

Business Recovery and Growth Board

15 December 2022

SYMCA support for access to finance for business

Is the paper exempt from the press and public?	No
<i>Reason why exempt:</i>	Not applicable
Purpose of this report:	Discussion
Is this a Key Decision?	No
Has it been included on the Forward Plan?	Not a Key Decision

Director Approving Submission of the Report:
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Executive Summary:

This report outlines the approach taken by the Access to Finance Centre of Expertise Team (AFCOE) to securing business investment.

What does this mean for businesses, people and places in South Yorkshire?

South Yorkshire has the lowest productivity of all the English regions despite having two high performing universities generating capable people and fundamental research. A lack of finance for SMEs has been identified as a major barrier to addressing latent productivity and low business density. The work of the AFCOE team helps to address these challenges.

Recommendations:

The Business Recovery and Growth Board are asked to:

- Note the activities and approach of the Access to Finance Centre of Expertise Team (AFCOE) and provide feedback on the approach.

Consideration by any other Board, Committee, Assurance or Advisory Panel

None

1. Background

- 1.1 South Yorkshire has the lowest productivity of all the English regions despite having two high performing universities generating capable people and fundamental research. A lack of finance for SMEs and Inward investment has been identified as a major barrier to addressing latent productivity and low business density.
- 1.2 Professor Colin Mayer and Professor Paul Collier undertook over 100 interviews with SME's and finance providers in SY during 2021 to establish the barriers to growth. These observations were further confirmed during the South Yorkshire Economic Summit in March 2022.
- 1.3 The following issues have been identified across South Yorkshire:
 - The private finance infrastructure in South Yorkshire currently shows a lack of business angels, venture capitalists and private equity firms.
 - Financial institutions believe there is weak demand in South Yorkshire, a lack of ambition on the part of entrepreneurs and small businesses, and a business culture of excessive caution: an unwillingness to take risks, cede control, or engage with investors.
 - Start-ups and small business in South Yorkshire believe they cannot get the finance they need and are turned down by the large commercial bank. In rare cases where they have connections, they get better-quality risk-taking finance from abroad.
- 1.4 The need to continue to improve the availability and business ability to access finance is key to supporting companies' capacity to grow, however a combination of a complicated financial landscape and underdeveloped finance market in South Yorkshire are acting as a break on economic growth.
- 1.5 The AFCOE team support businesses to access grants, loans, guarantees, and equity funding. They provide South Yorkshire Mayoral Combined Authority (SYMCA) with expertise across a range of financial related areas including Banking & Finance, Accountancy, and grant sourcing.

2. Accessing Private Sector Funders

- 2.1 The AFCOE Advisors prioritise access to private sector funders for all initial enquires for support. To underpin this activity, they engage with a wide network of funding partners and undertake quarterly 'Funders Forums' where funders share relevant market developments and information from across the sector. The typical funders that engage in this activity and receive referrals from AFCOE advisors include:
 - Northern Powerhouse Investment Fund (NPIF) funders (locally these are Mercia and Finance for Enterprise).
 - UK Steel Enterprise.
 - Finance Yorkshire.
 - Secondary funders, e.g. Funding Circle.
 - Primary banks.

- Asset based lenders (such as Invoice Finance or Asset Finance providers).
- Key Fund.

2.2 Accessing Patient (equity finance): The AFCE team primarily use the Beauhurst Database to identify potential equity funders. However, many of these equity funders are targeting investment at established businesses looking to scale up. It is much harder to find providers who are prepared to invest in early-stage businesses. It is worth noting that 52% of total equity funding in Q2 of 2022 occurred in London, only 4% in Y&H, so it is useful to be able to identify fundraisings that have occurred outside of the region so we can signpost our businesses to funders that are not based in SY. It should be noted this is not without risk as many early-stage businesses may choose their location dependent on access to finance

2.4 There are multiple reasons why a business may be unable to attract finance from private sector providers these include:

- Lack of access to decision makers in banks/reduced relationship manager availability.
- Lack of debt serviceability or over-committed cashflow/Reaching the maximum a business can borrow from primary funders.
- Recent performance that shows deteriorating trends within the business due to Covid/Brexit/market slowdown.
- Lack of available tangible security that can be offered to underwrite borrowing requests.
- Lack of specific sector appetite from funders, e.g. construction or hospitality
- Stage of business (e.g. seed or pre-seed finance).
- Business being unable to produce detailed management information.

2.5 In addition, SYMCA is exploring novel solutions that include co-investment models and looking to influence the criteria for funding acceptable to include greater emphasis on larger socio-economic benefits as well as the traditional future profitability.

