatest potential for sustainable growth. The City Region will broker one-to-one

support for these businesses, facilitating Growth Deals that will enable both the business and the SCR to realise their ambitions.
- However, all businesses with the ambition to grow and add value in the economy will be supported through a coordinated offer that draws on best practice from across the City Region and beyond.
- The SCR Growth Hub will be the central coordinating mechanism for all of the business-facing elements of the Strategic Economic Plan.

1.2 The Growth Hub pilot phase was soft launched in January 2016 with a basic offering of an initial Gateway signposting function, together with a bank of pilot advisors offering advice and delivery support into a number of high growth potential businesses requiring assistance to help achieve this.

The Growth Hub was officially launched at the end of April 2016 with a fuller offer where it was also expected a number of programmes would go live and be offering support into the region's businesses. All but one of these programmes were delayed but this did not stop core Growth Hub activity, albeit changed the focus for the advisor team slightly and delayed a number of core initiatives to mark the wider offer being live and communicating this to businesses and stakeholders.

1.3 The 'Thinking Place' activity sought at an interim stage to undertake and provide a review of the voice of businesses and key stakeholders across the region, with regard to the general approach and activity of the Growth Hub, in order to make some key recommendations based on the evidence collated. It was expected that this piece of work would:

- Engage with businesses across the City Region to better understand the support they require to grow and identify the best methods of communication to them based upon this.
- Understand and then propose a narrative and clear set of messages on how 'Sheffield City Region' supports business to grow through the Growth Hub.
- Develop an evidence-based narrative to promote Sheffield City Region as a place to grow and do business and understand the positioning of the Growth Hub from the SCR perspective.
- Develop recommendations for the effective future delivery of communications activity to target growing businesses in Sheffield City Region.

2. Proposal and justification

2.1 The Thinking Place review (see Appendix 1 for summary) Identified a number of key issues and challenges for the Growth Hub and captured these in a number of key recommendations:

- Endorsement needed from the LEP as the place to go for Business Support
- Needs to be arms-length from Local Authority, but should incorporate wider offers
- Needs to be positioned as private sector led and delivered.
- David Grimes suggested to be the 'front facing champion' with key private sector champions
- Advertise only targeted networking and business events
- Consider making the name more explicit as Growth Hub isn't 100% clear
- Less jargon with simpler & clearer messaging on website and marketing material
- Demonstrate success - more case studies and references and what achieved to date

2.2 In light of the above recommendations the Business Growth Board are asked to consider the following immediate actions, these are listed in general order of priority for implementation and require discussion and agreement from the board, noting these will form part of a wider review of the SCR Growth Hub coming to a future LEP.

- Review and develop overall Growth Hub message – based on recommendations.
  For agreement and to be actioned by Growth Hub

- Review of wider messaging, language for marketing and website content – look to simplify, remove jargon – (references to spokes etc), less Public sector language, and less focus on LA areas and geographies which re-inforce public sector driven approach around boundaries.
  For agreement and to be actioned by Growth Hub

- 'The Growth Hub is the single place to access Business Support in the SCR'
  This message to businesses needs to come from the LEP/CA as endorsing where to go for Business Support in the region, consistent central marketing message required, in line with GH messaging.
  For discussion and to be actioned by central marketing team.

- More case studies and references are required from supported businesses, need to be able to demonstrate and communicate successes being made.
  For agreement and actioned by Growth Hub

- Discussion and identification of 'front facing champion' role/s, make recommendations for a number of key private sector champions, and highlight any key activities and responsibilities.
  For discussion and agreement from all and to be actioned by Growth Hub

- Undertake a review of other Growth Hub models that are 'arms length' and private sector led and delivered, produce a paper reviewing options and recommendations to come to the LEP Board.
  For discussion and agreement to be actioned by Growth Hub

3. Consideration of alternative approaches

3.1 This paper is the result of significant consultation and engagement carried out by 'Thinking Place' of regional businesses, stakeholders, delivery partners and wider collaborators of the Growth Hub through the process of interviews and focus group activity. The recommendations and suggested actions presented here are the key elements which form consensus of this wider engagement piece by a third party in discussion with the SCR business community.

Significant elements of what has been suggested as part of the review exercise, are included in longer term development plans of the Growth Hub, therefore reinforces activity which needs to be brought forward or acted upon with more immediacy. Much of this is by default included in the current approach of ongoing development and continual improvement of the Growth Hub operations.

4. Implications

4.1 Financial

There are no financial implications arising from this paper. However as part of the LEP review of the Growth Hub and its continued development a full review of finances and future financial considerations will be completed.

4.2 Legal

There are no Legal implications arising from this paper. However as part of the LEP review of the Growth Hub and its continued development and in line with the Governance Review of the SCR CA all legal and governance implications will be considered an reported on.

4.3 Risk Management

There are no direct risks that arise as a result of this paper.

4.4 Equality, Diversity and Social Inclusion (Equality Act - Public Sector Equality Duty)

There are no implications arising from this paper

5. Communications

5.1 The SCR Executive Strategic Corporate Affairs Directorate is currently developing the programme of work to increase the profile of the work of the LEP and CA with the local business community. Activity to raise the profile and offer of the SCR Growth Hub will be aligned to this wider programme of activity.

All actions arising from this report, in respect of website and business communications are required to align to approved protocols established by both the SCR LEP and CA. In addition to government requirements for promotion and communications of activities which have received Growth Deal or European funding. In progressing these actions work will be undertaken to ensure compliance, transparency and value for money.

6. Appendices/Annexes

6.1 *1. Thinking Place Review Summary*

REPORT AUTHOR	David Grimes
POST	Head of the SCR Growth Hub
Officer responsible	Ruth Adams
Organisation	**SCR Combined Authority**
Email	**Ruth.adams@sheffieldcityregion.org.uk**
Telephone	**0114 220 3442**

There are no Background papers used in the preparation of this report.

Other sources and references:

'Thinking Place – SCR Growth Hub Review Presentation'

Appendix 1
Growth Hub Thinking Place Review Paper 08/12/2016

Growth Hub review and messaging work

Thinking Place undertook a broad review of the messaging and positioning of the Growth Hub based on feedback from Businesses and key stakeholders and Partners.

They arranged a number of Stakeholder focus groups each with an average of 5-10 people and also Business Interviews across a broad spectrum of SME's across a number of sectors and widely spread in terms of geography across the SCR, From an initial random list of 200 Businesses spread across the SCR region.

Focus Groups included:

- Innovation
- Skills
- Intermediaries - (to invite - Chambers, EEF, IoD, FSB, ICAEW etc)
- Inward Investment Partners
- Transport
- Local Authorities
- Start Up
- Housing

Questions asked of businesses with summarised & consolidated responses.

What was the overall Knowledge of the Growth Hub?

Limited, also general confusion over what SCR actually is. Head of Hub Dave Grimes is seen as credible and trusted by business community.

Where do you currently access support from?

Chambers, Accountants, Own Contacts, Enterprising Barnsley Coaches, Local Authority.

Would you expect to pay for Growth Hub services?

Initial Guidance and support should be free, would expect to contribute to quality support, not public sector support, no appetite for annual fee for membership etc.

How do you want to be contacted?

Not proactively, and no cold calls, see little value in networking events unless very targeted.

What support/services are most valuable?

More management related, softer skills training, Finance and Grants, mentoring and coaching support are all areas wanted.

What do you see as responsibility of local government?

Infrastructure, environment, reduce red tape, raise profile of places, should stay out of delivering support into businesses.

What are the three biggest business challenges you see over the next five years?

Attracting the right skills, Cashflow, Business specific support – (support specific to current needs and sector specific **)**

Focus Groups Feedback – predominantly Partners and Local Authorities

The Name ' Growth Hub is possibly an issue, Growth Hub not 100 % obvious about what a Growth Hub is, so possibly use this as the brand and have a strap line/ descriptor.

Need a Champion - suggest David Grimes as figurehead as well as Private Sector Champions to lead on business engagement.

Expectations about what the Growth Hub can achieve - are too high, LA Partners need to publicise support, what can be learnt from other Growth Hubs around positioning, language engagement, etc.

Need to use more business language and move away from perception of Local Authority support

Need to be able to demonstrate what has been delivered and what achieved so far

Run out of funding - not seen as having longevity as the support landscape changes too quickly for businesses - need to see something with longevity that people can get used to providing quality assured support.

Other key comments from across the groups

SCP has no profile, no strong brand or Identity, appears to lack Leadership, region not united and far too much infighting between local authorities, uncertainty with role of LEP.

Sheffield appears to be lagging behind as a city, not forward looking, very parochial between local areas, very much an 'us and them' mentality very little evidence of collaboration.

Most people buy into and understand South Yorkshire but not Sheffield City Region, don't know what it is and where is in and where is out… this impacts the Growth Hub as businesses don't understand if they can be supported or not!

Growth Hub benchmarking exercise against three other similar Growth Hubs.

Interpretation by Thinking Place

SCR Hub Website feels a bit too public Sector

Too much Jargon, talking about Spokes, and Themes etc, businesses don't understand this…. Too much talk about the Sheffield City Region.

Appears to be a little mismatch as to what businesses want and what the growth hub appears to be offering - Export Support – Innovation support, Start up support, businesses don't want to know about innovation support, they just want support that is right for them… and when they want it..

Need to focus on providing more soft skills – management support, coaching and mentoring to directors and owners.

Summary of Challenges Identified

Issues/Challenges for the City Region / LEP

- LEP needs to show leadership to support the Growth Hub – also LEP needs to ensure that it effectively communicates to businesses what the geography is and what businesses are included in the SCR, and how businesses access the support. This message to businesses needs to come from the LEP Endorsing the Growth Hub as the place for business support.
- SCR has no profile, no strong brand or Identity, appears to lack Leadership, region not united and far too much infighting between local authorities, uncertainty with role of LEP.
- Sheffield appears to be lagging behind as a city, not forward looking. Very parochial between local areas, very much an 'us and them' mentality very little evidence of collaboration at regional level.
- Most people buy into and understand South Yorkshire but not Sheffield City Region, don't know what it is and where is in and where is out… this impacts the Growth Hub as businesses don't understand if they can be supported or not. Growth Hub does not have resource to undertake this exercise, should be SCR driven.

Issues/Challenges for the Business Growth Board

- Business Growth Agenda needs a Champion – many including businesses and Stakeholders in the focus groups suggested David Grimes as figurehead as is respected and well thought of in the business community , but also private Sector Champions to lead on business engagement - part of the board.
- Expectations about what the Growth Hub can achieve are too high, LA Partners need to publicise support, what can be learnt from other Growth Hubs around positioning, language engagement, etc.
- Running out of funding - Growth Hub not seen as having longevity as the support landscape changes too quickly for businesses - need to see something with longevity that businesses can get used to providing quality assured private sector support.

Appendix 1
Growth Hub Thinking Place Review Paper 08/12/2016

Issues/Challenges for the Growth Hub

- SCR Hub Website feels a bit too public sector.
- Too much Jargon, talking about spokes and themes etc, businesses don't understand this. Too much talk about the Sheffield City Region and local authority areas.
- Appears to be a little mismatch as to what businesses want and what the growth hub appears to be offering IE: Export support, Innovation support, Start up support, businesses don't want to know about innovation support, they just want to access support that is right for them and don't need to know how we categorise it, but also able to access when they want it.
- Need to focus on providing more soft skills – management support, coaching and mentoring to directors and owners.
- The name ' Growth Hub is possibly an issue, Growth Hub not 100 % obvious about what a Growth Hub is, so possibly use this as the brand and have a strap line/ descriptor.
- Need to use more business language and move away from perception of Local Authority support.
- Need to be able to demonstrate what has been delivered and what achieved so far, using case studies, references and quotes.

Report Recommendations

- Needs to be positioned as Private sector led and delivered.
- Needs to be arms length from Local authority team but incorporate wider offers
- David Grimes consistently suggested as 'front facing champion'
- Advertise only targeted networking and business events
- Consider making the name more explicit as Growth hub isn't 100% clear
- LEP needs to show leadership to support the Growth Hub – also LEP needs to ensure that it effectively communicates what the geography is and what businesses are in the SCR and how businesses access support… - message to businesses needs to come from the LEP…

Recommended Messaging

Tone

- Non public sector, friendly with no jargon such as Innovation and spokes..
- Needs to be positive (from all) personal and say what it means

Products

- Need to include the right people with the right credibility and knowledge
- Needs a simple and clear website
- Needs more emphasis on Case studies – and business references
- More Relevant support less jargon in language

Audiences

- Consultancies, Accountants, Solicitors, Banks, Business Advisors, Chambers, IOD, FSB, LA support advisors.

Appendix 1
Growth Hub Thinking Place Review Paper 08/12/2016

Message Recommendation (or Similar)

Growth Hub - Sheffield City Region's Business Support

Barnsley, Chesterfield, Doncaster, Rotherham, Sheffield, Bolsover etc

Suggested supporting messages

'We help with what matters to your business, nothing's too big or too small!'

'We talk your language not jargon'

'If you've got an idea, are thinking of starting your own business just contact us we'd like to help'

'Sheffield City Region's one stop shop for all business support, whatever your business, whatever your size'

'All our advice is provided by experienced business professionals'

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BUSINESS GROWTH EXECUTIVE BOARD

10th JANUARY 2017

SCIENCE AND INNOVATION AUDIT

The Sheffield City Region (SCR), in conjunction with Lancashire LEP, was one of five LEP regions to be shortlisted by Government to undertake a first round Science and Innovation Audit (SIA). The purpose of SIAs is to analyse and evidence regional strengths, and identify mechanisms to help realise their potential. The SCR SIA was submitted to Government in September 2016. It demonstrates the SCR's global leader status in high value manufacturing as part of a broader 'Northern Advanced Manufacturing Corridor' that stretches to Lancashire. Our high value manufacturing strengths are especially noted in sectors such as aerospace, medical technologies, rail and nuclear energy.

Whilst we anticipate some form of national response to the first round of SIA submissions, it was agreed by the LEP Board at its meeting in September 2016 that the SCR needed to develop its own local response to this and nominated Julie Kenny CBE as the lead LEP Board Member. This report summarises the key findings of the SIA and the implications for the business growth agenda, whilst noting the SCR response to our Science and Innovation Audit will be diverse with implications across all programme areas.

Thematic Priority

- *Ensure new businesses receive the support they need to flourish.*
- *Facilitate and proactively support growth amongst existing firms.*
- *Attract investment from other parts of the UK and overseas, and improve our brand.*
- *Increase sales of SCR's goods and services to other parts of the UK and abroad.*
- *Develop the SCR skills base, labour mobility and education performance.*
- *Secure investment in infrastructure where it will do most to support growth.*

Freedom of Information

This paper is not exempt under the Freedom of Information Act 2000.

Recommendations

The Business Growth Executive Board is recommended to consider the implications of this Audit for the business growth agenda in anticipation of a full discussion at the LEP Board.

1. Introduction

1.1 The Sheffield City Region (SCR), in conjunction with Lancashire LEP, was one of five LEP regions to be shortlisted by Government to undertake a first round Science and Innovation Audit (SIA). The purpose of SIAs is to analyse and evidence regional strengths, and identify mechanisms to help realise their potential.

1.2 Our SIA was submitted to Government in September 2016. It demonstrates the SCR's global leader status in high value manufacturing as part of a broader '**Northern Advanced**

Manufacturing Corridor' that stretches to Lancashire. Our high value manufacturing strengths are especially noted in sectors such as aerospace, medical technologies, rail and nuclear energy.

1.3 Whilst we anticipate some form of national response to the first round of SIA submissions, it was agreed by the LEP Board at its meeting in September 2016 that the SCR needed to develop its own local response to this and nominated Julie Kenny CBE as the lead LEP Board Member. This report summarises the key findings of the SIA and the implications for the business growth agenda.

2. Proposal and justification

2.1 Our SIA describes the changing nature of manufacturing through the ever increasing integration and incorporation of digital technologies into the high value manufacturing process. These 'Industry 4.0' principles, or the fourth industrial revolution, form the next generation of manufacturing technologies and includes cyber-physical systems, 'the internet of things' and cloud computing.

2.2 *Our SIA shows* the SCR has:

- a lot of the key components and assets (e.g. through translational research centres such as the AMRC) to bring industry and our universities together to collaborate on the next generation of manufacturing
- a strong evidence base in targeting SCR investment into priority projects and programmes that will help to stimulate productivity and economic growth
- a critical need to build on the productivity performance of the advanced engineering and manufacturing sector, particularly within SMEs, to help ensure the SCR remains globally competitive. And key to delivering this will be maximising existing and developing new collaborations between industry and our science and innovation assets.

2.3 In terms of our business growth agenda, our SIA identifies both strengths and weaknesses. This business growth agenda stretches across our key 'spoke' areas of access to finance, innovation, start-up and entrepreneurship and international trade and investment.

2.4 Our identified strengths include:

- We have key GVA and productivity driving sectors including aerospace, medical technologies, rail and nuclear energy, along with important Tier 1 and Tier 2 businesses across these sectors
- Research intensive companies are already interacting with our higher education sector, with a combined turnover of circa £1bn and 6,000 employees, including Rolls-Royce as a lead partner in The University of Sheffield's Advanced Manufacturing Research Centre (AMRC) with Boeing[1]
- We have a significant and growing cluster of innovative design and manufacturing companies that are co-located with innovation assets within the developing Advanced Manufacturing Innovation District
- We have a number of networking assets across these sectors, including AMRC, Medilink, Northern Health Science Alliance, Doncaster Rail Partnership and Fit for Nuclear Programme at the Nuclear AMRC

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[1] 'Driving productivity growth through innovation in high value manufacturing', Sheffield City Region and Lancashire Science & Innovation Audit Summary Report

2.5 Our identified weaknesses include:

- Low levels of private sector business formation
- Lower than expected levels of research and development
- Low levels of innovation
- Low levels of inward investment into the region

2.6 Appendix A sets out the suggested SCR response to our SIA for the aspects that cover our business growth agenda, in particular the weaknesses identified in 2.5 above. Some of the SIA findings support the approach the SCR has already taken through the establishment of the Growth Hub, albeit with a need to further scale-up and accelerate existing activity in relation to our respective spoke areas. However, a key priority for the business growth agenda from our SIA is the need to broaden the range of SMEs who are exposed to innovation type activity, and to widen the scope of engagement between our universities and SME business base.

3. Consideration of alternative approaches

3.1 The proposal set out in this report has been developed in response to the consideration of our SIA submission by the LEP Board in September 2016. In considering and developing the SCR's response in the form of an Action Plan it was agreed that this would be developed and driven through our respective Executive Boards. This report forms the initial business growth aspect of this Action Plan, with a refined draft to be resubmitted at a later meeting once the Business Growth Executive Board have had an opportunity to discuss, debate and agree the business growth aspects that need to form part of this Action Plan. Each of our respective Executive Boards will have an opportunity to consider the implications of the SIA for their respective agendas and contribute. The intention is to take a finalised report and Action Plan to the LEP and CA once our Executive Boards have signed their respective aspects off.

4. Implications

4.1 Financial

The SCR SIA Action Plan will have both capital and revenue financial implications. These will need to be worked up and agreed between the SCR Executive Team and each of our respective Executive Boards in due course. We anticipate there being some form of national Government response to our SIA submission in the forthcoming Autumn Statement but have, as yet, had little indication what, if anything, this is likely to be. The SCR SIA Action Plan will also contribute towards other important strategy documents such as the refresh of the Strategic Economic Plan and LEP prioritisation investment discussions by the LEP Board.

4.2 Legal

There are no legal implications arising directly from this report and legal advice will be taken on any specific legal aspects of individual initiatives going forward.

4.3 Risk Management

The successful delivery of the SIA Action Plan in relation to business growth is set out at Appendix A. There is a risk that a failure on the part of the SCR to develop a comprehensive, cross-cutting response to the SIA could mean investment not being directed at areas of the City Region economy where a robust evidence base indicates the SCR has comparative and competitive strengths.

4.4 Equality, Diversity and Social Inclusion (Equality Act - Public Sector Equality Duty)

At this stage it not envisaged that there are any equality, diversity or social inclusion implications associated with this report. However, once all Executive Boards have had the chance to input and consider the implications of the SIA across each of their respective agendas there may be a requirement to undertake an Equality Impact Assessment before the report is considered by the Combined Authority in its entirety.

5. Communications

5.1 We will be supporting the response we are likely to receive from Government in the Autumn Statement. We are also working closely with The University of Sheffield communications team to develop a proactive joint communications and PR activity to support the launch of the Science and Innovation Audit report, which we expect to happen in November 2016. The SCR Action Plan to our SIA has potential implications for our future place-marketing and branding strategy and these will need to be considered as part of our response.

