

Business Recovery and Growth Board

Thursday, 09 February 2023

Financing Growth: Unlocking Private Investment into South Yorkshire

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

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Executive Summary

The evidence clearly points to the need to grow South Yorkshire's private sector and to do this it is imperative to unlock access to funding. Data from Beaufort has further emphasised this point, highlighting that funding for high growth businesses in South Yorkshire is skewed towards established firms at the expense of seed businesses. It is also reflected in our business density rate which is particularly low.

With limited funding available to the MCA, it seems prudent to focus on interventions that transform our business and innovation ecosystem particularly in sectors where we have a comparative advantage and can develop stronger clusters. Initial engagement has been made with institutional funders such as South Yorkshire Pension Authority, other commercial funders.

However, we need to ensure that any new partnerships with funders mean that all parts of South Yorkshire's market has access to finance, especially earlier stage businesses who are currently missing out on funding.

As the region moves towards different and novel approaches to attracting finance the report also asks the Board to consider how best it can support and provide oversight for this activity.

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

Compared to other areas such as West Yorkshire, Liverpool City Region and Greater Manchester, there is a lack of funding going into early-stage businesses. To help grow our business density and ultimately our economy there needs to be more funding available for seed businesses to encourage high growth new businesses to settle and grow in South Yorkshire.

Recommendations

1. Test 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. Consider areas where a deeper-dive into the evidence and what works well might support our work.
3. Consider the role of the Board in supporting and providing oversight on this activity.

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

Local Enterprise Partnership

12 January 2023

1. Background

- 1.1 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.
- 1.2 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.
- 1.3 There have been some high profile 'finance' wins in the last year, particularly around the commercialisation of university led research in 'deep-tech'. For example, Iceotope Technologies is a UoS spin out which is benefiting from a £30m funding round from a global investment syndicate led by Singapore impact private equity firm ABC Impact and Northern Gritstone. 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.

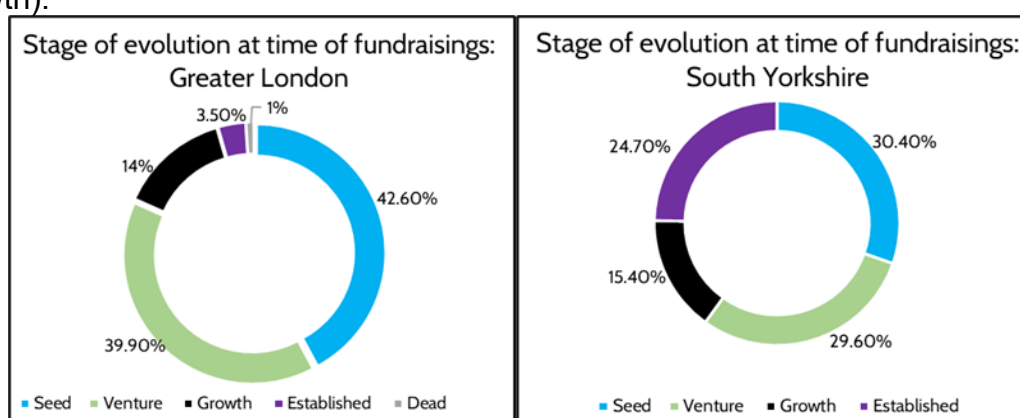
2. Key Issues

- 2.1 Data from Beahurst 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 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%).

- 2.2 The evidence shows that, compared to Greater Manchester, West Yorkshire, Liverpool City Region and London, SY's business population is dominated by established businesses (45.1%) with relatively few seed 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).



- 2.3 However, 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.

3. Consultation with the LEP:

- 3.1 The LEP Board discussed this at its January meeting where the board expressed support for use of MCA funds to support new and innovative investors looking to establish themselves in South Yorkshire. There were discussions around the funding environment for businesses in the region, highlighting that the finance ecosystem in South Yorkshire was underdeveloped.
- 3.2 Board members also asked what was being done to attract businesses to South Yorkshire and what might be stopping businesses from growing, but it was highlighted to them that there is no evidence to suggest that businesses are more likely to fail in South Yorkshire than nationally.
- 3.3 Discussions also highlighted that the Universities and FE Colleges in the region attract new students each year, who could be supported to establish businesses through a well-resourced acceleration and incubation network.

3.4	Board members also agreed that the distributions of funding across businesses at different stages of the maturity cycle should not be an either/or question. The challenge should not be how the region can divert funding from one business sector to another, but how the region can increase funding for all businesses as a whole.
4.	Role of the Business Growth and Recovery Board
4.1	The Board should consider its role in this activity to-date, and how it may wish to be involved into the future.
4.2	<p><u>Work to-date</u></p> <p>The Board has influenced activity in this space through:</p> <ol style="list-style-type: none"> 1. Approving and/or endorsing investments into those businesses who could not generate finance from traditional sources; 2. Approving and/or endorsing investment into a business whose core activity would help address the problem identified; 3. Approving the development of a number of pilot schemes that would attempt to identify interventions that could help address the problem identified; and, 4. Commissioning business support through access-to-finance work.
4.3	In the last two financial years the Board has approved investment totalling over £28m into seven projects that could not raise funding from other sources. This has allowed companies such as Lontra, AML, and the Ultimate Battery Company to deliver investment projects that would otherwise have not been undertaken or would have been delayed indefinitely until such a time as commercial finance was available.
4.4	Whilst there will likely always be a need for public subsidy in some business investments the approach to one-off, isolated interventions in the manner delivered to-date is likely unsustainable and inefficient in the longer-term. These types of interventions should ultimately be the exception rather than the norm, with the bulk of public support directed to fixing the system rather than addressing individual symptoms.
4.5	This issue led to the proposal to invest into Bank North. Bank North offered the opportunity for a truly regional lender to be sited in South Yorkshire offering more bespoke services to local businesses than traditional lenders. The proposal to invest into Bank North represented a system level intervention, rather than a one-off isolated transaction.
4.6	Ultimately, whilst the Board and MCA approved this investment the Bank succumbed to the market turbulence following the 'mini-budget' and the fund-raise through which the MCA would have invested was cancelled and Bank North voluntarily wound-up. The need for this type of regional finance does, however, remain.
4.7	<p>During the course of the year the Board has also approved the development of a number of pilots that aim to test the type of interventions that could support system level change. These include:</p> <ul style="list-style-type: none"> • Approaches to Angel investors

	<ul style="list-style-type: none"> Approaches to co-investment models
4.8	These pilots are in development at this time and will be brought back to the Board for consideration at a later date. Funding for these pilots could be considered from the uncommitted RAP allocation or be recommended to the MCA Board for consideration for consideration.
4.9	The MCA has also supported activity through the Access to Finance Centre of Expertise (AFCOE) and business advisors. How this activity might be continued into the future is considered in Item 10.
4.9	<u>Future Role</u> Officers continue to consider how this workstream progresses, with discussions with institutional investors, the local pension fund, and Government.
4.10	It is recommended that future reports are brought to the Board to update on work as it progresses.
5.	Timetable and Accountability for Implementing this Decision
5.1	N/A
6.	Financial and Procurement Implications and Advice:
6.1	N/A
7.	Legal Implications and Advice:
7.1	N/A
8.	Human Resources Implications and Advice
8.1	N/A
9.	Equality and Diversity Implications and Advice
9.1	N/A
10.	Climate Change Implications and Advice
10.1	N/A
11.	Information and Communication Technology Implications and Advice
11.1	N/A
12.	Communications and Marketing Implications and Advice:
12.1	N/A

List of Appendices Included:

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Slides with more detail.