



 Delivered by British Business Bank

SPOTLIGHT: THE NORTHERN POWERHOUSE INVESTMENT FUND

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FOREWORD

ANDREW PERCY MP AND MARGOT JAMES MP

The Government is committed to building a Northern Powerhouse which helps the great cities and towns of the North pool their strengths and take on the world. We are backing business growth and giving the whole of the North the power and resources they need to reach their huge untapped potential.

The Northern Powerhouse is already home to more than one million private sector businesses – over 150,000 more than in 2010 – with the region’s economy generating 19% of UK GDP. The Northern Powerhouse Investment Fund, together with a separate fund being set up specifically for the North East, will further fuel the economy of the North and help to create an economy that works for everyone.

The fund is the result of a unique and important partnership between the British Business Bank and the ten Local Enterprise Partnerships in the North West, Yorkshire and the Humber, and the Tees Valley. It is an initiative that befits the strength, energy, and sheer potential of the North. As the Ministers responsible for Small Business and for the Northern Powerhouse, we are excited about the opportunity this fund represents for those small and medium sized businesses that, with the right support, could transform the Northern economy.

The Government has already invested £2.8 billion in Growth Deals into the Northern Powerhouse – providing targeted financial support to locally determined projects in order to unlock growth. The Northern Powerhouse Investment Fund, which combines European and domestic funding across the North, will build on the success of these Growth

Deals as well as its predecessor funds. Together with a neighbouring fund being set up by the North East Local Enterprise Partnership, over £500 million of new investment will be facilitated to support the growth of small firms across the Northern Powerhouse.

As this report amply demonstrates, it makes good financial and economic sense to pool resources and collaborate across the North of England to help increase the availability of finance to SMEs. The Northern Powerhouse Investment Fund offers a precedent and model for pan-Northern economic collaboration, which will yield great dividends in the years to come. It realises the Northern Powerhouse concept for the smaller business community; it forges close relationships between the UK’s national development bank and strategic local economic development partners; and it offers a powerful catalyst for a narrative of regional success that has the potential to become self-reinforcing.

We are delighted to see that the British Business Bank is driving this project forward with such energy and professionalism. We wish them and everyone involved the very best, both for a successful fund and for a lasting economic impact across the North of England.



Andrew Percy

ANDREW PERCY MP
PARLIAMENTARY UNDER
SECRETARY OF STATE,
MINISTER FOR THE
NORTHERN POWERHOUSE



Margot James

MARGOT JAMES MP
PARLIAMENTARY UNDER
SECRETARY OF STATE, MINISTER
FOR SMALL BUSINESS,
CONSUMERS AND CORPORATE
RESPONSIBILITY

EXECUTIVE SUMMARY

The North of England has massive untapped economic potential. With a proud history of driving global innovation and economic progress, it now forms close to one fifth of the UK economy and is home to more high growth businesses than London. It is also highly diverse, boasting clusters of businesses ranging from media to manufacturing and major conurbations including Liverpool, Manchester, Leeds, Sheffield, Middlesbrough, Newcastle and Hull. Collectively, these clusters and conurbations have the potential to become more interconnected and mutually supportive, spreading capability and building a stronger, more resilient and more diverse regional economy that benefits all parts of the UK. Even beyond these cities and large industrial towns, every area in the North also has its own individual strengths.

The Northern Powerhouse represents a co-ordinated policy approach to realising this potential across the North. It seeks to harness the diverse opportunities available for the overall economic benefit of the region - and the whole country - by investing in infrastructure, devolving funding and powers to local leaders, and bringing financial resources to bear that will facilitate regional economic growth to rival that of London and the South East. Cumulatively, these initiatives will nurture an economic energy and cultural vibrancy that really can propel the North forward as a Powerhouse of national and international significance.

The Northern Powerhouse Investment Fund (NPIF) of over £400 million is a key part of the Government's drive to boost long term growth in the region. It aims to address gaps compared to London and the South East as measured by a number of enterprise and economic performance measures identified in this report. NPIF will co-operate closely with a separate fund for the North East Local Enterprise Partnership (LEP), meaning that over £500 million of new investment will be facilitated within the Northern Powerhouse, growing the smaller businesses that can form the foundation of the region's future growth. At the same time, NPIF will help develop the business networks and the wider 'ecosystem' that can support these firms as they grow and nurture regional entrepreneurship for the long term.

NPIF is a collaboration between the British Business Bank and ten LEPs in the North West, Yorkshire and the Humber and Tees Valley.¹ It combines the LEPs' intimate knowledge of local businesses and economic conditions with the experience and resources of the British Business Bank as Government's centre of expertise in small business finance markets.

This is the first time that LEPs have pooled their resources and collaborated on this scale to meet the financing needs of smaller businesses. The NPIF 'fund of funds' will allocate resources to underlying 'sub-funds' which will offer early- and later-stage debt and equity finance to smaller businesses across the NPIF area. With funding from a range of European and domestic sources, NPIF will build on the platform created by three smaller predecessor funds: Finance Yorkshire, North East Finance and The North West Fund. NPIF will have more flexibility than its predecessors to select investments from a wider pool of recipients across the NPIF area, and will drive greater economies of scale by simplifying its administration so that more money is available to invest.

The British Business Bank will act as 'fund of funds' manager, procuring experienced specialist managers to deliver NPIF finance to smaller businesses. Funds will be available for investment from early 2017 onwards, with an initial investment period of five years. The British Business Bank will be accountable for ensuring that NPIF maximises the economic impact of the fund and leaves a lasting legacy for the North. It will be overseen by a Strategic Oversight Board representing the participating LEPs and Government.