6. Appendices/Annexes

A Science and Innovation Audit SCR Action Plan: Business Growth – 'Industry 4.0' High Value Manufacturing

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Background papers used in the preparation of this report are available for inspection at:

'Driving productivity growth through innovation in high value manufacturing', Sheffield City Region and Lancashire Science & Innovation Audit, October 2016
Other sources and references:

Appendix A: Science & Innovation Audit SCR Action Plan - 'Industry 4.0' High Value Manufacturing

Theme: Business Growth	The SIA identifies that…	Therefore the SCR needs to…	This could mean…	And success will mean…
Innovation (including universities)	• The SCR has lower than expected levels of R&D • The SCR has low levels of innovation • The SCR has research intensive companies already interacting with the Higher Education sector, with a combined turnover of circa £1bn and 6,000 employees • The SCR has a significant and growing cluster of innovative design and manufacturing companies co-located with innovation assets within the developing AMID • The SCR has important Tier 1 and Tier 2 businesses identified in key sectors of aerospace, medical technologies, rail and nuclear energy including: Rolls Royce; Forgemasters; Boeing; AESSeals; Gripple; ITM Power; JRI; Magnomatics; Metalysis; Sheffield Precision Medical; Swann Morton; B Braun; Symmetry Medical; Orchid Orthopaedics; William Cook; Nikken; Volker Rail • The SCR has important networking assets including Doncaster Rail Partnership,	• Raise mutual awareness of the prospects in regional SMEs to raise absorptive capacity of SMEs • Maximise existing and developing new collaborations between industry and our science and innovation assets • Facilitate the commercialisations of intellectual property created through research and development • Support the development of strong leadership and management, particularly in our SMEs • Facilitate better interaction and collaboration from tailored networking, mentoring and showcasing events • Engage smaller businesses in existing supply chains into innovative thinking – creating capacity for them to engage	• Developing innovation capacity in our SME base e.g. RISE further scale-up, promote and support the active take-up of Innovate UK grants, acceleration of Innovation spoke of the SCR Growth Hub • Tier 1 supply chain development programmes through the Growth Hub • Regular roundtable discussions with these businesses/sectors to explore the development of additional innovation capacity thinking across the SCR and broadening the innovation space • Supporting innovation through start-ups and entrepreneurship programmes • Creating a collaboration platform for entrepreneurs and SMEs to establish research relationships with academics • Increasing the commercial space available on or near university campuses to facilitate relationships between the university and innovative start-	• More rapid adoption of new technology by existing industry base, particularly SMEs • Greater proportion of businesses led and managed at the highest level • Enhanced growth of existing companies • Growing high value services sector in support of manufacturing • Significant and measurable improvement in productivity outcomes across our high value manufacturing sectors and throughout the SCR economy • Complete integration of digital technologies into the SCR manufacturing base

	AMRC, Fit for Nuclear Programme, NHSA, Medilink • The SCR has a well-developed and globally competitive science base of relevance that leads on engineering and manufacturing • The SCR has globally significant universities - 6 universities, £207m of grant research income, 90% of research internationally recognised or better • Tripling of engineering research income in the decade to 2014-15 • Research Excellence Framework results and research grant funding rank University of Sheffield as a leader in the UK for engineering, and citation results illustrate the impact of its outputs globally • Research impact outperforming national averages in key underperforming areas for Industry 4.0, including human-computer interaction, computer graphics/computer aided design, artificial intelligence, ceramics and composites, transportation, business and international management	• Support the build-up of the research base with a strong emphasis on digital and data science • Scale up translational research with the explicit aim of increasing private sector R&D intensity through partnerships and shared facilities • Need to do more to connect the academic base with SCR industry e.g. data analytics, cyber security applied to manufacturing problems	ups Build on existing translational research assets e.g. AMRC • Expand the research base in areas that will be important for Industry 4.0 and the future of manufacturing e.g. robotics, data analytics, new materials and processes for Lightweighting	• Increased number of graduate led start-ups in the region • More research led company formations • More businesses founded by academics • Complete integration of digital technologies into manufacturing base
Start-up	• The SCR has low levels of private sector business formation • The SCR has low levels of entrepreneurship	• Create a culture of entrepreneurship and collaboration, particularly by graduates and academics • Improve the global standing of the SCR for entrepreneurship, start-up and scale-up businesses • Promote the movement of entrepreneurs and create global relationships	• Embedding entrepreneurship throughout education, from primary to higher education • Improving the start-up ecosystem to attract entrepreneurs, start-ups and scale-ups from around the world • Establishing soft landing agreements with international partners	• Increase in young people starting businesses as a career, particularly those with Masters Degrees and PhDs • More academic company founders and co-founders • All partners and services providers from around

		• Support our innovative start-ups to overcome barriers including access to finance, access to state of the art R&D facilities including high quality, flexible, physical workspace • Support all entrepreneurs to start and scale their businesses	• Creating graduate and entrepreneur exchange programmes with international partners • Establishing clear access points for entrepreneurs and start-ups to engage with academics and research facilities • Providing flexible, high quality incubation and co-working spaces on or near to university campuses and research facilities • Creating Angel Investor Networks and attracting Venture Capital funds to the region • Supporting the development of early stage investment for proof of concept Improving the start-up offer through the SCR Growth Hub – including Incubator and accelerator programmes	the region fully integrated into the start-up and innovation ecosystem facilitating greater levels of company formation • Increase in foreign entrepreneurs incorporating businesses in the SCR • Increase in growth stage businesses coming to the SCR to scale • More local start-ups accessing foreign markets Increased investment in innovative businesses, particularly at proof of concept stage leading to increased deal flow for investors • Increased rate of formation of innovative new companies
International trade & investment	• The SCR has low levels of inward investment into the region	• SCR needs to look out to the wider world <u>Trade</u> • Bring existing initiatives under a larger overall programme (including trade) • Support existing business to export more	• SCR Invest Team focused on identified key sectors in terms of KAM • SCR active presence at trade shows aligned to key sectors e.g. Arab Health, Paris Air Show, Innotrans • Dedicated SCR trade missions to overseas markets aligned to	• Enhanced regional exporting performance and international collaborations • Inward investment by multinational manufacturing companies at the technological frontier

		• Support firms to develop their competitiveness to trade more widely and become ever more deeply integrated into global supply chains • Encourage SMEs to operate internationally • Support the internationalisation of the business base <u>Investment</u> • Inward investment activities to prioritise opportunities that bring new, internationally leading high value manufacturing operations to the region making the most of the region's innovation assets to attract such firms • Attract investment from technology leaders	identified strengths and where these specialisms are in demand • SCR Export Programme to be established and fully funded • A generic exporting campaign promoting the benefits – rolling out and scaling up 'Not Difficult Just Different' export campaign • Matchmaking High Value Opportunities campaign between sector capabilities and opportunities in overseas markets (part of Northern Powerhouse DIT and linking overseas posts to opportunities) – aerospace, nuclear energy, rail, medical technologies	

Driving productivity growth through innovation in high value manufacturing

Summary report

A Science and Innovation Audit report sponsored by the Department for Business, Energy & Industrial Strategy

October 2016

"The SIA priority focus areas are essential to enable UK industry to keep pace with its competition and position the north of England as a continued global sector leader in advanced engineering and manufacturing."

David Holmes

MAI Manufacturing Operations Director, Military Air & Information, BAE Systems plc

Page 48

Foreword

"The Science and Innovation Audit is a vital mechanism to ensure that much needed investment is targeted at the priority projects and programmes that will stimulate productivity and economic growth in Lancashire, Sheffield and across the Northern Powerhouse region."

"There is a critical need to build on the productivity performance of the advanced engineering & manufacturing sector, particularly within SMEs, to ensure we remain globally competitive. Key to delivering this will be maximising existing and developing new collaborations between industry and our science and innovation assets. This successful formula can be seen in practice with the emerging Northern Advanced Manufacturing Innovation Corridor and how this SIA drives new and better partnerships to deliver what's required."

"The pace of change within advanced manufacturing technologies is constantly accelerating and the UK's global competitors are well placed to take advantage of the potential benefits that step changes such as Industry 4.0 present. The SIA priority focus areas are essential to enable UK industry to keep pace with its competition and position the north of England as a continued global sector leader in advanced engineering and manufacturing."

David Holmes
MAI Manufacturing Operations Director, Military Air & Information, BAE Systems plc

"Between the geographies of the Sheffield City Region and Lancashire lies a unique opportunity. One which the UK economy desperately needs. Here lie the components required to equip the UK to deliver the vision of the 4th industrial revolution, Industry 4.0. Within our existing Northern Advanced Manufacturing Innovation Corridor, we have strong high value manufacturing industrial bases, innovative excellence, world-class science and multi-level skills training; ensuring that the region is ready to bring the right skills, people and technology to close the productivity gap not just for the North but for the UK as a whole".

"Both our individual regions are also ambitious about building on existing assets through the development of their own Innovation Districts coupled with a drive and willingness to collaborate; as demonstrated by the joint commitment to develop a NW AMRC (Advanced Manufacturing Research Centre) with private sector partners in the aerospace, automotive and energy supply chain sectors".

"The SIA also talks about productivity, competitiveness and winning work. To achieve this we need not only industrial investment and participation in skills, innovation assets and SME supply chains but we also need strategic ownership, vision and funding from Government to lead the charge".

"This SIA provides a robust picture of innovation, industrial excellence and world-class research and I am confident that the other SIAs conducted across the UK will also show the same. What we need now is a cutting-edge national strategy to help regions like ours to deliver real change which will create economic growth and with it the jobs and opportunities which are so crucial for all in our communities".

Professor Sir Keith Burnett, CBE, FRS, FRSW
Vice-Chancellor of the University of Sheffield

1. Introduction & context

In Autumn 2015 the UK Government announced regional Science and Innovation Audits (SIAs) to catalyse a new approach to regional economic development. SIAs enable local consortia to focus on analysing regional strengths and identify mechanisms to realise their potential. In the Sheffield City Region (SCR) and Lancashire a consortium was formed to focus on our strength in high value manufacturing. This report presents the results which include broad-ranging analysis of the audit region's capabilities, the challenges and the substantial opportunities for future economic growth.

The context for this audit is set by a UK-wide economic problem: stagnation of productivity growth since 2008. The audit region of Sheffield City Region (SCR) and Lancashire contributes to this; regional productivity is well below the average for England.

This regional productivity gap has been attributed to three factors[1]: structural change in the economy through a shift away from manufacturing to lower productivity activities; a skills problem; and not enough innovation and entrepreneurship. This audit proposes concrete and substantive measures in response to each of these issues.

The two Local Enterprise Partnership (LEP) areas comprising the Audit region share a specialism in high value manufacturing (HVM) in key sectors of *aerospace, energy* (particularly *nuclear*), transport (particularly *rail*), and *health technology.* Manufacturing capability in these sectors makes a key contribution to the economy of the wider North. The audit finds that there is a highly complementary range of globally significant research excellence between the two regions, as well as successful and established innovation assets that underpin this industrial capability.

But manufacturing is changing.
The full integration of digital capabilities in manufacturing – often referred to as *'Industry 4.0'* - and adoption of new materials and manufacturing processes, will drive high productivity growth in businesses able to adopt them.

The hypothesis tested by this audit is that ***the region has the necessary underpinning research and innovation assets in relevant areas of engineering, digital and data science to underpin a transformation in the performance of the region's manufacturing base.***

Translational research facilities are crucially important for the spread of new technologies, especially to the Small and Medium Sized Enterprises (SMEs) that are such an important part of the regional economy. The capacity for excellent management and leadership will be no less important, together with a system for developing technical skills at all levels, especially those digital skills that will drive Industry 4.0.

There is a growing consensus on the need to work collaboratively across the audit region, as a partnership between private and public sectors, to capitalise on the assets already in place within and between the two LEP areas by realising the potential of the region's high value manufacturing to drive economic growth and to close the productivity gap with the most prosperous parts of the UK. Significant initiatives have already begun with this goal in mind.

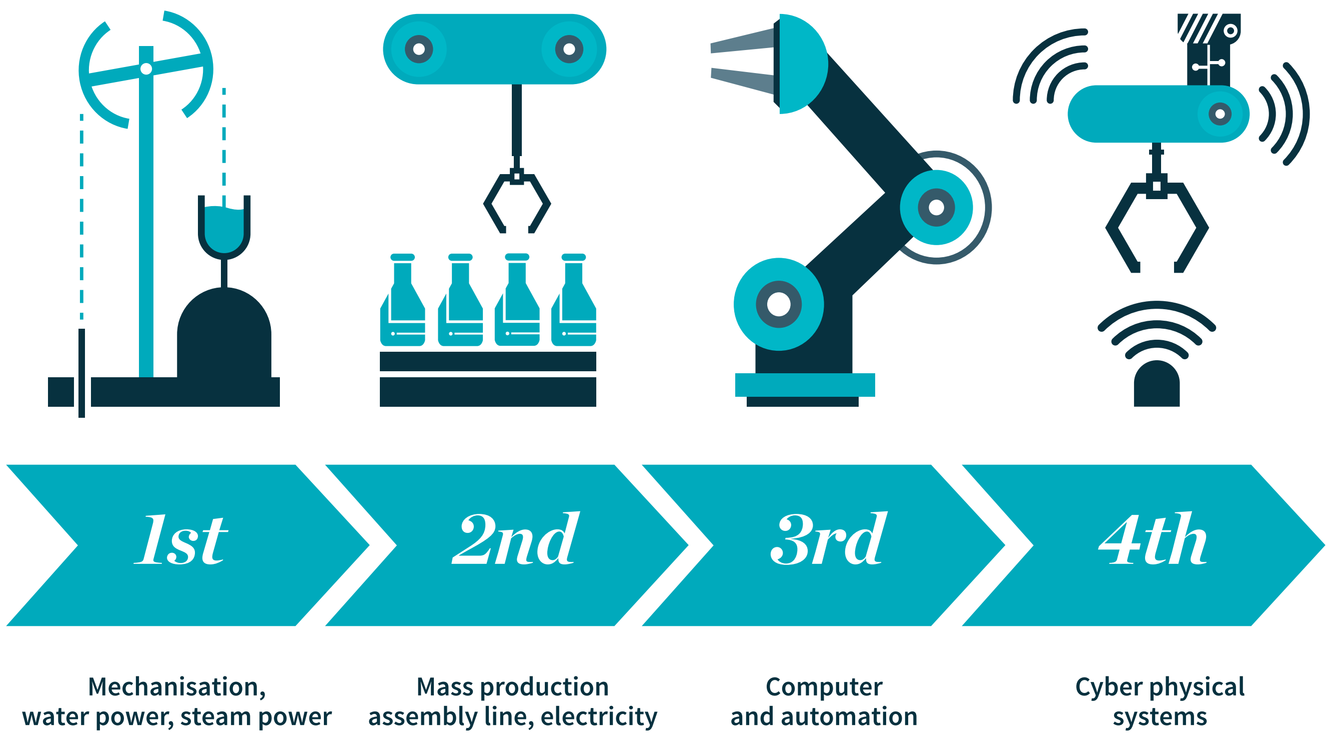
The vision presented here is of a *"Northern Advanced Manufacturing Innovation Corridor",* bringing existing, emerging and new science and innovation assets and programmes into collaboration with industry to drive productivity growth in advanced manufacturing and key linked sectors across the region to world-class levels.

The opportunity is to invest in key schemes which will enable the region to deliver innovation so the UK can maximise the benefits of Industry 4.0.

[1] Transport for the North, Independent Economic Review of the Northern Powerhouse, 2016.
The five work-stream reports are available from the SQW website here: www.sqw.co.uk/insights-and-publications/northern-powerhouse-independent-economic-review/

> " Between the geographies of the Sheffield City Region and Lancashire lies a unique opportunity. One which the UK economy desperately needs. Here lie the components required to equip the UK to deliver the vision of the 4th industrial revolution, Industry 4.0. "

Professor Sir Keith Burnett, CBE, FRS, FRSW
Vice-Chancellor of the University of Sheffield



The vision presented here is of a "Northern Advanced Manufacturing Innovation Corridor", bringing existing, emerging and new science and innovation assets and programmes into collaboration with industry to drive productivity growth in advanced manufacturing and key linked sectors across the region to world-class levels.

2. The vision

The region has the elements required to be a globally significant centre for innovation and translational research, ensuring the rapid take-up in manufacturing industry of new materials and processes, new business models and the ubiquitous digital technologies of Industry 4.0. The resulting resurgence in high value manufacturing will drive productivity growth and strengthen the economy of the region, the wider North, and the UK more generally.

The suggested investments will build on an already strong base of existing and emergent science and innovation infrastructure and programmes, as follows:

- build on existing outstanding translational research assets (£207m research grant income per year [2])
- join up the skills landscape across the region from apprenticeships to Higher Education (HE) (sector-leading schemes already in place, in partnership with the key industrial sectors)
- develop excellent leadership and management, and support new enterprise and entrepreneurship (the HE sector leader in business and management is within the audit region, and has particular strengths in advanced manufacturing and SME engagement)
- support the internationalisation of the business base (innovation assets in the region have strong global links and are already being replicated in Korea, the US and China)
- expand the research base in areas that will be important for Industry 4.0 and the future of manufacturing (e.g. robotics, data analytics, new materials and processes for lightweighting, resource efficiency, leadership and management)

Strategic delivery of the vision will build on initiatives already taking place within and between the two LEP areas, based on the ***Advanced Manufacturing Innovation District (AMID) concept*** which recognises the need for a 'whole-place' approach to the development of innovation ecosystems.

Successful delivery of an Innovation District requires a high level of interconnected physical, economic and networking assets. The audit has considered the existence of these and has concluded that there is significant strength in each of the three areas, but a need to further develop and raise the performance of networking assets within and between the two regions.

Advanced Manufacturing Innovation Districts are being developed at each end of the proposed corridor (Sheffield/Rotherham boundary and Salmesbury, near Preston), and there is a need to connect the two.

The North West AMRC at Salmesbury, which links to the University of Central Lancashire's (UCLan) Engineering Innovation Centre, is the first substantial project which will begin to achieve this, and will formalise the link between the two Innovation Districts as it represents a formal partnership between Lancaster and Sheffield Universities

Success in implementing this vision will be demonstrated by:

- more rapid adoption of new technology by the existing industry base, particularly SMEs
- greater proportion of businesses led and managed at the highest level
- increased rate of formation of innovative new companies, and enhanced growth of existing businesses
- inward investment by multinational manufacturing companies at the technological frontier
- broad skills base, talented people attracted to and retained in the region
- growing high value services sector in support of manufacturing
- enhanced regional export performance and international collaborations
- significant and measurable improvement in productivity outcomes across our advanced manufacturing sectors and throughout the regional economy

[2] HESA research income for 2014-15, from HEIDI.

3. Key strengths

HE research base

- Six universities: £207m of grant research income (2014), 90% of research internationally recognised or better.[3]
- Tripling of engineering research income in the decade to 2014-15.[3]
- REF results and research grant funding rank the University of Sheffield as a leader in the UK for engineering, and citation results illustrate the impact of its outputs globally.[3]
- Research impact outperforming national averages in key underpinning areas for *Industry 4.0*, including *Human-Computer Interaction, Computer Graphics/ Computer-Aided Design, Artificial Intelligence, Ceramics and Composites, Transportation, Business and International Management.*[4]

Page 51

Public sector R&D facilities

- The National Nuclear Laboratory (based at Sellafield) has a laboratory in leased facilities at Westinghouse's Springfield plant, near Preston.
- Large teaching hospitals, with many leading clinicians and academics active in collaborative research with nearby universities and the private sector.
- Both Lancashire and the SCR are running NHS Test Bed programmes.

Translational research centres [5]

Translational research centres bring academia together with global and regional businesses, to accelerate the adoption of new technology. Examples in the region include:

- The University of Sheffield's Advanced Manufacturing Research Centre Group. £280m capex, £38m pa turnover. Includes: Factory 2050 (research/demonstration factory for Industry 4.0), AMRC with Boeing (part of the HVM Catapult), Nuclear AMRC (part of the HVM Catapult).
- EPSRC National Centre for III-V Technologies at The University of Sheffield
- UCLan Engineering Innovation Centre (EIC), £40m capex 7000 sq m.
- Sheffield Hallam University National High Power Impulse Magnetron Sputtering Technology Centre (HIPIMS).
- Lancaster University Health Innovation Campus (£167m capex, planned).

Private sector collaborative R&D [6]

- Research intensive companies already interacting with HE sector, with a combined turnover of circa £1bn and 6,000 employees.
- In 2014, BAE Systems managed overall research and development (R&D) investment of £902m, including £63m of its own funds.
- Siemens has invested £3.2m in funding research at TUOS since 2009, with a further £3.6m of in kind contributions and a further £8.3m in funding for collaborative research.
- Rolls-Royce is a lead partner in the University of Sheffield's AMRC with Boeing.
- Significant and growing cluster of innovative design and manufacturing companies co-located with innovation assets within the Advanced Manufacturing Innovation Districts.

[3] REF 2014 results:results.ref.ac.uk, Research income: HESA research income for 2014-15, from HEIDI.
[4] SciVal (Elsevier), Field Weighted Citation Impact for publications between 2011 and 2016 as at Aug 2016income for 2014-15, from HEIDI.
[5] Internal figures from University of Sheffield, UCLan and Lancaster University
[6] Private correspondence with BAE systems and Siemens

4. Growth opportunities

The complete integration of digital technologies into manufacturing – ***Industry 4.0*** **– will increase productivity and add value for those firms able and willing to change. Future high value manufacturing will be digital, reconfigurable, customisable and will capture more of the value chain, blurring the line with services.**

Sensors and networks will gather and integrate information from products in use (**"internet of things"**). Data analytics, machine learning and artificial intelligence (AI), machine/human interfaces, automation and robotics will underpin these trends, and issues of cyber-security will be more pressing. Innovation in materials and processes will be driven by the need to reduce weight, substitute scarce materials, and design for recycling *(the "circular economy")*. Customisation will be enabled by additive manufacturing (e.g. 3D printing), and these new technologies will demand new, optimised materials.

