

Thursday, 12 January 2023

## Financing Growth: Unlocking Private Investment into South Yorkshire

<b>Is the paper exempt from the press and public?</b>	No
<b>Reason why exempt:</b>	Not applicable
<b>Purpose of this report:</b>	Discussion
<b>Strategic Priority</b>	Business, Recovery and Growth

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### **Director Approving Submission of the Report:**

Clare Monaghan, Executive Director of Strategy and Development

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### **Recommendations:**

The Board is invited to consider the findings of the report, and to consider how it may want to steer and guide this nascent evolution in how the MCA intervenes to grow the economy.

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

None.

## **1. Introduction**

Following the Economic Summit in March 2022, several financial institutions, including HSBC, Bank North, and British Businesses Bank stressed that even though finance for South Yorkshire businesses may be available, access to this was not always easy or known.

South Yorkshire's market for early-stage finance was identified as being particularly underdeveloped and one that needed specific attention. Public and private funding

vehicles were identified as having a key role to play in early-stage investment and further, deeper engagement with financial institutions was one of the key takeaways.

The Levelling Up White Paper published in February 2022 also emphasised the need to grow the private sector to boost economic development, especially in areas like South Yorkshire.

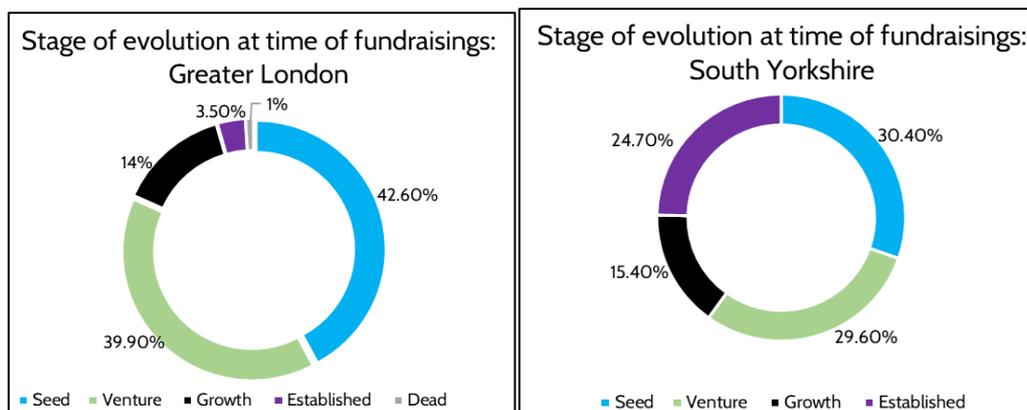
There have been some high profile 'finance' wins in the last year, particularly around the commercialisation of university led research in 'deep-tech'. This demonstrates that the market is starting to move in South Yorkshire – and that we have the business pipeline to attract this type of finance.

## 2. The issue and connection to delivering on our economic objectives:

Data from Beauhurst identifies 62,906 businesses in South Yorkshire (businesses with a head office or registered addresses in the area). From these, as of December 2022, 582 (0.93%) have been identified as high growth<sup>1</sup> businesses. That rate is comparable to Greater Manchester (0.80%) and West Yorkshire (0.97%). However, this is potentially misleading due to South Yorkshire's low business density (businesses per 10,000 population) which is at 13.6% compared to West Yorkshire's (24%), Greater Manchester's (37.9%) and Liverpool City Region's (19.9%)<sup>2</sup>.

The evidence shows that, compared to Greater Manchester, West Yorkshire, Liverpool City Region and London, SY's business population is dominated by established<sup>3</sup> businesses (45.1%) with relatively few seed<sup>4</sup> companies (17.8%).

This evidence also shows that, in South Yorkshire, even though seed stage businesses attract the highest share of funding (30.4%), a relatively high proportion still goes to established businesses (24.7%), compared to other areas. In Greater London, for example, established businesses only receive 3.5% of the funding, with the majority going to earlier stage businesses (seed, venture and growth).