3. **Accessing SYMCA funding**

3.1 Properly targeted public investment can boost economic performance, generating aggregate demand quickly, fuel productivity growth by improving human capital, encourage technological innovation, and attract further private-sector investment. There are a number of scenarios when accessing funding from SYMCA and or other public sector funders can support these ambitions:

These include the following:

- String strategic alignment to the ambitions of the South Yorkshire strategic ambitions including alignment to the Strategic Economic Plan (SEP) and SYMCA international Strategy.
- Incentivisation for inward investment that will unlock secondary benefits including cluster development and enhanced supply chain opportunities.
- The ability to unlock specific outcomes for South Yorkshire residents including access to high quality employment.
- Unlocking further private sector investment by sharing risk.
- Loans that do not require security which can help with primary banking.

3.2 How public investment is structured needs to be considered on a case-by-case basis and therefore it is not possible to comprehensively identify upfront if investment should loan,

grant or equity. However, there is a principle of prioritising approaches where investment can be repaid before consideration is given to grant funding.

- 3.3. Where businesses have been unsuccessful in accessing funds from commercial lenders there are a number of conditions that make public funding more attractive these include:
- Capital repayment holidays for a period of time, allowing time for primary debt to be repaid or for the project to become revenue generating.
 - Roll-up interest costs for a period, as above.
 - Flexible drawdown of funds.
 - Bullet repayment of the loan at the end of the term.
 - Lower interest rates (or interest free) where the purpose of the loan aligns to SYMCA strategic direction, such as net zero.
- 3.4 SYMCA Grant funding: There are clear examples of where grant funding can be an appropriate route for investment including de-risking investment and innovation plans, significant acceleration of a project and the resultant outcomes and as a route to unlocking additional loan finance.
- 3.5 There are many examples of grant schemes delivered in South Yorkshire that have been successful, including Regional Growth Funds and productivity-based grants. The recent Business Investment Fund saw £42m of (mainly) grant funding to support the regions businesses in delivering capital projects, including some R&D based projects. This enabled the release of £100m of (mainly private sector) match funding for growth projects in the region and helped to create c3,500 new jobs.
- 3.6 Alternative sources of public sector backed funds that the AFCOE team actively refer into include:
- Innovate funding for R&D.
 - Digital Innovation Grants.
 - Made Smarter programme.
 - Department for International Trade.
 - Start-Up loans.
 - DEFRA.
 - Export Finance.
 - Performing Rights Society Foundation, Un-Limited, and Arts Council.

4. **Assessing the appropriate financing route:**

- 4.1 The AFCOE advisors work from the principle that any grant funding is an intervention of 'last resort and therefore undertake a robust assessment before making a decision on the most appropriate route.

They undertake detailed financial checks, where possible and dependant on provision of information, which can include the following areas;

- Detailed assessment of **historical** trading performance and cashflows, asset base, gearing and liquidity, contingent liabilities, or off-balance sheet financing.
- Detailed assessment of **current** position based on management accounts etc.,.
- Detailed assessment of **forecasts**, including analysis of sales development, working capital requirements, cashflow implications etc.,.
- Review of existing covenant structure from funders.
- Use of Creditsafe and Beauhurst to investigate wider group where appropriate.

- Other sources of funding already accessed or attempted to access.

All of the above can be undertaken in conjunction with client's Bank and/or the company's financial advisors.

5. Options Considered and Recommended Proposal

5.1 N/A – discussion paper

5. Consultation on Proposal

5.1 N/A – discussion paper

6. Timetable and Accountability for Implementing this Decision:

6.1 N/A – discussion paper

7. Financial and Procurement Implications and Advice

7.1 The Financial implications are assessed if a request is made for access to public funding on a case-by-case basis.

The funding for the team who occupy the Access to Finance role is currently undecided – a specific and sustainable budget for this activity has not been identified or agreed on after the end of the Financial Year 22/23.

8. Legal Implications and Advice

8.1 The Legal implications are assessed if a request is made for access to public funding on a case-by case basis

9. Human Resources Implications and Advice

9.1 Not applicable in this instance

10. Equality and Diversity Implications and Advice

10.1 Not applicable in this instance

11. Climate Change Implications and Advice

11.1 Not applicable in this instance

12. Information and Communication Technology Implications and Advice

12.1 Not applicable in this instance

13. Communications and Marketing Implications and Advice. Please also refer to consultation undertaken as per Section 4

13.1 Not applicable in this instance

List of Appendices Included

None

Background Papers:

None