These technologies will transform the high value manufacturing sectors that the audit region specialises in. These sectors also offer great potential for market growth.

- In ***aerospace***, demand for air travel will grow, and new aircraft will need to be greener, quieter and more economical. The development of increasingly autonomous unmanned aerial vehicles (UAVs) presents a growing niche opportunity.
- In ***nuclear energy***, the challenge lies in ensuring that a supply chain with high value UK content delivers the UK's new nuclear build programme. The development of a UK driven small modular reactor programme is a particularly important prospect that would create substantial value for manufacturers in the region.
- In ***rail***, the global market is projected to grow at 2.7% pa worldwide, with an expansion of high speed rail in the UK and elsewhere driving the adoption of new technologies, such as the need for lightweighting and advanced control systems.
- In ***healthcare technology,*** there is intense pressure to develop technological solutions to the problems of supplying healthcare affordably to an ageing population.

5. Gap analysis

The audit has revealed gaps and shortcomings in the region's skills and innovation landscape. Some of these have emerged from data analysis, while others have recurred in industry consultations.

- Although there are some highly innovative companies, the overall level of private sector R&D is too low. This needs to be recognised and addressed.
- The excellence of the region's translational research institutions is acknowledged, but they should operate at a larger scale across the whole audit region to meet fully the demands and needs of the regional industrial base.
- There is a recognition of the excellence of the region's academic research base, but more could be done to connect this to regional industry. Areas in which the research base should be further strengthened include data analytics and cyber-security as applied to manufacturing problems.
- There is a widespread consensus that skills remain a problem. This includes intermediate technical skills and graduate attraction and retention.

6. Ambition, investment and growth opportunities

The audit's conclusions on the region's strengths, the relevant technological and market opportunities, and its gaps indicate the steps that need to be taken to realise the vision of a high value manufacturing sector revitalised through innovation and skills. The overall goal is an Advanced Manufacturing Innovation Corridor in which the widespread adoption of Industry 4.0 and the embracing of innovative materials and processes creates value and drives productivity growth.

Capital science and innovation infrastructure

Establish the **Northern Advanced Manufacturing Innovation Corridor** from Sheffield's Advanced Manufacturing Innovation District to the Lancashire Advanced Manufacturing Innovation District at Salmesbury, anchored by the Northwest AMRC.

Further capital science and innovation infrastructure opportunities include:

- Lightweighting Centre
- Robotics and Autonomous Systems translational research centre
- Data analytics for manufacturing, through strengthened links to the national Alan Turing Institute.

Talent attraction, development and retention

A **pan-Northern skills programme** to support the requirements of advanced manufacturing businesses and complementary aligned sectors for the emergent new skills needs of Industry 4.0. This will enthuse the younger generation and create a talent pipeline, tackle challenges around replacement demand for highly technical skills, mitigate risks around an ageing workforce and help to retain talent in the North.

New enterprise support will be provided for advanced manufacturing, and linked industries will create the ambitious entrepreneurs and high growth businesses of the future.

Northern innovation support

Collective innovation programmes (advanced manufacturing, digital, data science, cyber-security, robotics, eco-innovation, health and care, management, innovation) to link SME and corporate agendas to build resilient supply and value chains.

Develop a **Northern Powerhouse nuclear supply chain productivity/innovation support programme** for the **Small Modular Reactor** (nuclear) growth opportunity.

Northern productivity academy

Establish a **Northern Powerhouse Productivity Academy** to drive the transformational leadership and management change required to make a significant impact on the region's productivity and innovation behaviours. This builds on Lancaster's involvement through its partnership with BAE Systems on the Government's Productivity Leadership Group and a pilot Leadership for Productivity Programme under development.

Support for internationalisation

Deliver support for internationalisation exploiting regional HE and industrial networks and partnerships, working with the LEPs and UKTI etc.

Explore the potential for a **Northern International Catalyst Programme** building on Lancaster China Catalyst Programme, SCR internationalisation programmes.

7. Networking, collaboration, and the added value of the SIA process

The SIA process has been a highly positive and successful one, with momentum and enthusiasm building over time as stakeholders have become more engaged and inspired. Partner representatives from across all of the pan-regional universities, and key RTOs, science parks, incubators, the NHS and industry have provided constructive 'check and challenge' throughout, whilst the assembled qualitative and quantitative data have ensured that the resulting SIA Framework is grounded in robust evidence.

In addition to the bottom-up data analyses and desk-based review work that has informed the region's science and innovation thinking, the open and inclusive process used to shape the SCR and Lancashire SIA Framework has itself delivered significant added value. Existing linkages have been enhanced, new relationships developed, and 'hidden' synergies and complementarities brought to the fore.

Whilst we must recognise that the collaborative working and common approaches evident across the two sub-regions are still very much in their infancy, the level of trust, shared commitment and ambition that now exists augurs well for both the two sub-regions (SCR and Lancashire), as well as the wider Northern Powerhouse. Indeed, it has become clear across the region's different partnership structures through recent discussions that the SIA process has already started to deliver beneficial impacts on the localised innovation systems and we are confident that it will leave a lasting legacy of a more outward-facing growth agenda. Notable aspects of our SIA process include:

- The first Northern Advanced Manufacturing Innovation Corridor collaboration - a new partnership formed between the Universities of Lancaster and Sheffield to establish a Northwest AMRC on the Salmesbury Enterprise Zone (EZ) in Lancashire, focused on supporting advanced manufacturing supply chains and driving productivity improvements in regional SMEs
- Agreement by BAE Systems, Rolls Royce, Siemens and the Lancashire LEP to fund a pilot Leadership and Management Programme under the Productivity Academy for mid-small supply chain businesses to be delivered by Lancaster University in early 2017
- SIA consultation workshops held in Lancashire in January and August 2016, with a mix of university, industry and Research and Technology Organisation (RTO) representatives in attendance. The events provided excellent networking opportunities and there was strong support for the emerging SIA framework
- A programme of primary research through in-depth consultations with 24 major advanced manufacturing firms and representative bodies active within the two sub-regional geographies. This work has helped to promote and champion existing growth plans, identify cross-sectoral synergies, common challenges and opportunities
- A meeting with the Greater Manchester and East Cheshire SIA leadership team held in July 2016 in Manchester, to share lessons and good practice, as well as exploring opportunities for increased joint-working in relation to high value manufacturing and Industry 4.0 thinking.
- Discussion with colleagues in the Midlands Engine SIA in September 2016 regarding the complementarities in advanced manufacturing broadly and particularly in rail, where the existing Doncaster involvement in the Birmingham-based National College for High Speed Rail could be a nucleus for further collaboration in Next Generation Transport.

This report was produced for the Department for Business, Energy and Industrial Strategy. The consortium overseeing the audit represents the key innovation partners in the Sheffield City Region and Lancashire Local Enterprise Partnership areas.

Department for Business, Energy & Industrial Strategy

BAE SYSTEMS INSPIRED WORK

Lancashire Enterprise Partnership

Lancaster University

Sheffield City Region

Sheffield Hallam University

uclan

The University Of Sheffield.

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BUSINESS GROWTH EXECUTIVE BOARD

10th January 2017

MICRO FUND – EX-ANTE REPORT

Purpose of Report

This report details the findings of an “ex-ante” report that has been commissioned to test the demand within the SCR for the development of a “Micro Fund”, providing debt finance to SMEs. The ex-ante report highlights:

(a) that there is considerable evidence of demand for a Micro Fund in the SCR (~£6.28m p/a);
(b) that this Micro Fund would be complimentary to the provision of the Northern Powerhouse Investment Fund (or “NPIF”) and would not displace mainstream provision;
(c) that this Micro Fund could deliver substantial economic benefits at a low net cost (£10m of investment could support 400 SMEs and deliver a legacy of £9.798m).

The report also considers options for the future development of this fund, including matters such as the optimal size of the fund – the recommendation of this report being approximately £20m over 5 years (i.e. £4m PA 2017/18 to 2021/22).

Thematic Priority

1. Ensure new businesses receive the support they need to flourish.
2. Facilitate and proactively support growth amongst existing firms.

Freedom of Information

This report is not exempt from publication under Part II of the Freedom of Information Act 2000.

Recommendations

1. The Board consider the potential to develop a Micro Fund in the SCR with a view to the SCR Executive producing a full options report for the LEP and CA. The options report to include consideration of the use of South Yorkshire Investment Fund (“SYIF”) legacies; SCR funds (including those currently allocated to grant programmes); match funding provided by any future fund manager; commercial borrowing and other options.

2. The Board support the development of an ESIF funding proposal in order to provide £5m of funding towards a SCR Micro Fund and (subject to a positive decision request) the SCR Executive to develop this proposal and build ESIF into the options paper outlined at recommendation 1. This proposal would require an entrusted entity to be appointed.

1. **Introduction**

1.1 The aim of the SCR LEP/CA is to enable more companies within the SCR to access external finance to grow, modernise or sustain their operations AND to support inward investment of strategic significance. To do so the SCR will (a) develop a suite of financial products in order to address failure in the SME finance market and to support inward investment ("product development") and (b) better coordinate and broker these products through the SCR Growth Hub ("better coordination").

1.2 The SCR has put in place a number of initiatives to support appropriate "product development" including:

(a) Managing (in partnership with Creative Sheffield) a £82m plus Regional Growth Fund / Business Investment Fund ("BIF") programme – which includes supporting inward investment of strategic significance.
(b) Allocating £15m of ESIF funding to support the Northern Powerhouse Investment Fund ("NPIF") as well as being an active proponent of the development of this fund.
(c) Supporting an "interim" JEREMIE fund, to reduce the investment gap prior to NPIF.

1.3 As detailed in the "Northern Powerhouse Investment Fund – Update" elsewhere on this agenda, there will be three sub-funds within NPIF:

(a) Equity - equity investments between £50,000 and £2,000,000;
(b) Debt – loans between £100,000 and £750,00;
(c) Micro Finance – loans between £25,000 and £100,000.

1.4 As also detailed elsewhere, the NPIF Strategic Oversight Board (of which the SCR is a member) has agreed to an initial allocation of ~£288m (75%) between these three sub funds:

- £115.2m (40%) allocated to Equity;
- £172.8m (60%) to Debt funding **including (£20m) Micro Finance.**

This will leave c. £101m to allocate in the future, depending on demand and fund manager performance.

1.5 Based on historic investment patters, the SCR has long taken the view that there may be a need to supplement the NPIF Micro Finance product. To evaluate this case, and to pave the way for the potential future use of ESIF funding, the SCR commissioned Bluesky Corporate Finance ("Bluesky") to produce an "ex ante" report, in order to:

(a) evaluate demand for a supplementary Micro Fund;
(b) consider how a fund might be configured to support unmet demand;
(c) prepare a financial model to test a number of likely scenarios and;
(d) consider other relevant operational issues.

This "ex-ante" report is now complete and is included at Appendix A of this report.

2. **Proposal and justification**

2.1 The findings of the ex-ante report (quotations drawn from Page 21: Conclusions) are that:

The NPIF Micro Fund will be insufficient to meet even a conservative estimate of demand in the SCR – this may be a barrier to growth.

"Based on pro-rated sub-regional shares of ESIF allocations, the Northern Powerhouse Investment Fund <u>may invest as little as £450k per annum</u> in Sheffield City Region through its

Microfinance Fund. Investment at such a low level may not make a significant impact on demand and may suppress Sheffield City Region's Growth Strategy for small business creation and development."

Assuming only 10% of "demand" is "viable demand", there is a gap of around £6.28m even after planned NPIF investment.

"The Block 1 Ex-Ante Assessment for the Yorkshire and Humber Region undertaken by EIB/Regeneris indicates an unmet need for microloans for viable firms (assumed to be just 10% of total demand) in Sheffield City Region of around £6.28m per year after accounting for provision from the planned Northern Powerhouse Investment Fund".

A £20m fund could make a significant impact, supporting 400 SMEs to invest and create 1,200 new jobs and return 97% of the CA/LEP's investment capital

"This report outlines how a dedicated SCR LEP microloan fund could invest £4m per year in a total of 400 businesses, leverage at least a similar value of co-investment, support the creation of around 1,200 new jobs and appears to be able to meet a significant proportion of unmet need and leave a market gap to ensure that little or no competition with the NPIF fund or any other commercial operator could arise. A financial model developed for this report suggests that a new £20m microloan fund using £10m of public investment could viably support at least 400 firms with loans averaging £40,000 each and could generate a legacy of £9.7m that would be available for future re-investment".

Such a fund would be true "gap funding" and would not displace mainstream lending.

"…Finance for Enterprise (FFE), an alternative finance provider that is active primarily in Sheffield City Region, has lent between £4.2m and £7.5m per year in loans of an average of around £40k since 2014. As one of its terms of engagement, FFE must only lend to companies that have already approached and been at least partially declined by commercial sources of finance.

For this reason … it is reasonable to conclude that FFE's lending activity carries a high level of additionality".

(Source – Bluesky ex-ante report at Page 21).

2.2 The ex-ante report considers a number of options to address this investment deficit, and recommends the development of a £20m investment fund made up of £10m of ESIF funding, matched by LEP/CA resources[1] and £10m from other sources:

"The most attractive option would appear to be Option 2 that would see SCR LEP assemble a £10m investment pot from EU/LEP grant sources and leverage with loans from a bank or from SYIF legacy to form a £20m fund".

Assuming a "repayable grant" mechanism was used; the CA/LEP could make co-investment / match funding a requirement within any procurement process. This would both increase the size of the fund and ensure that any fund manager has a real stake in the quality of investments made (as their own capital would be on the line as well as that of the SCR).

2.3 The report also considered whether smaller loans (£5,000 to £25,000) should be part of a future SCR Micro Fund. The inclusion of this second strand is not recommended on that basis that it would:

[1] To reiterate, this report does not seek to commit those resources, only detail the findings of the ex-ante report.

(a) overlap with the "start-up loan" programme – which can offer loans of up to £25,000 at an interest rate of just 6%.
(b) would significantly increase the "loss rate" of the proposed fund.
(c) would generate limited economic impact, leading to investment in "lifestyle" businesses rather than those with greater potential for growth.

3. Consideration of alternative approaches

3.1 The ex-ante report considers four options to address the investment gap:

- **Option 1**: To extend Sheffield City Region's expected share of impacts from the NPIF Microfinance Fund by 'topping up' at Limited Partnership level with additional geographically targeted capital.
- **Option 2**: Where Sheffield City Region assembles a £10m investment pot as grant that would be allocated to a procured fund manager/operator under a repayable grant agreement. A further £10m would be leveraged as a loan from a bank or potentially from SYIF legacy to form a £20m investment fund.[2] This is a similar mechanism as those used to establish some investment initiatives in previous programmes.
- **Option 3**: Consider the use of a crowd funding platform by assembling an investment pot for allocation through a brokered vehicle such as the Funding Circle.
- **Option 4**: Do nothing where microloan funding is left to the commercial market, the NPIF Microfinance Fund and alternative finance providers.

3.2 The report concludes that Option 2 is the most suitable option for the reasons detailed in the table below:

[2] Note – this could also include "match" provided by the fund manager from their own capital.

Option	Key features	Success factor	Assessment	Elimination status
Option 1: To extend Sheffield City Region's expected share of impacts from the NPIF Microfinance Fund by 'topping up' at Limited Partnership level with additional geographically targeted capital	Uses NPIF structure. Could enable higher levels of leverage. SCR investment terms built into fund manager's contract. Could simplify approach to a single point of access by avoiding launch of a new fund.	**Fundability**	Fund structures now closed to new investment. New commercial funders unlikely to want to subordinate to EIB. If needed, match funding is likely to be already allocated.	**ELIMINATE OPTION** - BBB unlikely to admit a new local investor.
		Viability		
		Delivery		
Option 2: Where Sheffield City Region (via SCC or SYCA) assembles a £10m investment pot as grant applicant that would be allocated to a procured fund manager/operator under a repayable grant agreement. A further £10m would be leveraged as a loan from a bank or potentially from SYIF legacy to form a £20m investment fund. This is a similar mechanism as those used to establish some investment initiatives in previous programmes.	Management by a procured fund manager. Funds to be drawn from EU/LEP sources (£10m) leveraging loans from bank and SYIF legacies (£10m).	**Fundability**	Applicant for grant and loans would be SCC or SYCA. If a new 'topco' is required to be 'armslength', role would have to be procured. All other funding subordinated to the bank. Lending delivered under de-minimis or MEOPs for State Aid. Legacies could be directed to SY investment.	**POTENTIALLY VIABLE:** Check SYIF and lender's appetites. Test informally with fund managers. Requires agreement on representation/governance, geography/sectoral delivery targets. Consider in-area investment readiness and market making activity.
		Viability	Viable - see model.	
		Delivery	Fund would close funding gap by £4m pa. Investment strategy required to establish operating principles across fund - targets, sectors, dealflow, etc...	
Option 3: Consider the use of a crowd funding platform by assembling an investment pot for allocation through a brokered vehicle such as Funding Circle.	Funding applied alongside crowd funding sources only for SCR businesses. Model has already been adopted by some local authorities.	**Fundability**	Potentially complex for match funding so EU funding likely to be out of scope. Commercial co-finance unlikely. Leverage can be significant.	**FURTHER WORK REQUIRED** - Look at the experiences of other public sector investors that have used this route. Other co-finance may fall away.
		Viability	Commercial investor if willing to support, may limit activity to 'safer' secured debt and away from early stage and longer term dealflow.	
		Delivery	Crowd funding is still a young concept - uncertain how target market failure is likely to be impacted through this route. Some warn of risk of high losses as investor appetite outgrows safer investment market.	
Option 4: Do nothing where Microloan Funding is left to the commercial market, to the NPIF Microloan Fund and alternative finance providers such as the Key Fund and Finance for Enterprise.	Significant unmet market gap would remain making SCR's strategic business support goals more difficult to achieve.	**Fundability**	There is no evidence that commercial backers are prepared to support a 'first-loss' loan fund. All will require subordinated partners to secure their position against risk.	**ELIMINATE OPTION** - Significant unmet market for microloans is likely to remain for foreseeable future. Evidence of a significant gap demonstrated by FFE track record. Likely to impact on business formation and development and SCR Growth Strategy.
		Viability	Leading alternative providers such as FFE and Key Fund have little or no access to new investment capital without public intervention.	
		Delivery	There is no evidence that the commercial market has any appetite to fund smaller business loans in the way that they did pre-2008.	

(Source: Bluesky ex-ante report at Page 16).

3.2 Why £20m?

There is no exact science behind the proposal of £20m as the optimal fund size (i.e. why not £18m or £22m?) however the broad logic is that:

(a) £4m PA over 5 years would represent ~64% of the forecast "viable" demand;
(b) as this is well within the level of forecast demand, investment propositions are likely to be of a good quality (there is an inverse relationship between quality and demand);
(c) £4m PA would provide enough headroom if NPIF was to allocate further funds to the SCR Micro Fund.
(d) a £20m fund is ambitious, but feasible (assuming a core of £5m ESIF is available).

4. Implications

4.1 **Financial** – there are no direct financial implications of this report i.e. this report does not seek to allocate CA/LEP funds. This report is seeking only consideration of the principle of Micro Finance and subject to this a detailed options report with full financial considerations will be presented back to the CA following input from the SCR CA S73 finance officer. However the proposed fund is underpinned by a detailed financial model, included at Appendix A below.

4.2 **Legal** – there are no direct legal implications of this report. However, any subsequent options analysis will require detailed legal advice (including extensive procurement advice).

4.3 **Risk Management** – there are no direct risk management implications, although of course there would be significant risks associated with the development of a Micro Fund of this magnitude.

4.4 **Equality, Diversity and Social Inclusion** (Equality Act - Public Sector Equality Duty) – there are no direct equality implications. Although this fund would lend to for-profit companies in most circumstances, the micro fund has the potential to lead to significant social benefits.

5. Communications

5.1 No requirement at this stage.

6. Appendices/Annexes

6.1 **Appendix A –** Sheffield City Region Microloan Fund - Options Assessment (December 2015).

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Background papers used in the preparation of this report are available for inspection at:

Other sources and references:

REPORT

Sheffield City Region Microloan Fund Options Assessment

BLUE SKY CORPORATE FINANCE

Draft

Introduction

The Sheffield City Region Local Enterprise Partnership (SCR LEP) commissioned Blue Sky Corporate Finance to explore the potential for the development and launch of a new £20,000,000 business microloan fund that could support investable businesses in its area with loans averaging £40,000 in a range between £25,000 and up to £100,000. In addition, SCR LEP wanted to know whether such a fund could viably be extended to cover loans as low as £5,000.

Should such a fund be found to be viable, it would support the £140m pa regional supply-side market failure for SME growth finance that was identified in the EIF/Regeneris Block One Ex-Ante Assessment published in January 2015.

Based on anecdotal evidence received from its Access to Finance Centre of Excellence (AFCOE) that operates as part of the SCR Growth Hub, from Finance Yorkshire and other alternative finance providers such as Finance for Enterprise, SCR LEP would like to consider the development of a new microloan fund that could operate alongside the Northern Powerhouse Investment Fund, that is scheduled to launch in 2017.

In the event that there is found to be sufficient demand and viability is established, the report is expected to fulfil the requirements of an Ex-Ante Assessment to support any subsequent approach for ESIF funding.

