

**Open Report on behalf of Richard Wills
Executive Director for Environment and Economy**

Report to:	Economic Scrutiny Committee
Date:	10 January 2017
Subject:	Fund of Funds Update & Next Steps

Summary:

This paper provides an update on the work undertaken to date regarding the development of the financial instrument to improve access to finance for SME's. The committee received their last update in December 2015.

Actions Required:

Members of the Economic Scrutiny Committee are invited to:

- 1) Consider and comment on the current progress
- 2) Support the promotion of the Midlands Engine Investment Fund by helping to ensure that all Lincolnshire businesses are aware of the financial support available, and that the administrators of the Midlands Engine Investment Fund are fully aware of the economic opportunities in Lincolnshire so that the county's businesses attract a significant allocation of the funding.

1. Background

Members of the Economic Scrutiny Committee will be aware that a lack of finance for investment is often cited by businesses as being a barrier to growth. Businesses can apply to banks for finance, and occasionally to local authorities, but it is often difficult for high-growth businesses to access substantial levels of finance.

LCC, through the Business Lincolnshire growth hub, provides advice to businesses on seeking finance –such as the programme it runs with the University of Lincoln to prepare businesses for making cases for equity investment. LCC also co-ordinates a Financial Intermediary Forum which bring business bankers, accountants, and other intermediaries together so that they can understand what public finance is available which can be used to "top up" any financial contributions they might make to a business.

The Financial Intermediary Forum has advised the Greater Lincolnshire Local Enterprise Partnership that there remains a gap in higher amounts of finance for high growth Small and Medium Sized Enterprises.

The purpose of the Midlands Engine Investment Fund is to fill that gap. By working with partners across the East and West Midlands LCC has been able to support the creation of a £250m financial instrument which businesses in Lincolnshire can have access to.

This has been done at no direct cost to LCC. Instead Greater Lincolnshire LEP (GLLEP) has committed £5m of its European funding allocation to support an East and South-East Midland cross-LEP fund of funds able to provide a mix of loan, early-stage and growth capital to SMEs.

Over the last 18 months GLLEP was represented on a steering group by Samantha Harrison, LCC's Enterprise Growth Manager. The steering group commissioned research to gather evidence of need/demand for a new financial instrument. The research formed an ex ante application which allowed to access loan funding from the European Investment Bank to ensure that the Funds of Funds pot was over the £100m figure which is recognised as a viable fund level.

Midlands Engine Investment Fund (MEIF)

The Midlands Engine Investment Fund is aimed at boosting the region's economy and supporting the growth ambitions of the 460,000 smaller businesses within the region. The Fund is a joint agreement between the British Business Bank (BBB) and the 10 Local Enterprise Partnerships (LEPs) in the West and East and South East Midlands. The aim of the Fund is to provide gap funding for SMEs across the whole Midlands Engine area.

The British Business Bank has been invited by the Department for Communities and Local Government to implement a Fund of Funds. The Fund will be over £250m and bring together legacy funding from existing programmes, new funding from the European Investment Bank, LEP ESIF and the British Business Bank. The funds will provide equity, debt, small business loans, proof of concept and early stage funds. The programme will operate in market failure situation, where the high street banks won't support the businesses due to the risk profile. The new Fund will be targeted to create jobs, support enterprises through investment, lending and assist with facilitating innovation by launching new products to market.

The British Business Bank (BBB) has set up a new corporate entity called Midlands Engine Investments Ltd (the Department of Business Energy and Industrial Strategy is a 100% shareholder) which will be a subsidiary of the BBB, all liability will remain within this company.

The fund of funds is a balance between economic benefits and financial returns, repaying the EIB and BBB loans but also generating a legacy that will produce MEIF 2.

Key Objectives of the fund:

- Create sustainable economic activity through supporting new and growing businesses
- Build a substantial legacy from a successful investment and lending programme
- Have a demonstrable presence across the Midlands Engine area linking up the finance community to increase reach and create an impact beyond the MEIF funds
- Along the way the fund must:
 - Repay providers of debt e.g. EIB, BBB
 - Meet ESIF KPIs and reporting requirements
 - Comply with State Aid and other regulatory requirements
 - Support new and growing businesses operating in a commercial basis with the ability to service the loan and may repayments

Procurement of a Framework of Fund Managers:

The British Business Bank (BBB) has created a Framework panel and fund managers can bid to deliver up to 4 lots. A Mini Competition has been held for all bidders in the relevant Lot to bid for each allocation of work. In January 2017, a Mini Competition stage will be held to confirm actual allocations per lot, output targets and geography.

Indicative initial aggregate allocations across each lot:

- Lot 1 Equity - £80m allocation, and across this lot at least 20% by value of investments will be in amounts of under £250,000 and at least 70% will be in amounts of under £750,000
- Lot 2 Debt - £120m allocation across this lot at least 25% by value of investments will be in loans of principal amounts of under £200,000 and at least 70% of investments will be in loans of principal amounts of under £500,000
- Lot 3 Small Business Loans - £30m allocation, and across this lot at least 25% by value of investments will be in loans of principal amounts of under £50,000 and at least 70% of investments will be in loans of principal amounts of under £75,000
- Lot 4 Proof of concept and early stage funds - £20m allocation, and across this lot at least 50% by value of investments will be in amounts of under £250,000

Geographic coverage:

- An important procurement objective was to create a Framework of Fund Managers who are able to cover the whole, or substantially the whole, of the MEIF Area.

- The procurement has been designed to encourage Tenderers which currently operate across a smaller geographical area to commit to expanding their geographical reach.
- Specific geographies will be allocated at mini-competition stage.