Recent good news in terms of high growth businesses in Sheffield landing investment include UoS spin outs:

- Iceotope Technologies - global leaders in precision immersion cooling technology benefiting from a £30m funding round from a global investment syndicate led by Singapore impact private equity firm ABC Impact and Northern Gritstone.

- Opteran Technologies is a University of Sheffield spin-out that has re-engineered insect brain patterns to power advances for autonomous machines by mimicking the brain functions of insects, enabling machines to navigate complex visual and navigational challenges.
- Phlux Technology, the designer of high-performance infrared sensors, has secured £4 million in seed funding from leading deep tech investors. The round was led by Octopus Ventures and included Northern Gritstone, the Foresight Williams Technology Funds and the Innovation Fund, as well as receiving funding from Innovate UK.

<sup>1</sup> 8 triggers for high growth: equity investment, scaleups, accelerator attendances, MBO/ MBIs, academic spinouts, high-growth lists, major grant recipients, venture debt.

<sup>2</sup> Local Government Inform. (2020). [https://lginform.local.gov.uk/reports/lgastandard?mod-metric=%3C5512%2F3281%2A10000%3ABusiness+density+%28businesses+per+10%2C000+people%3E&mod-area=E06000031&mod-group=AllSingleTierAndCountyLainCountry\\_England&mod-type=namedComparisonGroup](https://lginform.local.gov.uk/reports/lgastandard?mod-metric=%3C5512%2F3281%2A10000%3ABusiness+density+%28businesses+per+10%2C000+people%3E&mod-area=E06000031&mod-group=AllSingleTierAndCountyLainCountry_England&mod-type=namedComparisonGroup)

<sup>3</sup> These are companies that have been around for 15 or more years, or 5 to 15 years with a three-year consecutive profit of £5m plus or turnover of £20m plus.

<sup>4</sup> These are youngish companies with a small team, low valuation and funding received (low for its sector), uncertain product-market fit or just getting started with the process of getting regulatory approval.

### 3. What are we doing in South Yorkshire already – and what could we do?

With limited funding available to the MCA it may be prudent to try to move away from direct funding of individual businesses, to support those businesses in sectors where we have a comparative advantage and can develop stronger clusters and that create more high growth businesses that support economic growth more widely.

Interventions could start to move towards more system level and enabling interventions, such as investing in funds (e.g. the successful JESSICA fund, business co-investment funds) and catalysing and stimulating other financial institutions to work in South Yorkshire and testing new models of working.

To this end initial engagement has been under way with:

1. Institutional funders like South Yorkshire Pension Authority, UK Infrastructure Bank and the British Business Bank.
2. Commercial funders, for example Aviva, L&G and some high street Banks
3. Investors like Northern Gritstone, the Northern Powerhouse Investment Fund (NPIF), and Business Angels.

These early discussions have centred on identifying areas of particular interest, for example Clean Energy, Retrofit, Housing, commercial property and industrial premises as well as existing sites and opportunities in the region.

The MCA (through the region's European Structural Investment Fund) is 'invested' in the NPIF – and is well represented on the existing and future design of the fund through the LEP Board Member Neil McDonald.

The Growth Hub also delivers an Access to Finance offer – which works with businesses to support them access finance (from public and private sources) as well as convening a Funders Forum and network of regional commercial bank.

Some business investment pilot interventions are also at an advanced stage of development. These include direct MCA co-investment, funding for accelerators, white

label platforms and support to pitch and access funding. All of which are being progressed through the Business Growth and Recovery Board.

#### **4. Discussion points**

The Board is invited to consider how it may want to steer and guide this future development work: This might include:

1. Testing our assumptions and focus, for example ensuring that finance is available to all parts of the market, and the level of support (not just from the MCA) to support in non-high growth SMEs.
2. A deeper discussion about how we can 'crowd-in' other sources of private finance
3. Suggesting areas where a deeper-dive into the evidence and what works well might support our work.
4. Sharing business insight / sentiment.
5. Considering whether the MCA bring together a Finance Summit in 2023?

#### **5. Next Steps**

To be considered in light of the discussion at Board.

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#### **List of Appendices Included:**

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