Draft

Table of Contents

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Background

The 38 Local Enterprise Partnerships in England have been tasked with the identification of the strategic drivers that contribute to sustainable business growth in their areas. Each has undertaken to draft growth plans that set ambitious targets for business development, job creation and increases in gross value added (GVA).

Sheffield City Region ('SCR') LEP's Strategic Economic Plan (SEP)[1] outlines how over 10 years, it plans to deploy UK Government and EU investment to support the creation of 70,000 jobs and 6,000 new businesses and increase GVA by 10% or £3 billion by supporting blended investments in skills; business support, the Growth Hub and infrastructure capital for housing and transport.

SCR recognises the need to build a stronger and larger private sector and this underpins and drives three objectives:

- To create more business start-ups
- To stimulate greater growth in indigenous firms
- To attract new firms to the area

Business start-ups
SCR's business start-up rate stands at around two thirds of the national average, equivalent to an average of around 5,700 new start-ups per year since 2009.

> *'In recent years, national programmes have had little impact on accelerating this position. So we will increase this rate by 600 additional start-ups per year – focused on knowledge intensive sectors with export potential.'*
>
> Sheffield City Region LEP's Strategic Economic Plan

Grow indigenous businesses
SCR business productivity is estimated to be equivalent to just 83% of the UK average.

> *'We want our companies to continue to innovate and increase their productivity. Our target is for our support measures to help firms create over £1bn of additional GVA over the 10 years of the plan, creating c15,000 jobs in the process. Core to this is the Growth Hub toolkit comprising tailored support for firms in terms of:'*
>
> - *Business advice*
> - *Business planning*
> - *Innovation assistance*
> - *Access to finance*
> - *Supportive infrastructure*
> - *Skills development and grant*
>
> Sheffield City Region LEP's Strategic Economic Plan

[1] http://sheffieldcityregion.org.uk/wp-content/uploads/2013/12/Deal-and-Plan-Executive-Summary.pdf

Draft

Inward investment

'We will attract more businesses into the City Region. While we are building on the success of our shared inward investment team created by the LEP, we will transform this activity by creating and investing in a much stronger promotional strategy for the City Region. Critically, this will build not just on marketing, but will use the flexibility of the tools in the Growth Hub to create tailored packages for inward investors and foreign owned companies based in the City Region.'

Sheffield City Region LEP's Strategic Economic Plan

Ex-Ante Assessments

For the 2014/20 ESIF Programme, Article 37 of the European Commission's Common Provisions Regulations require the Department of Communities and Local Government (DCLG) as the programme Managing Authority to commission an Ex-Ante Assessment of any proposed financial instruments, prior to making any financial contributions.

In the autumn/winter of 2014, EIB/Regeneris undertook research on the case for Financial Instruments across England; the conclusions of which were published in the form of a Block 1 Ex-Ante assessment in January 2015.

The EIB/Regeneris Block 1 Ex-Ante assessment of the need for financial instruments for the Yorkshire & Humber region noted an estimated £140m pa supply side failure for SME growth finance. Specifically the report noted strong regional demand for small loans (between £15k and £50k), the relatively strong performance against economic output targets for past finance initiatives that have operated in this in this market segment and the potential of reasonable financial returns (despite the typically higher historic default rates). The report concluded that there is a £40m pa supply side market gap for finance for micro-businesses in the region. The findings of the Ex-Ante still hold and indeed, plans for the Northern Powerhouse Investment Fund are at least partially predicated upon them.

A Yorkshire & Humber Block II Ex-Ante Assessment was published in July 2015. This report noted that the proposed microloan fund should be focussed on enterprises that have been unable to attract such financing from more established routes and where it may be used to support expansion and business growth. No sectoral requirements were identified but certain exclusions are likely to be required for ESIF and EIB compliance reasons. In September 2015, the Yorkshire & Humber LEPs published an Investment Strategy outlining their plans for a new financial instruments under the 2014/20 programme. The plan envisaged inter alia, the establishment of a microloan fund to serve the Yorkshire and Humber region alone, of circa £15m.

In November 2015, the SCR LEP committed to taking part in the Northern Powerhouse Investment Fund ('NPIF'). NPIF is a much larger, multi-region, £400m+ fund-of-funds that will establish financial instruments across the North West, Yorkshire & Humber regions and the Tees Valley sub-region in the North East.

The NPIF proposal has provisionally allocated £20m of the overall funding of £400m+ (over a 5-year investment period) to microfinance across the vast Northern Powerhouse geographic area with initially, £10m to be applied to Yorkshire and Humber and the Tees Valley combined. Based upon the 70.4% pro-rata distribution of ESIF funding that is proposed to be allocated by NPIF to Yorkshire and Humber, this could lead to loans in the region being made of £1.4m per annum. Furthermore, the 22.8% of ESIF funding that is proposed to be allocated to the Sheffield City Region could generate loans of £456k per annum.

At both levels, the provisional allocation of microfinance debt funding under NPIF proposals are thus self-evidently, materially lower than the gap identified by the Ex-Ante research for the Yorkshire and Humber region.

Finance for Enterprise (FFE) and Business Enterprise Fund (BEF) are leading providers of microfinance in Sheffield City Region and Yorkshire and Humber respectively, with a mandate to offer loans only where businesses are unable to obtain all that is required from mainstream commercial sources.

Both FFE and BEF have invested considerably more than the figure allocated by NPIF in each of the last three years and as their loss rates are comparable, if not better than a commercial provider, it would seem safe to conclude that not only is this market for lower value debt not satisfied by conventional sources, but also that deals supported are generally "investable". Corollary to this is that any failure to support this clear and demonstrable evidence of market failure is likely to suppress business development and growth.

Summary of total loan investment	2014	2015	2016	Total

track record:				
BEF	£5.5m	£5.6m	£6.5m	**£17.6m**
FFE	£4.2m	£7.5m	£5.7m (10 mths)	**£17.4m**
Total	**£9.7m**	**£13.1m**	**£12.2m**	**£35m**

The Sheffield City Region Local Enterprise Partnership (SCRLEP) is committed to the support of a range of initiatives that may be expected to underpin a strategy for the development of more and better small growth businesses. In August 2016, SCRLEP commissioned Blue Sky Corporate Finance to undertake a project that would evaluate options to assess and plug the gap for microloans in the Sheffield City Region. The assignment was sub-divided into 5 stages as follows:

Stage 1: Undertake a desk review of research evidence to test the hypothesis that there is a case to be made for a fund that would offer:

- Business loans of £25k - £100k, to operate alongside NPIF.
- Extend the minimum investment below £25k to support growth businesses that do not qualify for support from the Start-Up Loans Scheme.

Stage 2: Consider how a fund might be configured to support unmet demand by:

- Determining how an ESIF contribution could support the creation of a fund now and in the context of Brexit
- Determining how SCR LEP devolution funding might be available - and the terms that might be applied as a grant or loan.
- Consider other options for co-finance - from third parties, from other local fund legacies and those introduced by a procured fund manager as an element of their terms of engagement.

Stage 3: Prepare a financial model to test a number of sensitivities including:

- Total investable capital
- Minimum and maximum investment range
- Pricing
- Operating costs and loss rates

Stage 4: Consider a range of related operating issues:

- Options for the procurement of a fund manager including a direct procurement by the DCLG as Managing Authority and by the Combined Authority operating as an Entrusted Entity.
- Draw up a realistic and achievable timeline to optimise the use of available ESIF allocations in 2017 and 2018 prior to Brexit.
- Assemble a comprehensive risk assessment to consider factors affecting viability, deliverability, procurement, claw-back and conflicts of interest.

Taken in conjunction with the EIB/Regeneris Regional Block 1 Ex-Ante Assessment published in January 2015, the Yorkshire & Humber Investment Strategy published in July 2015 and the draft EIF Block 2 Ex-Ante report published in Sep 2015, this report will cover each of the 4 stages outlined above and is expected to provide sufficient evidence to support an Ex-Ante Assessment for any new fund that is subsequently proposed.

Draft

Report

Stage 1: Undertake a desk review of research evidence to test the hypothesis that there is a case to be made for a fund.

In accordance with current European Commission guidelines for the development of new financial instruments, the Department of Communities and Local Government (DCLG) and the European Investment Bank (EIB) commissioned consultants Regeneris to undertake an Ex Ante Assessment on national and regional market need and gaps in the market for SME finance. The Block 1 report entitled 'Using Financial Instruments for SMEs in England in the 2014-2020 Programming Period' was published in January 2015.

The EIB/Regeneris Block 1 Report concluded that in Yorkshire and Humber, there was likely to be around £40m per annum of unmet demand for microloans, from firms that had been rejected from mainstream, commercial market providers, over and above the provision that was already available from publicly funded sources. It is worth noting that this market assessment assumed that 90% of demand may be disregarded as unviable and that this general market supply failure was likely to be sustained for the foreseeable future.

An extract of the demand study for finance for microbusinesses is provided below in italics:

> *Given their characteristics, micro-enterprises seeking external finance face a particular set of issues. Essentially the problems experienced by SMEs in general in obtaining finance are particularly acute amongst microbusinesses and start-ups. They are particularly likely to lack collateral to offer as security against a loan, and they often do not have a track record in running a business. Compared to larger SMEs they sometimes lack the financial and business management and planning skills typically required in order to have a good chance of securing commercial finance. Some individuals who have previously been out of work and are seeking capital to set up a business may also suffer from a chequered credit history.*
>
> *All of these factors increase the actual and perceived risk associated with providing finance to these entrepreneurs. From the point of view of banks, the costs of administering loans to this class of firms are high relative to the small loan size. Typically the level of risk and average failure rates of the investments cannot be adequately priced through interest rates so as to yield a commercially acceptable rate of return. The consultations and various reports also suggest that the reputational risks to banks from charging the interest rates required to make an acceptable return on capital are too high. It is important to note therefore, that even in a well-functioning market, the private sector (i.e. principally banks) tends to avoid providing finance to this class of enterprises for the reasons cited above.*
>
> ***Demand***
>
> *According to BIS business population estimates, there are currently an estimated 4.6 million microbusinesses in the UK and 4.1 million in England, representing 95% of the total business base in both areas. Microbusinesses account for 32% of employment and 18% of turnover in England. In terms of sectors, as a percentage of total employees, a large proportion of microbusinesses operate in sectors that service local markets, such as agriculture, and service activities such as personal and leisure services. A large proportion of microbusinesses also operate in construction and education. Not all of these sectors are eligible for ERDF - sub-sectors within retail, tourism, manufacturing, and business and professional services are ineligible for ERDF backed funding. Using ONS Business Count data, this equates to around 26% of microbusinesses in England. There is regional variation in this data, with a greater than average proportion of microbusinesses in the North East and Yorkshire and Humber ineligible*

for ERDF backed funding (32% and 30%). In comparison, London has the lowest proportion of microbusinesses ineligible for ERDF backed funding, around 21% of microbusinesses.

Microbusinesses uniformly account for close to 95% of the total business base across all of the regions. In total there has been net growth over the period 2001-13 of 1.4 million businesses (+43%), with the rise in microbusinesses as a proportion of the overall business base from 94.3% to 95.4%. If microbusinesses were to continue to grow at this rate, there would be an additional 990,000 microbusinesses across the UK in 2020. This growth in microbusinesses would, in normal circumstances, be expected to lead to an increase in the demand for external finance amongst these businesses.

The 2012 Small Business Survey states that 22% of microbusinesses in the UK have sought external finance in the last 12 months, with 7% seeking finance more than once. The survey also provides reasons for not applying for finance and the barriers to obtaining finance with the main reasons given for not applying being that the businesses did not want to take on additional risk (56%); they thought it would be too expensive (52%) and fears of uncertainty due to current economic conditions (47%).

Importantly for the assessment of the finance gap, 46% of those that did not apply for finance thought they would be rejected and therefore did not apply. This compares to 43% for small businesses and just 23% for medium sized businesses. The survey found that microbusinesses which did seek finance encountered greater difficulties in obtaining finance compared to small and medium sized businesses. Two thirds (66%) of microbusiness applicants obtained all that they needed, compared to 71% of small businesses and 85% of medium sized businesses.

A little less than a tenth (7%) obtained some but not all of the finance they required, whereas 23% obtained no finance.

Business Starts

In 2012 there were 240,000 new enterprises formed in England, an increase of approximately 30,000 over the previous three years (around 15%). This increase is similar for all regions with a few exceptions. The increase for London over the past three years is 29%, whereas Yorkshire and The Humber (6%) experienced an increase significantly below the average. The England wide average start-up rate as a proportion of the working age population falls by 10% when London is removed.

Supply

Given the risks and returns associated with microfinance, and the fact that microbusinesses are much less likely to have assets and a track record, this is not a market that high street banks typically operate in without public support or subsidy or the anticipation of developing a long term relationship with a dynamic entrepreneur.

Typically the level of risk and average failure rates of the investments cannot be adequately priced through interest rates so as to yield a commercially acceptable rate of return. The consultations and various reports also suggest that the reputational risks to banks from charging the interest rates required to make an acceptable return on capital are too high. It is important to note, therefore, that even in a well-functioning market, the private sector (i.e. principally banks) tends to avoid providing finance to this class of enterprises for the reasons cited above.

Community Development Finance Institutions

Draft

Community Development Finance Institutions (CDFIs) operate in a range of markets not covered by mainstream banks, including microloans, social enterprises and community loans. The sector is independent and self-regulated, funded by a number of sources including ERDF, local government, national government and donations. CDFIs have experienced substantial growth in the UK since the 1990s, partly driven by the Phoenix Fund, a UK Government initiative that aimed to support the development of the sector. The sector is still very small in relative terms, with 39 CDFIs providing finance to businesses across the UK. However, in the last year there has been a significant increase in the amount lent to businesses and the number of businesses receiving funds. £52m was lent to SMEs in 2013, an increase of 72% from 2012. This has helped just 12 CDFIs to create over 8,300 new businesses. The Community Development Finance Association (CDFA) reports that the demand for lending has more than doubled since 2012 as the credit crisis reduced the availability from other sources, with the number of enquiries increasing from 12,900 to over 28,000. The CDFIs have substantial reach in the country, offering both higher value and volume of loans. This has particularly been the case in Yorkshire and the Humber and the North West. According to the CDFA this is largely due to the Business Enterprise Fund (BEF). Established in 2004, the BEF "supports new and young businesses in West and North Yorkshire with finance when they require it, and operates in some of the most deprived communities in the country." In the Yorkshire and Humber region, a region with a particularly high penetration rate for CDFI investment, the number of businesses supported increased from 435 to 1,374 between 2011 and 2013.

Asset Backed Finance

Asset-backed finance is less relevant to microbusinesses than larger SMEs due to their lack of assets, but it is nonetheless an available option for some. Data from the SME Finance Monitor shows that 10% of UK firms with 1-9 employees make use of leasing or hire purchase.

UK Government Schemes

In response to the identified gap in funding for microbusinesses, a number of national initiatives have come forward in recent years in the UK. The Start-up Loans initiative is a £152 million scheme introduced in 2012 and set to run to 2015. It is targeted at 18-30 year olds in England and aims to help young entrepreneurs to start businesses, by providing them with low cost, unsecured loans (charged at 6% p.a. over five years), as well as free business planning and access to expert business mentors. In June 2013 the scheme was extended to entrepreneurs of any age and in October 2013 was extended to Wales. As of 2013, 10,000 businesses have been backed by Start-up Loans, with £51m having been lent to businesses with an average loan size of £5,700. London and the North West account for over half of the allocated loans, with the rest of the regions accounting for between 6-8%.

The New Enterprise Allowance (NEA) was set up in August 2011 by the Department for Work and Pensions (DWP). It is designed to support those out of work for six months or more who want to start their own business. The scheme provides beneficiaries with mentoring to help them develop a business plan and provide business advice in the early period of trading. Participants are provided with access to a start-up loan of up to £1,000 and also a weekly allowance worth £1,274 over 26 weeks. By March 2014, the scheme had resulted in:

- *around 2,000 new businesses being set up each month – around 46,000 in total*
- *10,610 businesses being started by people aged 50 or over*
- *8,590 disabled people starting their own business.*

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Regional JEREMIE Funds and other ERDF Schemes

Provision of microloans has been a focus for some of the key publicly backed initiatives at a sub-national level. Although, the scale of intervention varies across the regions. Two regional JEREMIE funds have set up specific microfinance funds.

Reporting in November 2016, the £7.1 million Microloan Fund that was established in the North East as part of its JEREMIE fund of funds, North East Finance (http://www.northeastfinance.org/) has proved popular with strong demand from microbusinesses and is now fully invested at an average rate of £1.2m per annum. Loans were made at an interest rate of 9% per annum (deals over £5,000) with a one-off arrangement fee of 1.7% of advance. The North East Microloan Fund was only ever projected to recoup 80% of its investment capital and is on course to achieve target in this respect. The portfolio is comprised of around 55% start-ups (defined as being within 12 months of first trading). The total proportion of the fund made up by start-ups and early stage businesses has reduced over time from 66% at its high point and this is thought to be due to competition from Start-Up Loans. Current loss rate is running at 30% which is higher than North East Finance would like and is put down to a high proportion of early stage businesses and that the first fund manager contracted to run the fund on a 'social enterprise' model. They are continuing to manage the loss rate down and expect it to be in the high twenties at the end of returns phase.

Finance Yorkshire does not run a specific microfinance fund, but these businesses can secure funding through the £27m Small Business Loan Fund which is understood could make minimum investments of £15,000. The largest investment in ERDF backed microloans has been in Yorkshire and Humber, primarily through the £37m CDFI Social Enterprise Fund which had invested just over half its available funds (£18.9m) by 2014Q2 to 684 SMEs with an average investment of £24,000. The fund started investing in 2011 and will run into 2015.

Regeneris concluded that:

The available evidence presented in the literature indicates the presence and persistence of market failure in the provision of small amounts of finance to start-ups and micro-businesses in the UK and across its regions. The consultations confirm the presence of this market failure in all regions of England, including unmet demand in excess of the current private sector and public sector backed provision. There is clear evidence from the available surveys that micro-businesses encounter more difficulties in obtaining finance than larger SME (owing in large part to a comparative lack of collateral and/or track record).

Microbusiness owner/managers also struggled disproportionately in the wake of the financial crisis to secure finance from commercial banks - many are not applying for finance as they assume they will be rejected and the average size of loan to small businesses has increased, revealing banks' preference for typically larger loans.

These trends are likely to continue, at least in the short to medium term. The UK government has invested in a number of schemes to provide finance to start-ups alongside ERDF backed measures. However, while this represents a sizeable investment, the Start-up Loans Fund and New Enterprise Allowance only account for two sub-sectors of a far larger market place. While regional and other public sector backed local funds are delivering more across the regions, this is not consistent across England and is fairly modest compared to the potential need caused by market failure.

These factors combine to make a strong case for a continuation of publicly backed investment in micro and start-up finance in the future. Although the evidence on the precise scale of the

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overall gap or the finance range where the failure is concentrated is more tentative and anecdotal, it suggests that gaps are concentrated around the £5,000 area for microfinance and up to £70-80,000 for small loans.

The table below summarises the conclusions of the EIB/Regeneris Block 1 report.

	Microloans
Step 1 - Demand and Supply Characteristics	• *336,000 microbusinesses in YH (including 60,000 sole traders and 203,000 unregistered businesses)* • *Mixed performance on enterprise indices; start-up rates significantly below the national average* • *Lack of commercial provision of microloans* • *Range of schemes (CDFIs, local grant and loan schemes, start-up loans) operating in the region filling some of the gap at lower levels*
Step 2 – Unmet Demand	• *Strong evidence pointing towards particular, and growing, difficulties experienced by micro-businesses in obtaining finance* • *Theoretical unmet demand of c.£40m p.a. if only 10% of rejected firms had solid business plans (in addition to the gap being addressed by current JEREMIE and CDFIs)*
Step 3 – Market Failure	• *Strong demand for JEREMIE small loans (62% between £15k and £50k). Strong performance against economic outputs and reasonable financial returns given the typically higher default rates in this market segment* • *Overall performance of ERDF funded schemes led by Key Fund suggests market failure* • *Suggests viable firms in this segment*
Step 4 – Persistence of Market Failure	• *Consultations suggest banks likely to continue to focus on asset-backed, larger propositions in coming years* • *Market failure likely to continue for foreseeable future*
Step 5 – Specific Economic Development Priorities	• *Support for new businesses through start-up programmes identified as a priority for LEPs throughout region* • *Interventions to develop enterprise culture (e.g. through education) are emphasised in LEP strategies* • *Analysis to be further tested and reviewed as part of Block two work*
Step 6 – Delivery Capacity	*A good track record in the region of delivering publicly backed Funds. JEREMIE and other interventions have helped to develop the infrastructure, linkages and networks in the region, including stimulating demand for a range of types of finance and stronger investment readiness. Provides strong platform for any future intervention.* • *Analysis to be further tested and reviewed as part of Block two work as the potential investment strategy and delivery options are developed.*

In 2015, Blue Sky Corporate Finance was commissioned to work with the combined Yorkshire and Humber LEPs to assist them in the drafting a Block II Ex-Ante Investment Strategy for the deployment of financial instruments under the ESIF/ERDF 2014-20 programme.