Timescales

Framework Award	4 January 2017
Initial Mini Comps	23 January 2017
Appointment of Fund Managers	March 2017
Expected date funds will be made available	April 2017

British Business Bank Support

The British Business Bank have recruited a MEIF Senior Relationship Manager (“one of the two peripatetic staff”), covering the East and South-East Midlands, our contact is Lewis Stringer. His role will be to work with the LEP/Councils and intermediaries to promote the fund. We already have a regular dialogue with Mr Stringer, and it may be appropriate to invite him to attend a future scrutiny committee meeting.

They will seek to maximise the fund, develop pipeline and drive growth.

The pipeline will be developed in two main areas:

1. Higher-value start-ups
2. Rapidly growing businesses

Whilst recognising that a number of barriers exist:

1. Grant dependency culture
2. Lack of awareness or understanding of different types of finance
3. Ambitions are low and cautious for some

A Marketing and Communication Plan has been devised to overcome the barriers and work with local authorities, LEPs, Chambers, FSB, business support intermediaries (banks and accountants) and businesses to ensure they are aware of the Fund, its parameters and how it can accelerate growth.

Marketing and Communications Objectives

- To position MEIF on the investment landscape and create awareness in target businesses and amongst the wider financial community
- To have a demonstrable presence across the MEIF area linking up the finance community to increase reach and impact and supporting sustainable economic activity
- To establish credibility of British Business Bank’s and the Local Enterprise Partnerships role in contributing to the Midlands Engine initiative

- To work with MEIF Fund Managers to develop and deliver a pipeline of investment and lending activity through on going awareness of the MEIF
- To communicate MEIF's activity and successes to all stakeholders and demonstrate impact, success and track record in all 10 LEP area

Governance

When information about this fund was brought to a previous meeting of Economic scrutiny committee, members were keen to understand about the governance arrangements.

A Strategic Oversight Board (SOB) has been established with the Local Enterprise Partnerships to create the appropriate Governance Framework for the MEIF. The SOB is Chaired by Nick Pulley, the Chair of the Leicester and Leicestershire LEP and includes members from six other LEPs who represent all 10 LEPs in the MEIF as well as representatives from HM Treasury, BEIS, DCLG, the European Investment Bank (EIB) and the British Business Bank (BBB). Pat Doody from NatWest/GLLEP Board Director represents GLLEP as a deputy member on the Strategic Oversight Board (SOB) for the MEIF. As well as being a member of the Greater Lincolnshire LEP board, Pat also chairs the LEP EU funding committee and is a member of the Financial Intermediary Forum. Therefore he brings both his own business banking perspective and a wider strategic insight to his role.

There will also be a Regional Advisory Board (RAB), the board will review the performance of the fund managers at a local level and advise on any appropriate actions. Each RAB will have a LEP nominated member and an observer. Russell Copley from Greenborough Management Ltd will be the RAB representative for GLLEP and Samantha Harrison will be the observer.

Russell has over 30 years' experience in a business support arena and over 8 years in a direct investment role. He has extensive knowledge of Angel Networks as a Personal investor, sweat equity investor and Regional Manager for Angels Den since 2011. One of the founders of ULIG (University of Lincoln Investor Group). Russell has also delivered the LCC/UoL Lincolnshire Investment Network (LIN) work since 2013, this work will now continue for a further 3 years funded through ERDF and will include an investment readiness role to support Greater Lincolnshire businesses to access growth funds be it seedcorn support, loans, equity, grants.

GLLEP/LCC Support

The Business Lincolnshire Growth Hub will take on the role to make sure that all the intermediaries and businesses are aware of the fund and that access the funds accordingly.

To this end, LCC/LEP has successfully secured ERDF funds to deliver a Growth Lincolnshire Programme. The funding will provide a strategic and comprehensive business growth programme, tailored to the specific needs of eligible SMEs within the Greater Lincolnshire LEP area and aligned with the GLLEP/LCC strategic economic plan.

It offers a range of one to one support, including Business Growth, Supply Chain Development, Resource Efficiency and Investment Readiness. The Investment Readiness role includes the delivery the existing Lincolnshire Investment Network and providing investment readiness support for business so that they are able to successfully access equity/loan funds particularly the MEIF. Therefore we will have dedicated adviser support to assist businesses understand the options available to fund their growth, fund the right funding provider and help them to develop their funding proposition and secure a successful outcome.

2. Conclusion

The MEIF fund will provide another growth option for Lincolnshire businesses. Whilst there is work to be done to help businesses reduce their reliance on grants and to understand and access new forms of growth funds e.g. loans, equity there is a real opportunity to make a difference our businesses, particularly high growth start-ups and rapidly growing businesses that will in turn create new jobs and increased GVA.

3. Consultation

a) Have Risks and Impact Analysis been carried out?

The main risk for this programme is that Greater Lincolnshire Businesses are not made aware of the MEIF or have the capacity or capability to access the funds.

This has been mitigated by our commitment to align the fund under the Business Lincolnshire Growth Hub and by having 3 people representing Greater Lincolnshire on the strategic oversight and regional advisory boards.

The fund will also receive maximum publicity via the Growth Hub, GLLEP and LCC PR and Communication channels.

b) Risks and Impact Analysis

As a minimum the ERDF contribution of £5m needs to be accessed by Greater Lincolnshire businesses. The fund managers role will be scrutinised and we will challenge their commitment to Lincolnshire and to make sure that we utilise our £5m ERDF contribution whilst ensuring local outputs are delivered e.g. Innovative high growth businesses, new jobs created, increases in GVA.

4. Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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