As part of the work undertaken in the development of the investment strategy, Blue Sky built upon the findings of the Ex-Ante Assessment and undertook a qualitative consultation of financial intermediaries and fund managers on the basis that this group was uniquely well placed to form an overview of the finance market for SMEs.

With reference to microloans, the consultation feedback was:

- That demand is significant and unlikely to reduce in the foreseeable future – this is self-evident from the ongoing performance of operators like Sirius, Key Fund, Finance for Enterprise and Business Enterprise Fund.
- Microloans and business debt provision should be split – market approaches to the very smallest businesses (requiring smaller deals) requires a more focussed, open-minded and flexible approach that goes beyond normal credit management.
- Many respondents felt that the CDFIs had excelled in the Yorkshire/Humber region where larger funds and their fund managers had migrated up-market to bigger and ‘safer’ deals.

The Yorkshire and Humber LEP’s Investment Strategy that was drafted as a result, recommended that a £100m JEREMIE-style fund of funds should be considered that would invest across four sub-funds respectively for equity, business loans (to include a mezzanine strand), early-stage seedcorn and microloans.

	Debt				Equity			Totals
Total Fund Value	**Micro**	**Business Loans**	**Mezzanine**	**Total debt**	**Equity**	**Seedcorn**	**Total Equity**	**Total fund**
£100m	15	20	15	50	25	25	50	100

The recommendations of the Yorkshire and Humber LEPs Investment Strategy were to be reflected in plans developed by British Business Bank for the NPIF. However, it is now understood that NPIF is expected to make an initial allocation of just £10m that is to be applied to microloan funding across a five year investment phase in the Yorkshire and Humber and Tees Valley areas.

The ESIF allocation for Sheffield City Region is 22.8% of the total assembled for Yorkshire and Humber and the Tees Valley. If this same proportion is applied to the initial allocation of £10m for the NPIF Microfinance, I suggests that Sheffield City Region’s share of investment is likely to be £2.28m or £456,000 per annum over the five year investment phase.

The Regeneris/EIF Block I Ex-Ante Assessment concluded that there was an un-met demand for microbusiness finance in the Yorkshire and Humber region of £40m per annum. Sheffield City Region’s share of SME distribution is 18% (Source NOMIS 2015) and using this benchmark, it may be established that Sheffield City Region’s share of the market gap is equivalent to £7.2m per annum. Once the NPIF Microfinance Fund’s estimated provision of £456,000 is taken into account, there appears to remain a supply gap for microloans to viable growth businesses in Sheffield City Region of around £6.744m per annum. Interestingly, this is comparable to the level of microfinance that gap funders have been providing successfully over many years in Sheffield City Region.

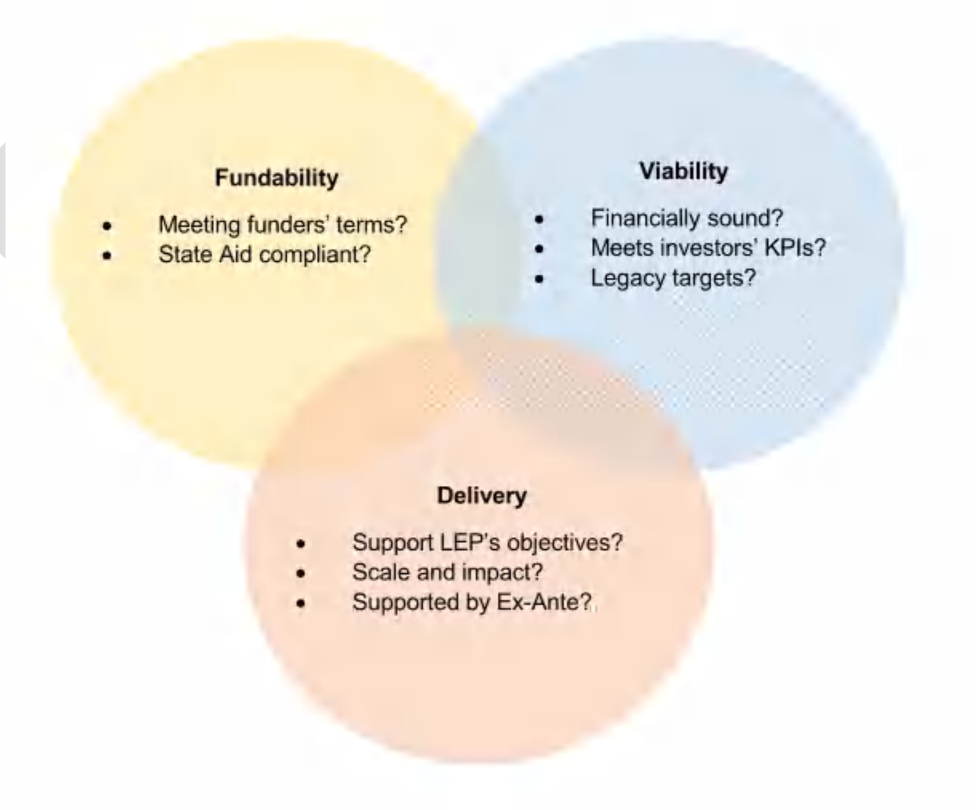
Stage 2 Approaches that might be used to address the market failure; including the do-nothing option and the launch of a new microloan fund.

Based upon the Block 1 Ex-Ante Assessment, it is possible to estimate that there is unmet demand for microloans of around £6.9m per annum in the Sheffield City Region, even after the launch of the Northern Powerhouse Investment fund

The following options have been considered: -

- **Option 1**: To extend Sheffield City Region's expected share of impacts from the NPIF Microfinance Fund by 'topping up' at Limited Partnership level with additional geographically targeted capital.
- **Option 2**: Where Sheffield City Region (via SCC or SYCA) assembles a £10m investment pot as grant applicant that would be allocated to a procured fund manager/operator under a repayable grant agreement. A further £10m would be leveraged as a loan from a bank or potentially from SYIF legacy to form a £20m investment fund. This is a similar mechanism as those used to establish some investment initiatives in previous programmes.
- **Option 3**: Consider the use of a crowd funding platform by assembling an investment pot for allocation through a brokered vehicle such as the Funding Circle.
- **Option 4**: Do nothing where microloan funding is left to the commercial market, the NPIF Microfinance Fund and alternative finance providers.

For this exercise, options have been set out in a matrix that compares each option against three primary success factors that are believed to be fundamental to any new financial instrument. They are Fundability, Viability and Delivery represented by the following diagram.



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Option	Key features	Success factor	Assessment	Elimination status
Option 1: To extend Sheffield City Region's expected share of impacts from the NPIF Microfinance Fund by 'topping up' at Limited Partnership level with additional geographically targeted capital	Uses NPIF structure. Could enable higher levels of leverage. SCR investment terms built into fund manager's contract. Could simplify approach to a single point of access by avoiding launch of a new fund.	**Fundability**	Fund structures now closed to new investment. New commercial funders unlikely to want to subordinate to EIB. If needed, match funding is likely to be already allocated.	**ELIMINATE OPTION** - BBB unlikely to admit a new local investor.
		Viability		
		Delivery		
Option 2: Where Sheffield City Region (via SCC or SYCA) assembles a £10m investment pot as grant applicant that would be allocated to a procured fund manager/operator under a repayable grant agreement. A further £10m would be leveraged as a loan from a bank or potentially from SYIF legacy to form a £20m investment fund. This is a similar mechanism as those used to establish some investment initiatives in previous programmes.	Management by a procured fund manager. Funds to be drawn from EU/LEP sources (£10m) leveraging loans from bank and SYIF legacies (£10m).	**Fundability**	Applicant for grant and loans would be SCC or SYCA. If a new 'topco' is required to be 'armslength', role would have to be procured. All other funding subordinated to the bank. Lending delivered under de-minimis or MEOPs for State Aid. Legacies could be directed to SY investment.	**POTENTIALLY VIABLE:** Check SYIF and lender's appetites. Test informally with fund managers. Requires agreement on representation/governance, geography/sectoral delivery targets. Consider in-area investment readiness and market making activity.
		Viability	Viable - see model.	
		Delivery	Fund would close funding gap by £4m pa. Investment strategy required to establish operating principles across fund - targets, sectors, dealflow, etc...	
Option 3: Consider the use of a crowd funding platform by assembling an investment pot for allocation through a brokered vehicle such as Funding Circle.	Funding applied alongside crowd funding sources only for SCR businesses. Model has already been adopted by some local authorities.	**Fundability**	Potentially complex for match funding so EU funding likely to be out of scope. Commercial co-finance unlikely. Leverage can be significant.	**FURTHER WORK REQUIRED** - Look at the experiences of other public sector investors that have used this route. Other co-finance may fall away.
		Viability	Commercial investor if willing to support, may limit activity to 'safer' secured debt and away from early stage and longer term dealflow.	
		Delivery	Crowd funding is still a young concept - uncertain how target market failure is likely to be impacted through this route. Some warn of risk of high losses as investor appetite outgrows safer investment market.	
Option 4: Do nothing where Microloan Funding is left to the commercial market, to the NPIF Microloan Fund and alternative finance providers such as the Key Fund and Finance for Enterprise.	Significant unmet market gap would remain making SCR's strategic business support goals more difficult to achieve.	**Fundability**	There is no evidence that commercial backers are prepared to support a 'first-loss' loan fund. All will require subordinated partners to secure their position against risk.	**ELIMINATE OPTION** - Significant unmet market for microloans is likely to remain for foreseeable future. Evidence of a significant gap demonstrated by FFE track record. Likely to impact on business formation and development and SCR Growth Strategy.
		Viability	Leading alternative providers such as FFE and Key Fund have little or no access to new investment capital without public intervention.	
		Delivery	There is no evidence that the commercial market has any appetite to fund smaller business loans in the way that they did pre-2008.	

The most attractive option would appear to be Option 2 that would see SCR LEP assemble a £10m investment pot from EU/LEP grant sources and leverage with loans from a bank or from SYIF legacy to form a £20m fund.

The fund would be established by Sheffield City Council or the Sheffield City Region Combined Authority as applicant for grants and loans with a professional fund manager procured to manage investment activity. It is likely that public sector funding would need to be subordinated for 'first-loss' to the bank loan. Lenders to the fund would also need to be competitively procured.

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Stage 3: Prepare a financial model to test a number of sensitivities.

Financial models have been prepared to support the evaluation of Option 2 identified in Stage 2 of this report.

In the first instance, a financial model has been constructed for a £20m fund that could invest between £25,000 and £100,000, with an average deal size of £40,000 over 36 months. Key assumptions are summarised below:

Fund size	£20,000,000
Investment phase (years)	5
Returns phase (years)	3
Lower limit of investment	£25,000
Upper limit of investment	£50,000 (£100,000 by exception)
Average deal value	£40,000
Average loan term	36 months
Effective loss rate by value	12%
Interest rate (over base)	10% (0.25%)
Arrangement fee	3% of advance
Annual monitoring fee	0% of advance
Capital from SCR (as equity)	£10,000,000
Capital from legacies (as loan)	£5,000,000
Capital from bank loan	£5,000,000
Fund set up costs	£75,000
Interest on bank loan	3% (0.5% on undrawn funds)
Fund management fees, set-up and operating costs	£2,142,973 (1.3% pa average)

In summary, it would appear from the model that a fund of £20,000,000 would provide investment of an average of £40,000 to around 400 businesses with a quarter of invested businesses receiving a second loan of the same value.

Using performance standards for deal flow and delinquency that are typical for CDFIs in the region, a legacy of £9.798m may be expected which represents a recoupment on public investment after repayment of loans of 98%.

Note that the financial model indicates that the fund would require a temporary cash flow facility of up to £118k in the first four months of operation.

Results are summarised below:

Businesses receiving investment	400 (1.25 loans each)
Proportion of start-ups	10%
Business start-ups	40
New jobs created	1,200
Leverage (fund level)	£20,000,000
Legacy (after costs)	£9,798,150

SCR LEP has also asked that a separate strand for smaller loans to earlier stage businesses might be modelled. Again, this can be adjusted to test sensitivities for losses, pricing and the total proportion of the fund but the operating assumptions are presented in the table below:

	Strand 1	Strand 2
Fund size	£18,000,000	£2,000,000
Investment phase (years)	5	5
Returns phase (years)	3	3
Lower limit of investment	£25,000	£5,000
Upper limit of investment	£50,000 (£100,000 by exception)	£25,000
Average deal value	£40,000	£7,500
Average loan term	36 months	36 months
Effective loss rate by value	12%	20%
Interest rate (over base)	10% (0.25%)	12% (0.25%)
Arrangement fee	3% of advance	3% of advance
Annual monitoring fee	0% of advance	0% of advance
Capital from SCR (as equity)	£10,000,000	
Capital from legacies (as equity)	£5,000,000	
Capital from bank loan	£5,000,000	
Fund set up costs	£75,000	
Interest on bank loan	3% (0.5% on undrawn funds)	
Fund management fees, set-up and operating costs	£2,481,802 (1.6% pa average)	

In this second model, £2m of the proposed fund is applied in Strand 2 to smaller deals that average £7,500 each. A total of 627 businesses receive loans under this model. It is assumed that earlier stage, small deals are inherently more risky and require more resource input to arrange and manage, so the loss rate on this strand has been increased to 20% and the management cost raised by 16%. Similarly, it is assumed that 40% is to be placed in start-ups where job creation occurs at a lower level that in Strand 1 in which a greater proportion (90%) of clients are established businesses. Results are as follows:

	Strand 1	Strand 2	Total
Businesses receiving investment	360 (1.25 loans each)	267 (1 loan each)	627
Proportion of start-ups	10%	40%	14%
Business start-ups	36	107	143
New jobs created	1,080	800	1,880
Leverage (deal level)	£9,000,000	£2,000,000	£10,000,000
Legacy (after costs)	£9,424,798		

With the incorporation of Strand 2, the model suggests that the legacy would be reduced to £9.42m, equivalent to a recoupment of 94% against the £10m public investment.

Note that the financial model indicates that this fund variant would require a temporary cash flow facility of up to £130.5k in the first six months of operation.

Screen shots from the model are provided at Appendix 1 and 2 at the rear of this report. The model has been configured to represent what are felt to be current market rates for loan pricing. These may be flexed to test sensitivities (for example, on deal flow characteristics, management cost, rates, losses and fees) on request.

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Stage 4: Consider a range of related operating issues.

Procurement

Commission guidelines suggest that fund managers for EU supported financial instruments must be procured through an open, competitive and compliant process by or on behalf of a fund operator. DCLG as managing authority are empowered to directly undertake the procurement of a fund manager but are not known to have undertaken to do so elsewhere; and anecdotally are thought to be reluctant to perform this role.

Another option would be for an Entrusted Entity to undertake the procurement process. This is the role performed by the British Business Bank (BBB) in the case of NPIF. Although BBB could almost certainly handle this process, it has not yet been approached to determine its appetite for managing such a task. Sheffield City Council or the Sheffield City Region Combined Authority are also likely to qualify as an entrusted entity but in doing so, would be required to accept procurement risk and be the applicant for grant and bank loans. Neither has been approached at this stage.

Fund size and viability

There is very little research evidence on the optimum size of a public sector backed financial instrument. The often quoted 'rule' that a fund size of less than £20m is sub-optimal is based upon some research undertaken by NESTA and this research related specifically to equity funds.

What the regional CDFI's and other regional microloan funds have demonstrated over the past few years is that a fund size of almost any quantum can be managed.

More recently, with the tightening of bank credit, many more investable firms have been forced to seek finance from the alternative market and as a result, many CDFI fund operators are quoting loss rates between 9 to 12%. The fund modelled for this report has been modelled with an effective loss rate of 12% - the upper end of the CDFI range and rising to 20% for the small loan strand of the second option.

The financial model suggests that the total recoupment from a £20,000,000 fund organised as a fixed-term undertaking is likely to be in the range of £9.2m - £9.7m depending on the use of a small loan strand that would be expected to make greater losses.

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Conclusions

The Block 1 Ex-Ante Assessment for the Yorkshire and Humber Region undertaken by EIB/Regeneris indicates an unmet need for microloans for viable firms (assumed to be just 10% of total demand) in Sheffield City Region of around £6.28m per year after accounting for provision from the planned Northern Powerhouse Investment Fund.

Results from Finance for Enterprise (FFE), an alternative finance provider that is active primarily in Sheffield City Region, has lent between £4.2m and £7.5m per year in loans of an average of around £40k since 2014. As one of its terms of engagement, FFE must only lend to companies that have already approached and been at least partially declined by commercial sources of finance. For this reason and that loss rates at FFE are exceptionally low even by the standards of comparable loans funds elsewhere in the UK, it is reasonable to conclude that FFE's lending activity carries a high level of additionality.

Based on pro-rated sub-regional shares of ESIF allocations, the Northern Powerhouse Investment Fund may invest as little as £450k per annum in Sheffield City Region through its Microfinance Fund. Investment at such a low level may not make a significant impact on demand and may suppress Sheffield City Region's Growth Strategy for small business creation and development.

This report outlines how a dedicated SCR LEP microloan fund could invest £4m per year in a total of 400 businesses, leverage at least a similar value of co-investment, support the creation of around 1,200 new jobs and appears to be able to meet a significant proportion of unmet need and leave a market gap to ensure that little or no competition with the NPIF fund or any other commercial operator could arise. A financial model developed for this report suggests that a new £20m microloan fund using £10m of public investment could viably support at least 400 firms with loans averaging £40,000 each and could generate a legacy of £9.7m that would be available for future re-investment.

If the same fund was to incorporate a 10% strand that could be lent in smaller deals of an average of £7,500, it is assumed that losses and management costs would be greater, leading to a reduced legacy of around £9.4m.

Both fund model variants would require a temporary cash flow facility of up to £130.5k for the first six months of operation.

Recommendation

It is recommended that:

- Internal discussions should continue within SCR LEP to determine the value of ESIF and other contributions that might be made available to support a new microloan fund. A sum of £10m has been assumed in this report.
- A formal approach to the board of South Yorkshire Investment Fund (SYIF) be made to determine its appetite to support a microloan fund through the investment of legacies either as a loan with interest or as equity, with a stake in future legacies. £5m has been suggested here as a loan with interest.
- An approach be made to banks to determine their appetite to provide a loan in the region of £5m to a microloan fund and the likely terms of engagement.

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- An approach should be made to British Business Bank, Sheffield City Council and the Sheffield City Region Combined Authority to determine their willingness to act as applicant for grant and loans and to lead the procurement of a fund manager.

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Appendix 1: Extracts from financial model of £20m microloan fund – options a and b.

Assumptions Master

Fund name:			
Microloan			
Product name		Total	**Loan 1**
Fund life	Months (max 144)		96
Investment period	Months		60
Total fund size	£'s	20,000,000	**20,000,000**
Investment start date	Date		01/01/17
Investment end date	£'s		31/12/21
Proportion of final portfolio	£'s	100%	100%
Lower limit on investment size	£'s		25,000
Upper limit on investment size	£'s		100,000
Average value of initial investment	£'s		40,000
Loans	Number	500	500
Non-performing portfolio	%		15%
Effective default rate	%		
Non-performing portfolio default month	%		18
Proportion of portfolio fully performing	Month number		85%
Proportion of failed investments recovered	%		20%
Failed investments recovered months after default	% (Loan only)		9
Base rate	Month number		0.25%
Premium over Base	%		10.00%
Default portfolio	% of portfolio		15%
Fund end month	Month		96
Repayment (capital and interest)			
First repayment	Month		1
Final repayment	Month number		36
Repayment method	Month number		S/L
Management fees (Fund Manager)			
Investment period start		1	1
Investment period end	Month	60	60
Realisation period start	Month	61	61
Realisation period end	Month	96	96
Undrawn commitments -investment period	Annual rate (charged quarterly)		1.25%
Stepdown>£20m			
Drawndown commitments during investment period	Annual rate (charged quarterly)		1.50%
Stepdown>£20m			
Step down (deduct from A&C) >£20million	Annual rate (charged quarterly)		0.50%
Step down per annum Realisation period	Annual rate (charged quarterly)		24.00%
Investment Value	GBP		20,000,000
Stepdown over	GBP		20,000,000
Drawdown minimum tranche	GBP		600,000
Investment Period	Years		5
Realisation Period	Years		3
Management fees (SME)			
Arrangement fee (payment time zero)	%		3.000%
Monitoring fee - Annual IRR	%		0.000%
Monitoring fee - Monthly IRR	%		0.000%
Deal abort cost	Month	10,000	10,000
Audit costs	£ per annum	10,000	10,000
Setup Cost	£	75,000	75,000
Setup Cost month paid	Month	1	1

Outputs	Month		
Co-investment	%		100%
New businesses created (start-ups)	%		10%
Jobs at start – new SME investments	%		1
Jobs at start – new SMEs	No per business	40	40
Jobs at start – existing SME investments (safeguarded jobs)	No per business		10
Jobs at start – existing SMEs (safeguarded jobs)	Number	3,600	3,600
Jobs after 10 years- successful new SME investments	Number		3
Jobs after 10 years- successful new SMEs	Number	120	120
Jobs after 10 yrs -successful existing SME investments	Number		13
Jobs after 10 yrs -successful existing SMEs	Number	4,680	4,680
No of investments per business	Number	1	1.25
Businesses supported	Number	400	400
New to market products	%		1%
New to market products	Number	4	4
New to company products	%		3%
New to company products	Number	12	12
New businesses created (start-up)	Number	40	40
Private sector leverage	%		100%
Private sector leverage - value	£	20,000,000	20,000,000
Total New jobs	no	1,200	1,200

Investment profile			
	Year 1	%	20%
	Year 2	%	20%
	Year 3	%	20%
	Year 4	%	20%
	Year 5	%	20%
	Year 6	%	0%
	Year 7	%	0%
			100%
No of years of investment			
Investment profile (cumulative)			
	Year 1	%	20%
	Year 2	%	40%
	Year 3	%	60%
	Year 4	%	80%
	Year 5	%	100%
	Year 6	%	
	Year 7	%	
			5

Fund Assumptions	
Fund Size - £	20,000,000
Grant Element	10,000,000
Loan Element	10,000,000
Equity Element	-
	OK

Loan Element	
Interest Rate (Annual Interest on Loan to Fund) - on drawn funds	3.00%
Interest Rate (Annual Interest on Loan to Fund) - on undrawn funds	0.50%
Loan Repayment Period (Months) - period after any capital repayment holiday	80
Capital Repayment Holiday (before capital repayments commence)	12
Interest Repayment Holiday (before interest repayments commence)	12

	No.	£
Cash out		(10,000,000)
Cash in		9,798,150
Net		(201,850)
Management fees and other operational costs		2,142,973
Loans advanced		20,000,000
Private sector leverage - value		20,000,000
No of loans advanced	500	
Jobs at start – new SMEs	40	
Jobs at start – existing SMEs (safeguarded jobs)	3,600	
Jobs after 10 years- successful new SMEs	120	
Jobs after 10 yrs -successful existing SMEs	4,680	
Businesses supported	400	
New to the market products	4	
New to company products	12	
New Jobs created	1,200	
New businesses created (start-up)	40	

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Profit and loss account	Total	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
	£	£	£	£	£	£	£	£	£	£	£	£	£
Income													
Negotiation fees													
Loan 1	**600,000**	120,000	120,000	120,000	120,000	120,000	-	-	-	-	-	-	-
Loan 2	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Monitoring fees	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 1	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 2	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Interest/dividends	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 1	**3,182,801**	202,247	483,767	614,798	636,560	636,560	434,314	152,793	21,762	-	-	-	-
Loan 2	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Bad debt recovered	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 1	**322,920**	-	-	48,438	64,584	64,584	64,584	64,584	16,146	-	-	-	-
Loan 2	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Total income	**4,105,721**	**322,247**	**603,767**	**783,236**	**821,144**	**821,144**	**498,898**	**217,377**	**37,908**	**-**	**-**	**-**	**-**
Expenditure													
Fund managers fees	**1,907,973**	255,000	265,000	275,000	285,000	295,000	228,000	173,280	131,693	-	-	-	-
Set-up costs/audit	**155,000**	85,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	-	-	-	-
Technical dd/abort costs	**80,000**	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	-	-	-	-
Interest on Fund Loan	**550,000**	32,500	68,125	83,125	98,125	113,125	95,625	50,625	8,750	-	-	-	-
Movement on bad debt provision	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 1	**1,614,599**	-	161,460	322,920	322,920	322,920	322,920	161,460	-	-	-	-	-
Loan 2	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditure	**4,307,572**	**382,500**	**514,585**	**701,045**	**726,045**	**751,045**	**666,545**	**405,365**	**160,443**	**-**	**-**	**-**	**-**
Net profit	**(201,850)**	**(60,253)**	**89,182**	**82,191**	**95,100**	**70,100**	**(167,647)**	**(187,988)**	**(122,535)**	**-**	**-**	**-**	**-**
Profit and loss b/fwd	0	**-**	**(60,253)**	**28,929**	**111,120**	**206,220**	**276,319**	**108,672**	**(79,316)**	**(201,850)**	**(201,850)**	**(201,850)**	**(201,850)**
Profit and loss c/fwd		**(60,253)**	**28,929**	**111,120**	**206,220**	**276,319**	**108,672**	**(79,316)**	**(201,850)**	**(201,850)**	**(201,850)**	**(201,850)**	**(201,850)**

Cash flow projections	Total	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
	£	£	£	£	£	£	£	£	£	£	£	£	£
Inflows													
Negotiation fees													
Loan 1	**600,000**	120,000	120,000	120,000	120,000	120,000	-	-	-	-	-	-	-
Loan 2	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Monitoring fees	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 1	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 2	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Funds Drawn Down	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Grant Draw Down	**10,000,000**	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	-	-	-	-	-	-	-
Loan Draw Down	**10,000,000**	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	-	-	-	-	-	-	-
Equity Drawn Down	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Bad debts recovered	**322,920**	-	-	48,438	64,584	64,584	64,584	64,584	16,146	-	-	-	-
Repayments													
Loan 1	**21,568,203**	842,002	2,362,463	3,708,047	4,313,641	4,313,641	3,471,639	1,951,178	605,594	-	-	-	-
Loan 2	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Total income	**42,491,123**	**4,962,002**	**6,482,463**	**7,876,485**	**8,498,225**	**8,498,225**	**3,536,223**	**2,015,762**	**621,740**	**-**	**-**	**-**	**-**
Outflows													
Fund managers fees	**1,907,973**	255,000	265,000	275,000	285,000	295,000	228,000	173,280	131,693	-	-	-	-
Set-up costs/audit	**155,000**	85,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	-	-	-	-
Technical dd/abort costs	**80,000**	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	-	-	-	-
New investments													
Loan 1	**20,000,000**	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	-	-	-	-	-	-	-
Loan 2	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Repayment of Fund Loan	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Capital	**10,000,000**	-	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,000,000	-	-	-	-
Interest	**550,000**	-	82,500	82,500	82,500	82,500	82,500	82,500	55,000	-	-	-	-
Total outflows	**32,692,973**	**4,350,000**	**5,867,500**	**5,877,500**	**5,887,500**	**5,897,500**	**1,830,500**	**1,775,780**	**1,206,693**	**-**	**-**	**-**	**-**
Net flow	**9,798,150**	**612,002**	**614,963**	**1,998,985**	**2,610,725**	**2,600,725**	**1,705,723**	**239,982**	**(584,953)**	**-**	**-**	**-**	**-**
Inflows less outflows	**9,798,150**	**612,002**	**614,963**	**1,998,985**	**2,610,725**	**2,600,725**	**1,705,723**	**239,982**	**(584,953)**	**-**	**-**	**-**	**-**
Balance b/fwd		**-**	**612,002**	**1,226,965**	**3,225,950**	**5,836,675**	**8,437,400**	**10,143,123**	**10,383,105**	**9,798,152**	**9,798,152**	**9,798,152**	**9,798,152**
Balance c/fwd	**9,798,150**	**612,002**	**1,226,965**	**3,225,950**	**5,836,675**	**8,437,400**	**10,143,123**	**10,383,105**	**9,798,152**	**9,798,152**	**9,798,152**	**9,798,152**	**9,798,152**
Receipts from investments	**22,491,122**	**962,002**	**2,482,463**	**3,876,485**	**4,498,224**	**4,498,224**	**3,536,223**	**2,015,761**	**621,740**	**-**	**-**	**-**	**-**

Balance sheets	Year 1 £	Year 2 £	Year 3 £	Year 4 £	Year 5 £	Year 6 £	Year 7 £	Year 8 £	Year 9 £	Year 10 £	Year 11 £	Year 12 £
Investment portfolio												
Loan 1	3,360,245	5,320,089	5,903,921	5,903,921	5,903,921	2,543,676	583,832	-	-	-	-	-
Loan 2	-	-	-	-	-	-	-	-	-	-	-	-
Loan 3	-	-	-	-	-	-	-	-	-	-	-	-
Total Investment portfolio	**3,360,245**	**5,320,089**	**5,903,921**	**5,903,921**	**5,903,921**	**2,543,676**	**583,832**	**-**	**-**	**-**	**-**	**-**
Current assets												
Bank account	612,002	1,226,965	3,225,950	5,836,674	8,437,399	10,143,121	10,383,102	9,798,149	9,798,149	9,798,149	9,798,149	9,798,149
Net current assets	**612,002**	**1,226,965**	**3,225,950**	**5,836,674**	**8,437,399**	**10,143,121**	**10,383,102**	**9,798,149**	**9,798,149**	**9,798,149**	**9,798,149**	**9,798,149**
Investment Fund Loan Liability	2,032,500	2,518,125	3,018,750	3,534,375	4,065,000	2,578,125	1,046,250	-	-	-	-	-
Net Assets	**1,939,747**	**4,028,929**	**6,111,120**	**8,206,220**	**10,276,319**	**10,108,672**	**9,920,684**	**9,798,149**	**9,798,149**	**9,798,149**	**9,798,149**	**9,798,149**
Represented by:												
Equity	-	-	-	-	-	-	-	-	-	-	-	-
Grant	2,000,000	4,000,000	6,000,000	8,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Total capital	2,000,000	4,000,000	6,000,000	8,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Profit and loss account	(60,253)	28,929	111,120	206,220	276,319	108,672	(79,316)	(201,851)	(201,851)	(201,851)	(201,851)	(201,851)
Total funds	**1,939,747**	**4,028,929**	**6,111,120**	**8,206,220**	**10,276,319**	**10,108,672**	**9,920,684**	**9,798,149**	**9,798,149**	**9,798,149**	**9,798,149**	**9,798,149**

Draft

Appendix 2: Extracts from financial model of £20m microloan fund with a separate £2m loan strand for smaller, early stage deals'

Assumptions Master

Fund name:				
Microloan				
Product name		Total	**Loan 1**	**Loan 2**
Fund life	Months (max 144)		96	96
Investment period	Months		60	60
Total fund size	£'s	20,000,000	**18,000,000**	2,000,000
Investment start date	Date		01/01/17	01/01/17
Investment end date	£'s		31/12/21	31/12/21
Proportion of final portfolio	£'s	100%	90%	10%
Lower limit on investment size	£'s		25,000	5,000
Upper limit on investment size	£'s		100,000	100,000
Average value of initial investment	£'s		40,000	7,500
Loans	Number	717	450	267
Non-performing portfolio	%		15%	25%
Effective default rate	%			
Non-performing portfolio default month	%		18	18
Proportion of portfolio fully performing	Month number		85%	75%
Proportion of failed investments recovered	%		20%	20%
Failed investments recovered months after default	% (Loan only)		9	9
Base rate	Month number		0.25%	0.25%
Premium over Base	%		10.00%	12.00%
Default portfolio	% of portfolio		15%	25%
Fund end month	Month		96	96
Repayment (capital and interest)				
First repayment	Month		1	1
Final repayment	Month number		36	36
Repayment method	Month number		S/L	S/L

Management fees (Fund Manager)

Investment period start		1	1	1
Investment period end	Month	60	60	60
Realisation period start	Month	61	61	61
Realisation period end	Month	96	96	96
Undrawn commitments -investment period	Annual rate (charged quarterly)		1.50%	
Stepdown>£20m				
Drawndown commitments during investment period	Annual rate (charged quarterly)		1.75%	
Stepdown>£20m				
Step down (deduct from A&C) >£20million	Annual rate (charged quarterly)		0.50%	
Step down per annum Realisation period	Annual rate (charged quarterly)		24.00%	
Investment Value	GBP		20,000,000	
Stepdown over	GBP		20,000,000	
Drawdown minimum tranche	GBP		600,000	
Investment Period	Years		5	
Realisation Period	Years		3	

Management fees (SME)

Arrangement fee (payment time zero)	%		3.000%	3.000%
Monitoring fee - Annual IRR	%		0.000%	0.000%
Monitoring fee - Monthly IRR	%		0.000%	0.000%
Deal abort cost	Month	10,000	10,000	
Audit costs	£ per annum	10,000	10,000	
Setup Cost	£	75,000	75,000	
Setup Cost month paid	Month	1	1	

Outputs	Month			
Co-investment	%		100%	100%
New businesses created (start-ups)	%		10%	40%
Jobs at start – new SME investments	%		1	1
Jobs at start – new SMEs	No per business	143	36	107
Jobs at start – existing SME investments (safeguarded jobs)	No per business		10	10
Jobs at start – existing SMEs (safeguarded jobs)	Number	4,840	3,240	1,600
Jobs after 10 years- successful new SME investments	Number		3	3
Jobs after 10 years- successful new SMEs	Number	428	108	320
Jobs after 10 yrs -successful existing SME investments	Number		13	13
Jobs after 10 yrs -successful existing SMEs	Number	6,292	4,212	2,080
No of investments per business	Number	1	1.25	1.00
Businesses supported	Number	627	360	267
New to market products	%		1%	1%
New to market products	Number	24	4	21
New to company products	%		3%	3%
New to company products	Number	19	11	8
New businesses created (start-up)	Number	143	36	107
Private sector leverage	%		100%	100%
Private sector leverage - value	£	20,000,000	18,000,000	2,000,000
Total New jobs	no	1,880	1,080	800

Investment profile				
	Year 1	%	20%	20%
	Year 2	%	20%	20%
	Year 3	%	20%	20%
	Year 4	%	20%	20%
	Year 5	%	20%	20%
	Year 6	%	0%	0%
	Year 7	%	0%	0%
			100%	100%
No of years of investment				
Investment profile (cumulative)				
	Year 1	%	20%	20%
	Year 2	%	40%	40%
	Year 3	%	60%	60%
	Year 4	%	80%	80%
	Year 5	%	100%	100%
	Year 6	%		
	Year 7	%		
			5	5

Fund Assumptions		
Fund Size - £	20,000,000	
Grant Element	10,000,000	
Loan Element	10,000,000	
Equity Element	-	
	OK	
Loan Element		
Interest Rate (Annual Interest on Loan to Fund) - on drawn funds	3.00%	
Interest Rate (Annual Interest on Loan to Fund) - on undrawn funds	0.50%	
Loan Repayment Period (Months) - period after any capital repayment holiday	80	Not Possible
Capital Repayment Holiday (before capital repayments commence)	12	Not Possible
Interest Repayment Holiday (before interest repayments commence)	12	Not Possible

	No.	£
Cash out		(10,000,000)
Cash in		9,424,798
Net		(575,202)
Management fees and other operational costs		2,481,802
Loans advanced		20,000,000
Private sector leverage - value		20,000,000
No of loans advanced	717	
Jobs at start – new SMEs	143	
Jobs at start – existing SMEs (safeguarded jobs)	4,840	
Jobs after 10 years- successful new SMEs	428	
Jobs after 10 yrs -successful existing SMEs	6,292	
Businesses supported	627	
New to the market products	24	
New to company products	19	
New Jobs created	1,880	
New businesses created (start-up)	143	

Draft

	Total	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
	£	£	£	£	£	£	£	£	£	£	£	£	£
Income													
Negotiation fees													
Loan 1	**540,000**	108,000	108,000	108,000	108,000	108,000	-	-	-	-	-	-	-
Loan 2	**60,000**	12,000	12,000	12,000	12,000	12,000	-	-	-	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Monitoring fees	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 1	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 2	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Interest/dividends	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 1	**2,864,521**	182,022	435,390	553,318	572,904	572,904	390,882	137,514	19,586	-	-	-	-
Loan 2	**372,821**	24,233	57,799	72,216	74,564	74,564	50,332	16,765	2,349	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Bad debt recovered	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 1	**290,628**	-	-	43,594	58,126	58,126	58,126	58,126	14,531	-	-	-	-
Loan 2	**54,558**	-	-	8,184	10,912	10,912	10,912	10,912	2,728	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Total income	**4,182,528**	**326,255**	**613,190**	**797,312**	**836,506**	**836,506**	**510,251**	**223,316**	**39,194**	**-**	**-**	**-**	**-**
Expenditure													
Fund managers fees	**2,246,802**	305,000	315,000	325,000	335,000	345,000	266,000	202,160	153,642	-	-	-	-
Set-up costs/audit	**155,000**	85,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	-	-	-	-
Technical dd/abort costs	**80,000**	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	-	-	-	-
Interest on Fund Loan	**550,000**	32,500	68,125	83,125	98,125	113,125	95,625	50,625	8,750	-	-	-	-
Movement on bad debt provision	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 1	**1,453,139**	-	145,314	290,628	290,628	290,628	290,628	145,314	-	-	-	-	-
Loan 2	**272,789**	-	27,279	54,558	54,558	54,558	54,558	27,279	-	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditure	**4,757,730**	**432,500**	**575,718**	**773,311**	**798,311**	**823,311**	**726,811**	**445,378**	**182,392**	**-**	**-**	**-**	**-**
Net profit	**(575,202)**	**(106,245)**	**37,472**	**24,001**	**38,195**	**13,195**	**(216,560)**	**(222,062)**	**(143,198)**	**-**	**-**	**-**	**-**
Profit and loss b/fwd	0	**-**	**(106,245)**	**(68,773)**	**(44,772)**	**(6,577)**	**6,618**	**(209,942)**	**(432,004)**	**(575,202)**	**(575,202)**	**(575,202)**	**(575,202)**
Profit and loss c/fwd		**(106,245)**	**(68,773)**	**(44,772)**	**(6,577)**	**6,618**	**(209,942)**	**(432,004)**	**(575,202)**	**(575,202)**	**(575,202)**	**(575,202)**	**(575,202)**

Cash flow projections	Total	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
	£	£	£	£	£	£	£	£	£	£	£	£	£
Inflows													
Negotiation fees													
Loan 1	**540,000**	108,000	108,000	108,000	108,000	108,000	-	-	-	-	-	-	-
Loan 2	**60,000**	12,000	12,000	12,000	12,000	12,000	-	-	-	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Monitoring fees	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 1	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 2	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Funds Drawn Down	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Grant Draw Down	**10,000,000**	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	-	-	-	-	-	-	-
Loan Draw Down	**10,000,000**	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	-	-	-	-	-	-	-
Equity Drawn Down	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Bad debts recovered	**345,186**	-	-	51,778	69,037	69,037	69,037	69,037	17,259	-	-	-	-
Repayments													
Loan 1	**19,411,382**	757,802	2,126,217	3,337,242	3,882,276	3,882,276	3,124,475	1,756,060	545,034	-	-	-	-
Loan 2	**2,100,032**	86,668	240,837	365,006	420,006	420,006	333,338	179,169	55,001	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Total income	**42,456,600**	**4,964,470**	**6,487,054**	**7,874,026**	**8,491,320**	**8,491,320**	**3,526,850**	**2,004,266**	**617,294**	**-**	**-**	**-**	**-**
	(0)												
Outflows													
Fund managers fees	**2,246,802**	305,000	315,000	325,000	335,000	345,000	266,000	202,160	153,642	-	-	-	-
Set-up costs/audit	**155,000**	85,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	-	-	-	-
Technical dd/abort costs	**80,000**	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	-	-	-	-
New investments													
Loan 1	**18,000,000**	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000	-	-	-	-	-	-	-
Loan 2	**2,000,000**	400,000	400,000	400,000	400,000	400,000	-	-	-	-	-	-	-
Loan 3	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Repayment of Fund Loan	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Capital	**10,000,000**	-	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,000,000	-	-	-	-
Interest	**550,000**	-	82,500	82,500	82,500	82,500	82,500	82,500	55,000	-	-	-	-
Total outflows	**33,031,802**	**4,400,000**	**5,917,500**	**5,927,500**	**5,937,500**	**5,947,500**	**1,868,500**	**1,804,660**	**1,228,642**	**-**	**-**	**-**	**-**
Net flow	**9,424,798**	**564,470**	**569,554**	**1,946,526**	**2,553,820**	**2,543,820**	**1,658,350**	**199,606**	**(611,347)**	**-**	**-**	**-**	**-**
Inflows less outflows	**9,424,798**	**564,470**	**569,554**	**1,946,526**	**2,553,820**	**2,543,820**	**1,658,350**	**199,606**	**(611,347)**	**-**	**-**	**-**	**-**
Balance b/fwd		**-**	**564,470**	**1,134,024**	**3,080,550**	**5,634,370**	**8,178,190**	**9,836,540**	**10,036,146**	**9,424,799**	**9,424,799**	**9,424,799**	**9,424,799**
Balance c/fwd	**9,424,798**	**564,470**	**1,134,024**	**3,080,550**	**5,634,370**	**8,178,190**	**9,836,540**	**10,036,146**	**9,424,799**	**9,424,799**	**9,424,799**	**9,424,799**	**9,424,799**

Balance sheets	Year 1 £	Year 2 £	Year 3 £	Year 4 £	Year 5 £	Year 6 £	Year 7 £	Year 8 £	Year 9 £	Year 10 £	Year 11 £	Year 12 £
Investment portfolio												
Loan 1	3,024,220	4,788,080	5,313,529	5,313,529	5,313,529	2,289,308	525,449	-	-	-	-	-
Loan 2	337,565	527,248	579,900	579,900	579,900	242,336	52,652	-	-	-	-	-
Loan 3	-	-	-	-	-	-	-	-	-	-	-	-
Total Investment portfolio	**3,361,785**	**5,315,328**	**5,893,429**	**5,893,429**	**5,893,429**	**2,531,644**	**578,101**	**-**	**-**	**-**	**-**	**-**
Current assets												
Bank account	564,470	1,134,023	3,080,549	5,634,369	8,178,189	9,836,539	10,036,145	9,424,798	9,424,798	9,424,798	9,424,798	9,424,798
Net current assets	**564,470**	**1,134,023**	**3,080,549**	**5,634,369**	**8,178,189**	**9,836,539**	**10,036,145**	**9,424,798**	**9,424,798**	**9,424,798**	**9,424,798**	**9,424,798**
Investment Fund Loan Liability	2,032,500	2,518,125	3,018,750	3,534,375	4,065,000	2,578,125	1,046,250	-	-	-	-	-
Net Assets	**1,893,755**	**3,931,227**	**5,955,228**	**7,993,423**	**10,006,618**	**9,790,058**	**9,567,996**	**9,424,798**	**9,424,798**	**9,424,798**	**9,424,798**	**9,424,798**
Represented by:												
Equity	-	-	-	-	-	-	-	-	-	-	-	-
Grant	2,000,000	4,000,000	6,000,000	8,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Total capital	2,000,000	4,000,000	6,000,000	8,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Profit and loss account	(106,245)	(68,773)	(44,772)	(6,577)	6,618	(209,942)	(432,004)	(575,202)	(575,202)	(575,202)	(575,202)	(575,202)
Total funds	**1,893,755**	**3,931,227**	**5,955,228**	**7,993,423**	**10,006,618**	**9,790,058**	**9,567,996**	**9,424,798**	**9,424,798**	**9,424,798**	**9,424,798**	**9,424,798**

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BUSINESS GROWTH EXECUTIVE BOARD

10th January 2017

NORTHERN POWERHOUSE INVESTMENT FUND - UPDATE

Purpose of Report

To update the board as to the progress made in development of the £400m+ Northern Powerhouse Investment Fund (NPIF). The SCR has £15m of ESIF funding allocated to NPIF.

Thematic Priority

1. Ensure new businesses receive the support they need to flourish.
2. Facilitate and proactively support growth amongst existing firms.
3. Attract investment from other parts of the UK and overseas, and improve our brand.

Freedom of Information

This report is not exempt from publication under Part II of the Freedom of Information Act 2000.

Recommendations

To note the development of the NPIF – and to have regard to this report when considering the "Microfund" ex-ante assessment detailed elsewhere on the BGB agenda.

1. Introduction

1.1 As detailed in the presentation at Appendix A:

The Northern Powerhouse Investment Fund (NPIF) is a £400m+ fund which will provide debt and equity-lined finance to SMEs across the north of England.[1] NPIF combines ESIF funding (£15m drawn from the SCR); debt from the European Investment Bank ("EIB") and funding from Treasury and the British Business Bank.

There are three sub-funds within NPIF:

- **Lot 1 Equity** - equity investments between £50,000 and £2,000,000; at least 20% of initial investments will be in amounts of under £250,000 and at least 70% of initial investments will be in amounts of under £750,000.

[1] Including whole of the SCR but excluding the North East, who have chosen to make alternative arrangements.

- **Lot 2 Debt** – loans between £100,000 and £750,00; at least 25% of initial investments will be in loans of loans of under £200,000 and at least 70% of initial investments will be in loans of principal amounts of under £500,000.
- **Lot 3 Micro Finance** – loans between £25,000 and £100,000; at least 25% of initial investments will be in loans of under £50,000, and at least 70% of initial investments will be for loans under £75,000.

1.2 As part of the NPIF Investment Strategy, the NPIF Strategic Oversight Board has agreed to an initial allocation of 75% (~£288m) of the total available investment funding. This will consist of: ~£115.2m (40%) allocated to Equity and ~£172.8m (60%) to Debt funding including (£20m) Micro Finance. This will leave c. £101m to allocate in the future (depending on demand and fund manager performance).

1.3 There has been an extensive procurement process to find fund managers for the above "Lots" – this is expected to be concluded early in the new year. Fund managers will be (contractually) obliged to work with and alongside Growth Hubs – and the SCR is ideally placed for this kind of close working relationship given its specialist AFCoE team.

1.4 The SCR is represented on the Strategic Oversight Board and Andrew McKenna (Head of AFCoE) has been suggested as an ideal representative for the Regional Advisory Board (which sits beneath the Strategic Oversight Board).

2. Proposal and justification

2.1 Report for information only – members of the Business Growth Board are asked to note this update and have regard to the £20m allocation to "Micro Finance" when considering the ex-ante report elsewhere on this agenda.

2.2 Members of the Board are also asked to note the relationship with the FY Interim fund and the Micro Fund referred to elsewhere on this agenda.

3. Consideration of alternative approaches

3.1 N/A

4. Implications

4.1 **Financial** – there are no direct financial implications.

4.2 **Legal** – there are no direct legal implications.

4.3 **Risk Management** – there are no direct risk management implications.

4.4 **Equality, Diversity and Social Inclusion** (Equality Act - Public Sector Equality Duty) – there are no direct equality implications.

5. Communications

5.1 The British Business Bank have appointed a communications agency called "MC2" to promote NPIF. In addition, NPIF will be promoted through the SCR Growth Hub.

6. Appendices/Annexes

6.1 Appendix A – British Business Bank presentation to the Yorkshire Legal Conference.

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Background papers used in the preparation of this report are available for inspection at:

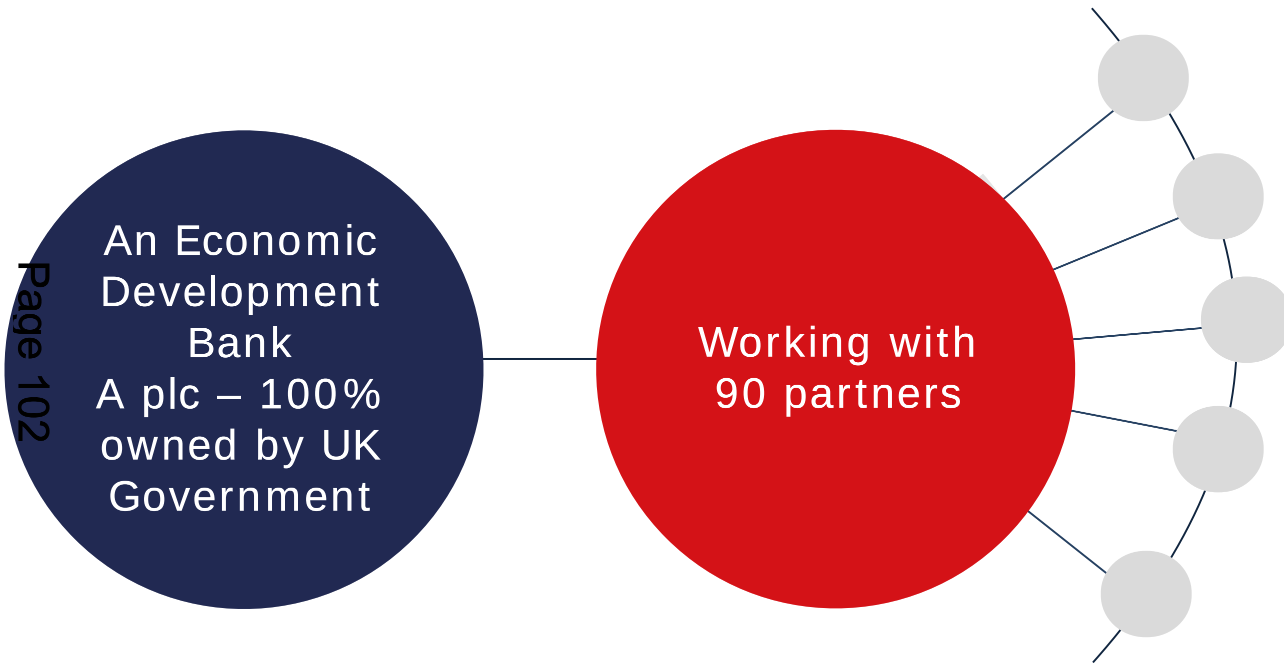
Other sources and references:

Northern Powerhouse Investment Fund

Yorkshire Legal Conference
28 September 2016

Grant Peggie
Director, Northern Powerhouse Investment Fund

Who we are



- Aim to change the structure of the finance markets for smaller businesses, so they work more effectively and dynamically
- In turn, this will help businesses prosper and build economic activity in the UK
- plc since 1 November 2014.

BRITISH BUSINESS BANK

BRITISH BUSINESS BANK INVESTMENTS

The BBB group

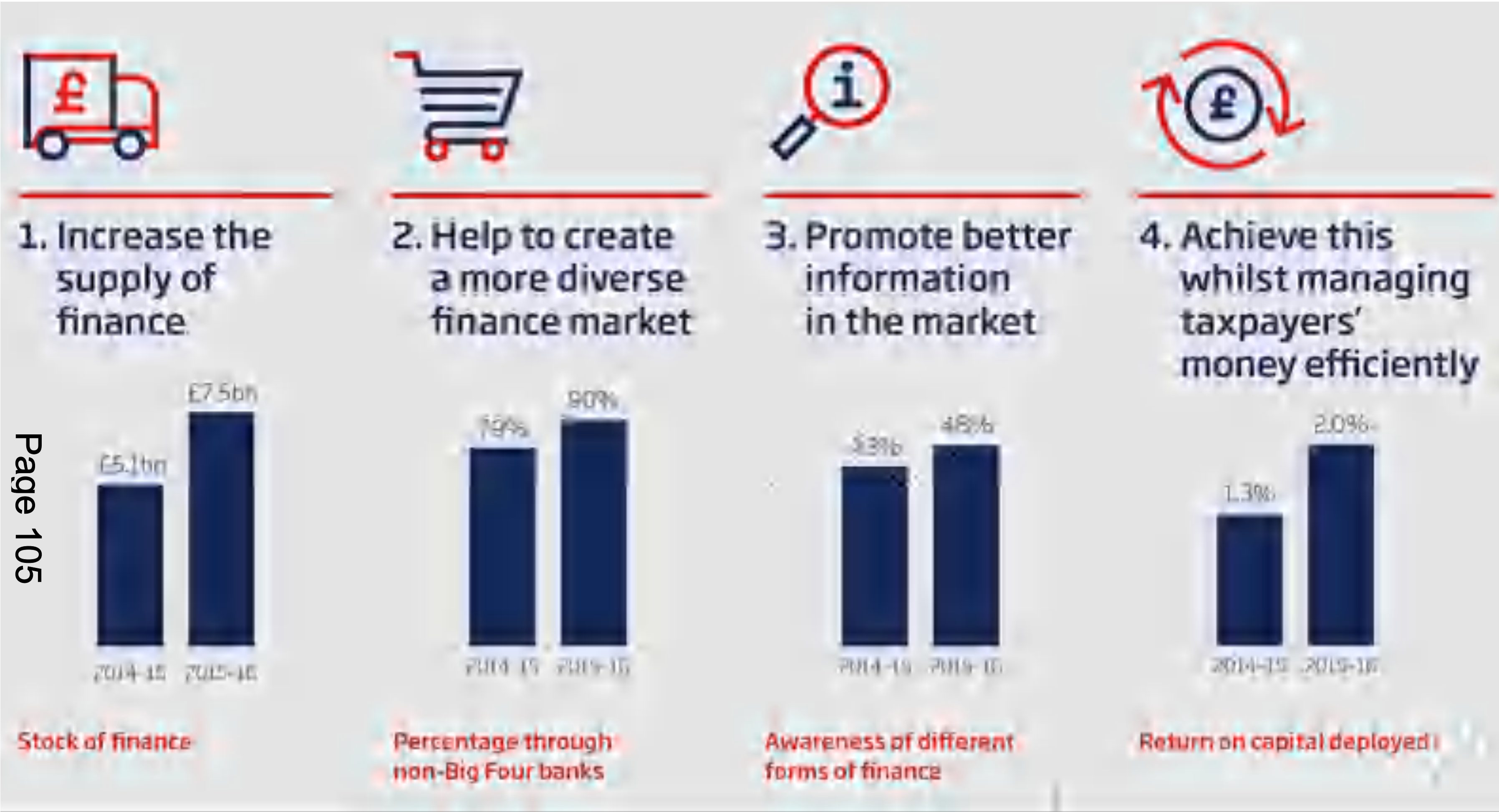
- Established pursuant to State aid decision SA.36061 15 October 2014
- BBB plc has three separate operating subsidiaries:
  - BBBIL: the "commercial arm": funded on a commercial basis, invests on a commercial basis, therefore does not receive or disburse aid
  - BBFL: the "mandated arm": in receipt of aid; role is to address market failure in UK SME access to finance
  - BBFSL: the "service arm": not an undertaking; role is administrative: to advise and manage risk finance schemes for HMG and BBFL

Page 103

Our mission

- **To change the structure of the finance markets for smaller businesses, so they work more effectively and dynamically…**
- **… help businesses prosper and build economic activity in the UK.**

Our objectives



BRITISH BUSINESS BANK

Our programmes

START UP
Mentoring and funds to 'be your own boss'

- Start Up Loans

SCALE UP
Funds for high growth potential businesses

- Angel CoFund
- Venture Capital Solutions
- Help to Grow Programme

STAY AHEAD
More funding options and choice of provider

- Investment Programme
- ENABLE Programmes
- Enterprise Finance Guarantee

Northern Powerhouse Investment Fund | **Midlands Engine Investment Fund**

Finance platforms and Credit Reference Agencies

RESULTING IN INCREASED BUSINESS INVESTMENT, GROWTH AND JOBS

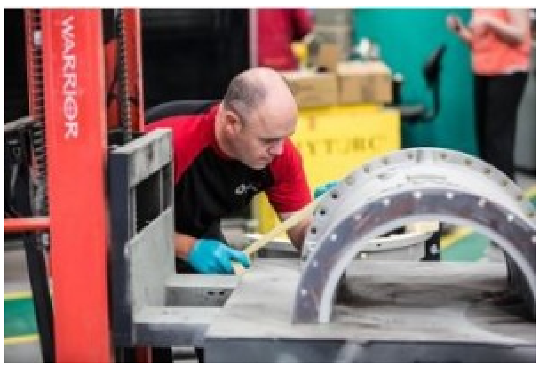
Catalysing greater competition

	BBB activity	Impact	Example partners
Challenger Banks	• £125m ENABLE Guarantee • £30m Tier 2 Capital	• New products launched • New segments reached	Shawbrook Bank; Clydesdale Bank
Debt funds	• ~£200m commitment	• Almost £600m commitment from private investors	Beechbrook capital; bms finance; European Capital; Cordet Capital Partners
Asset finance	• ~£200m ENABLE Funding • £110m investment	• Unlocked ~£310m of finance for SMEs	Private & Commercial Finance; Shire Leasing (Part of Shire Business Group); Hitachi Inspire the Next; Haydock Finance
Fintech	• ~£100m commitment	• Boosted sector growth • Alternative Lender of the Year 2015	Funding Circle; RateSetter; marketinvoice; Urica

Yorkshire case studies

British Business Bank programmes already support over 2,100 businesses across Yorkshire with £554m of Stock

Propermaid
Location: Huddersfield
Partner: Business Enterprise Fund
ProperMaid supplies caterers, cafes, delicatessens and retailers with innovative handmade cakes with a twist, designed to delight the taste buds

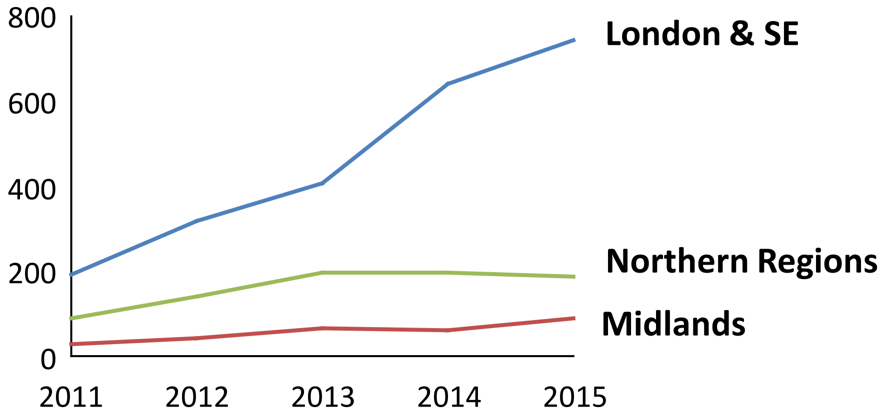


Turbine Efficiency
Location: Doncaster
Programme: Investment Programme
Turbine Efficiency Group (TEG) overhauls, services and maintains gas turbine engines

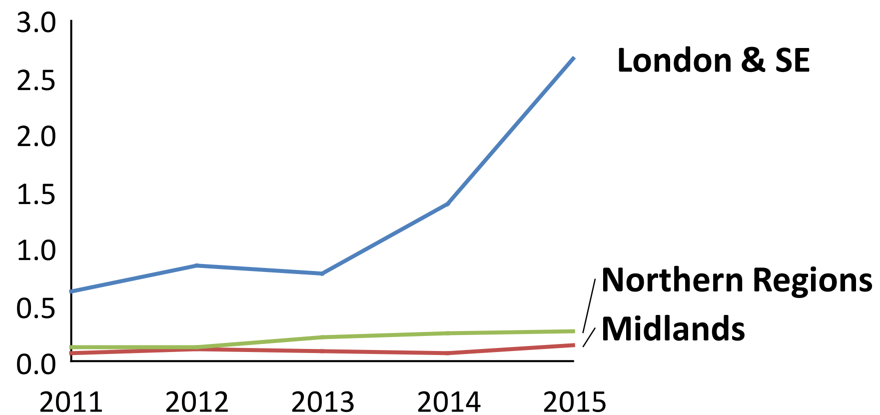
Source: British Business Bank, March 2016

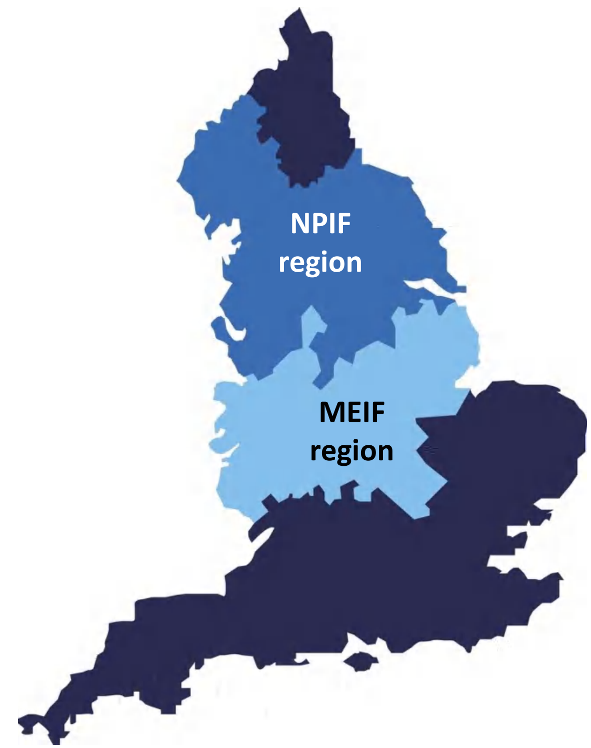
Reducing regional gaps

Number of equity deals



Value of equity deals





Page 109

BRITISH BUSINESS BANK

Background to NPIF

- **Announced** in November 2015 Autumn Statement by the Chancellor:

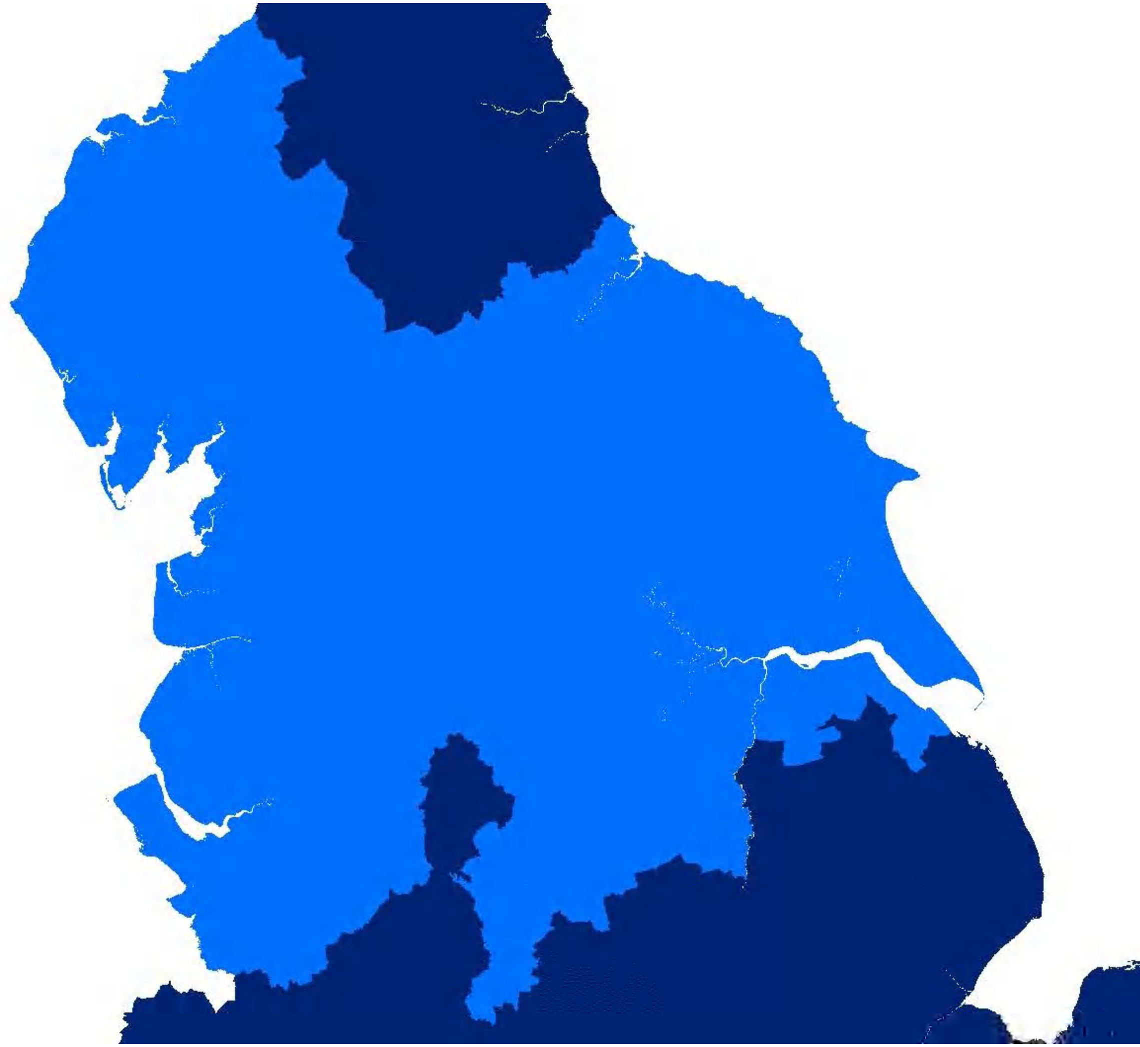
  "the Bank will take on responsibility for the management and delivery of Northern Powerhouse Investment Fund of £406m covering the North West, Yorkshire and the Humber and the Tees Valley".

- A market assessment conducted on behalf of DCLG estimated that the total **unmet demand** for finance could be of the order of £560m per annum in the North East, £1.9 billion in the North West and £1.4 billion in in Yorkshire and the Humber

European Union
European Regional Development Fund

Northern Powerhouse Investment Fund

NORTHERN POWERHOUSE
Investment Fund
Delivered by British Business Bank



Why BBB?

Northern Powerhouse Investment Fund
Delivered by British Business Bank

British Business Bank has the expertise to deliver greater economic benefit and enhanced legacy by using our experience and economies of scale:

- Substantial Experience of managing public funds
- is the UK's largest and most significant investor into Venture Capital funds
- Economies of scale from sharing experience and back office systems
- A desire to work closely with LEPs - governance structure designed to embrace the LEP views and aspirations
- Speed of delivery: BBB/NPIL can act as BEIS's "entrusted entity" in co-operation with DCLG

What is NPIF?

- £400m+ of funding for SMEs in the Northern Powerhouse area

- Investment and lending aimed at creating sustainable economic activity through supporting new and growing businesses

- The opportunity to build a substantial legacy for the North from successful investment and lending

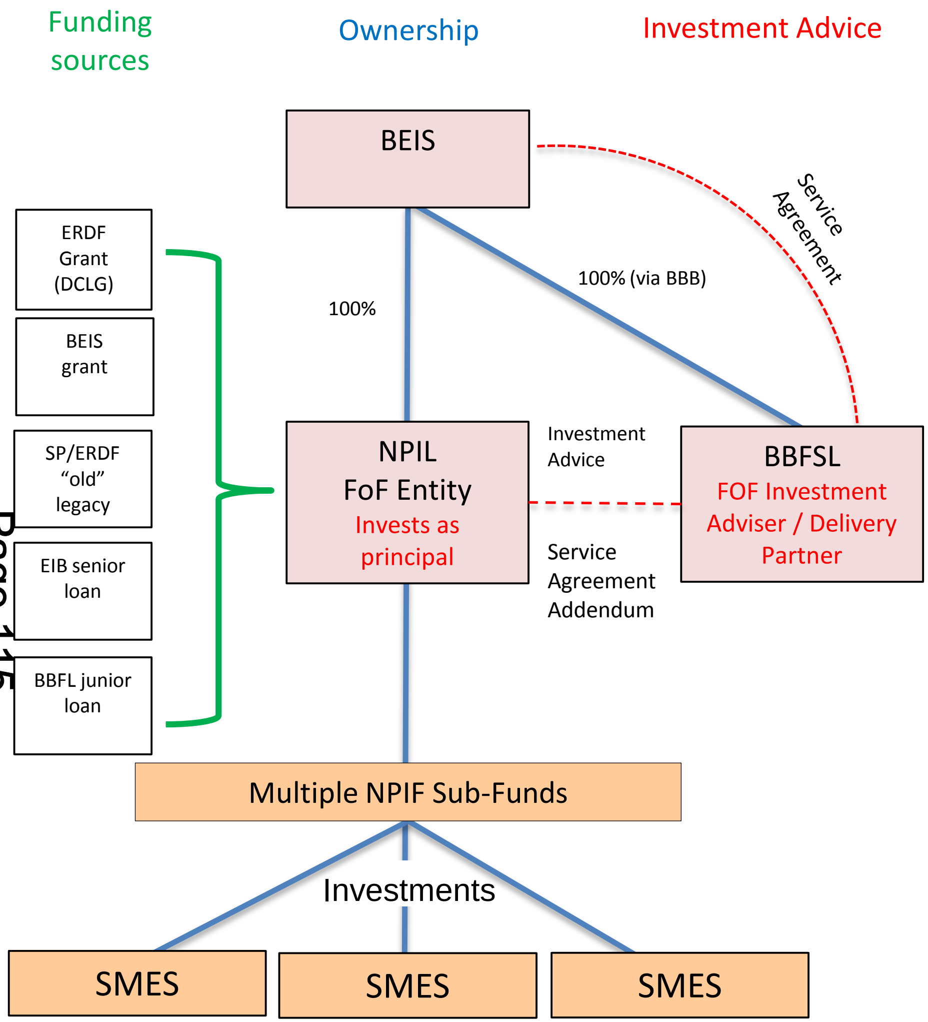
- Supported by the 10 Local Enterprise Partnerships in the North West, Yorkshire and The Humber & Tees Valley

Legal structure

- Drivers that determined structure:
  - State aid remit of BBB, BBFSL and BBFL
  - State aid compliance for NPIL and downstream from NPIL
  - Balance sheet consolidation
  - Entrustment of BBFSL
  - NPIF fund of funds must not be an AIF
  - Governance and controls appropriate for NPIL, an arms length body wholly-owned by BEIS
  - Meaningful strategic and oversight role for Local Enterprise Partnerships and funders (particularly EIB and DCLG)

NPIF “fund” structure

NORTHERN POWERHOUSE Investment Fund
Delivered by British Business Bank

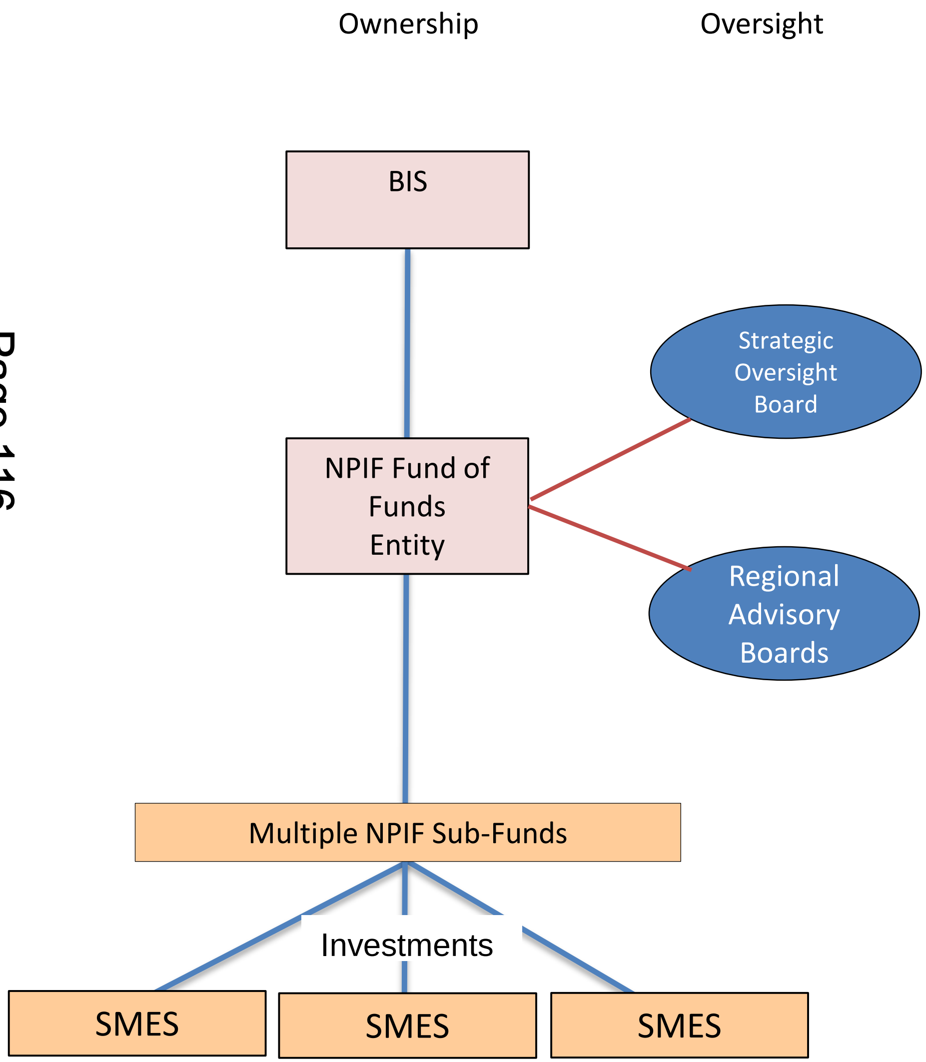


Page 115

Notes

- BEIS is sole member of NPIL
- NPIL is company limited by guarantee
- Non executive board and will delegate most FoF activities to BBFSL, but directors must retain certain powers
- BBFSL is wholly owned by BIS (via BBB plc)
- Under an addendum to the existing Service Agreement BBFSL will:
    - Establish and manage the NPIF project for BEIS
    - Act as investment adviser to NPIL (all day to day fund management delegated to BBFSL, material decisions reserved to the NPIL board, but BBFSL will make recommendations to NPIL board)
    - Act as NPIL’s delivery partner for the purposes of the ERDF grant
- BBFSL is subject to an existing BBB governance structure
    - Board and Investment Committee comprised of BBB senior executives
    - BEIS oversight via the Service Agreement
    - Full support of BBB staff (including the Venture Solutions Team headed by KC) and central functions (Finance, Legal, Risk and Compliance, Policy, Marketing, HR, IT)
- NPIL has BEIS-appropriate articles of association
    - No need for “step in rights”: BEIS already has control
    - Accounting officer responsibility

NPIF stakeholder oversight



Notes

- NPIL, advised by BBFSL, will have responsibility for delivery of NPIF and will make all investment decisions subject to existing BBB governance structures described in previous slide
- However, in the funders and the LEPs require a meaningful oversight, at the strategic level and at sub-fund level, so that NPIL/BBFSL can be guided and advised by its stakeholders
- SOB and RABs constituted in the articles of the NPIL and have terms of reference agreed with all stakeholders
- No decision making capacity – advisory only. However, ability to escalate to ministers
- Membership of SOB and RABs is BBB, BEIS,. EIB, DCLG and the LEPs
    - SOB provides strategic oversight
    - RABs will monitor performance of the underlying funds and will escalate issues to the SOB if necessary

Three Lot procurement structure

BBFSL has procured a framework of 11 fund mangers though an "open" procurement. Managers across three Lots collectively have capability to cover the whole of the NPIF region:

Lot 1 Equity - equity investments between £50,000 and £2,000,000; at least 20% of initial investments will be in amounts of under £250,000 and at least 70% of initial investments will be in amounts of under £750,000

Lot 2 Debt – loans between £100,000 and £750,00; at least 25% of initial investments will be in loans of loans of under £200,000 and at least 70% of initial investments will be in loans of principal amounts of under £500,000

Lot 3 Micro Finance – loans between £25,000 and £100,000; at least 25% of initial investments will be in loans of under £50,000, and at least 70% of initial investments will be for loans under £75,000

Process

- Framework of Fund Managers has been established by BBFSL
- NPIL readying itself to call off under the framework by means of a mini-competition
- Expected to allocate about 75% of investment capital in first round (broadly split 40% equity:60% debt and micro finance)
- Fund managers will be required to have a geographic focus, work with local Growth Hubs and achieve non-financial targets
- NPIL will enter into conventional LPAs managed by the fund managers
- Despite the uncertainty caused by Brexit, still on target to get money flowing to SMEs early 2017

Brexit

"I am confirming that structural and investment funds projects signed before the Autumn Statement and Horizon research funding granted before we leave the EU will be guaranteed by the Treasury after we leave."

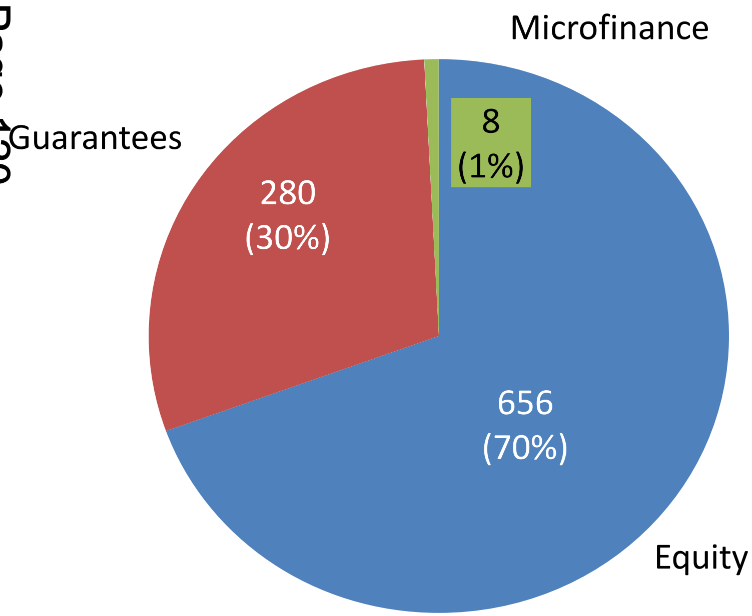
Chancellor Philip Hammond

13 August 2016

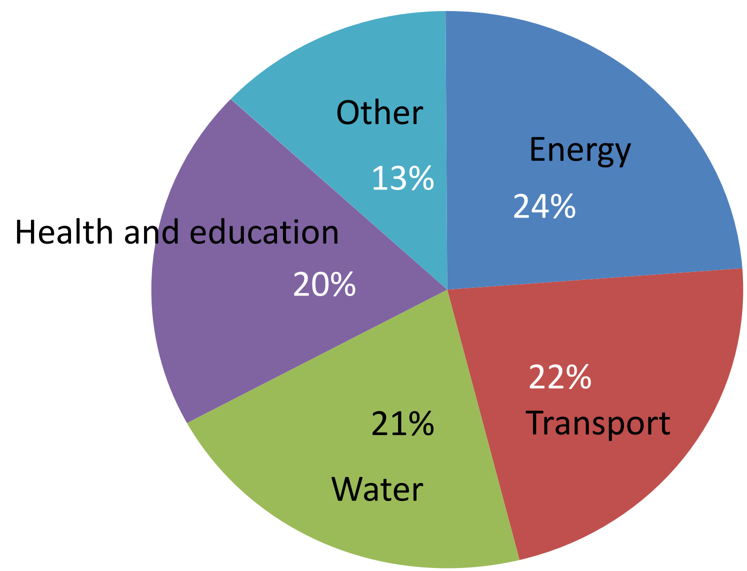
BRITISH BUSINESS BANK

Whither other sources of EU funding?

EIF investment in the UK – mostly SME
2015, Euro and % by type
(total = €944m)



EIB investment in the UK – SME share unknown
2015, % by sector
(total = €7.8 bn)



Midlands Engine Investment Fund

- £250m+ SMEs funding in the Midlands Engine area
- Investment and lending aimed at creating sustainable economic activity through supporting new and growing businesses
- The opportunity to build a legacy for the Midlands from successful investment and lending
- Supported by the 11 Local Enterprise Partnerships in the West and East and South East Midlands

MIDLANDS ENGINE
Investment Fund
Delivered by British Business Bank
Financing growth for Midlands businesses

Further Information

- For further information go to NPIF landing page at:

http://british-business-bank.co.uk/ourpartners/northern-powerhouse-investment-fund/

NORTHERN POWERHOUSE Investment Fund

Delivered by British Business Bank

BRITISH BUSINESS BANK

BUSINESS GROWTH EXECUTIVE BOARD

10th January 2017

Forward Planning - Industrial Strategy

Purpose of Report

The Board is asked to note the attached paper pending a substantive paper and discussion at a future meeting.

Freedom of Information

This paper is not exempt under Part II of the Freedom of Information Act 2000.

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Background papers used in the preparation of this report are available for inspection at: n/a

Other sources and references: n/a

Sheffield City Region

Developing an SCR Prospectus for the "Industrial Strategy"

1. Background[1]

Government's thinking on the emerging Industrial Strategy is rapidly developing. This is expected to represent a key document that will articulate how to grow productivity and reduce inequalities between the Greater South East and the rest of the country.

Being led by Greg Clark as the new Secretary of State (SoS) at for Business, Energy and Industrial Strategy (BEIS) this is an important policy priority of the Prime Minister. This is reflected by the fact that this new Department was created that combined most of the functions of the old Departments for Business, Innovation and Skills, and Energy and Climate Change. This move has been characterised as "the re-introduction of 'industrial strategy'.

Place is being positioned at the heart of this Strategy, rather than the more traditional sector led approach. For example, when the first wave of Science and Innovation Audits, the SoS was able to highlight the key assets that will drive growth in various places across the country[2].

2. Emerging Priorities for the Strategy

Key priorities for the emerging Strategy were raised within this recent speech. This mirrored the remarks the SoS had previously made in a speech to the Institute of Directors on 27 September 2016:[3]

"Planning for the long-term is nothing to be embarrassed about… Every business here forms a view of how you are going to earn your living in the future. I've never understood why it has been considered controversial for a government to do the same".

"In my view any successful industrial strategy has to be local. Governments are fond of quoting national figures – of economic growth, of productivity, of employment. But the truth is economic growth does not exist in the abstract. It happens in particular places when a business like yours is set up, or takes on more people, or expands its production. And the places in which you do business are a big part of determining how well you can do. And they're very different places. It's obvious that South Kensington here has very different needs from Middlesbrough. If you

[1] Source: http://researchbriefings.files.parliament.uk/documents/CBP-7682/CBP-7682.pdf
[2] https://www.gov.uk/government/speeches/a-place-for-innovation
[3] https://www.gov.uk/government/speeches/the-importance-of-industrial-strategy

stand at the Pier Head in Liverpool you couldn't be confused that you were in Manchester – just 35 miles away. Yet for too long, government policy has treated every place as if they were identical. It seems to me that helping Cornwall make the best of its future is as vital to a comprehensive national success as helping Birmingham – but what is needed in each place is different, and our strategy must reflect that".

"Many of the policies and decisions that form our industrial strategy will not be about particular industries or sectors, but will be cross-cutting".

"I believe that it is time for our country to have an upgrade. An upgrade in our infrastructure so that we have smart and modern connections – physical and electronic. An upgrade in our education and training system so that we can benefit from the skilled workforce that we need in the future. An upgrade in the development and regeneration of those of our towns and cities that have fallen behind the rest of the country. An upgrade in our standards of corporate governance and in the relationship that government has with businesses of all shapes and sizes".

"During the weeks ahead, I and my ministerial team will be travelling to every part of the United Kingdom to ask you to work with us to forge those relationships with you and your colleagues.

3. Beginning to develop an SCR Industrial Strategy Prospectus

The speech by Greg Clark would suggest that rather than being a strategy that "picks winners" or defines areas by their capacity in a certain sector this is a manifesto for devolution and strategy shaped at a local level. This is considered to be a particularly significant opportunity for the SCR given that the SoS is perhaps one of the biggest advocates for devolution within the current Cabinet.

It is expected that Government will announce more details on the development of the Industrial Strategy through a dedicated Green Paper to formally begin a discussion on these issues. This is expected to be published shortly. To ensure that the SCR is able to maximise the opportunity that this presents, Chief Executives (CEX) agreed that the City Region should produce its own Industrial Strategy Prospectus. CEX agreed that the prospectus should:

- Capitalise on work done to date, including the Science and Innovation Audit, Integrated Infrastructure Plan, Area Based Review and that undertaken on potential devolution proposals.
- Provide opportunities for collaboration where this links to economic opportunities.
- Be asset based – highlighting the role that the SCR can fulfil within the national Industrial Strategy.

It is proposed that priorities for the SCR Industrial Strategy Prospectus form a substantive item for discussion at the next Business Growth Executive Board. To facilitate discussion and the subsequent development of the Prospectus, Board members are asked to consider their priorities for this document in the following three areas identified by CEX:

- What should the SCR's inclusive growth proposal comprise?
- What are the conditions missing for the SCR to achieve its growth potential?
- What are the assets that will drive growth in the SCR?