NPIF will support new and growing SMEs, create jobs, and encourage entrepreneurship, helping to close the gap between the North's performance and that seen in London and the South East. The aspiration for NPIF's legacy is both structural as it shapes and develops markets, and also cultural, as the resources, institutions, networks and aspirations required for pan-Northern economic co-operation and collaboration are embedded. NPIF is a key plank of the Northern Powerhouse initiative and of the Government's broader industrial strategy, and the British Business Bank is proud to be a part of it. We look forward to realising its full potential in the years ahead.

THE BRITISH BUSINESS BANK

The British Business Bank manages the Government's access to finance programmes for smaller businesses within a single commercially-minded institution. It does not finance businesses directly, but instead provides funds and guarantees to private sector partners, enabling them to finance more businesses in turn. Despite the British Business Bank being a relatively new institution, its programmes are already supporting over £3.2 billion of finance to more than 51,000 smaller businesses and are participating in a further £4.6 billion of finance to small mid-cap businesses. These programmes are designed to bring benefits to businesses at different stages of their development: those that are starting up, those with high growth potential that are looking to scale up, and those looking to 'stay ahead' in their market.

Find out more about the British Business Bank, its programmes and delivery partners at www.british-business-bank.co.uk.

THE NORTHERN POWERHOUSE

The Northern Powerhouse defines an ambition to narrow the historic North-South divide. The North of England contributes significantly to the prosperity of the UK, forming 19% of the UK economy.² However, it faces a number of long term economic challenges including lower productivity compared to the national average.³ The Northern Powerhouse is a key aspect of the Government's approach to addressing the productivity gap in the North and ensuring a stronger, more sustainable economy for all parts of the UK. It does not aim to diminish London and the South East, but to create a regional economy that compares with the Capital and the rest of the world's leading regions.

Historically, the North was a world leader at the forefront of the Industrial Revolution. Its towns and cities became synonymous with key industrial sectors - for example Sheffield for steel, Manchester for cotton trades, and Middlesbrough for the mining of iron ore. The North's products, skills and ideas have been exported all around the world. Today, the region is a centre of excellence for advanced manufacturing, med-tech and life sciences and is fast becoming a digital 'hub'.

Despite the region's strengths, as the global economy has changed productivity in the North has fallen below the UK average. In this report, we present the latest comparative economic evidence, together with a range of indicators showing the specific opportunities and challenges for SMEs. As SMEs are a significant source of growth and employment creation, addressing these opportunities and challenges will be vital to improving productivity.

An Independent Economic Review of the Northern Powerhouse area by SQW Ltd,⁴ supported by Cambridge Econometrics and Steer Davies Gleave and commissioned by Transport for the North, has found that skills, agglomeration, and innovation relative to the UK as a whole go some way to explaining lower levels of productivity together with relatively lower employment rates. The review, published earlier this year, identified a number of foci that could drive transformation in the North, including:

- **Developing four areas of prime capability - advanced manufacturing (especially materials and processes), energy (generation, storage and low carbon technologies), health innovation (especially life sciences, med tech/ devices, and service delivery processes) and digital (computation, software design/tools, data analytics, simulation/modelling);**

- Building three 'enabling' capabilities to enable the 'prime' capabilities to grow and develop - financial and professional services, logistics, and education (primarily Higher Education); and
- Improving the North's wider asset base, quality of life, and image.

It is clear that these measures build on considerable existing potential across the region. 15% of businesses in the North are 'high growth', which is approximately the same proportion as in other regions outside of London, and metropolitan areas such as Manchester, Liverpool and Leeds exceed the national average.⁵ There were more registered businesses that were high growth in the North (2,700) than in London (2,610) in 2013.⁶

The North cannot of course be seen as one homogeneous economic area. It is home to 15 million people - almost a quarter of the UK's total population. It contains a number of major cities and towns including Liverpool, Manchester, Leeds, Sheffield, Middlesbrough, Preston, Newcastle and Hull (which will be the City of Culture for 2017¹¹). As evidence in Annex B demonstrates, LEP areas in the North show particular strengths and weaknesses in their economic performance on a range of measures of enterprise. Whilst Greater Manchester, Liverpool City Region and Leeds City Region all have a higher proportion of high growth businesses than the English average, Cheshire and Warrington and Cumbria have the lowest proportion of high growth businesses of any LEP areas in the UK. Similar variations are seen in start-up rates across Northern LEP areas, and in the proportions of businesses reporting finance as a barrier to growth.

In addition to diversity across the region regarding numbers of high growth SMEs, there is also sectoral diversity. The Independent Economic Review of the Northern Powerhouse, as well as highlighting areas of focus that could drive future growth, identified a number of existing strengths including capabilities in Advanced Manufacturing, Energy, Health Innovation and the Digital Economy. Examples of these sector strengths are spread across the region. Within those successful industries there are a number of successful industry clusters, which make a significant economic contribution to the local and wider economy. These range from clusters of advanced manufacturing in sectors such as automotive, aerospace, nuclear, pharmaceuticals and engineering to digital creative and media businesses in Manchester, Liverpool, Leeds, Sheffield and the North East.

NORTHERN POWERHOUSE KEY FACTS

Population ⁷	15.1m	23% of UK
Number of private sector businesses ⁸	1.05m	19% of UK
Size of economy ⁹	£304bn	19% of UK
Number of business births ¹⁰	68,000	19% of UK

There are also already examples of collaboration between clusters with, for example, the Northern Auto Alliance connecting clusters in Teesside, Merseyside, Cheshire and Lancashire, and the Northern Advanced Manufacturing Innovation Corridor between Sheffield and Lancashire supporting SMEs in the key sectors of aerospace and energy. Enabling these various strengths to develop further, particularly with an emphasis on innovative technology, is likely to lead to improved economic performance and positive spill over effects.¹² But this development will require sustained improvements in the wider business environment as well as an increase in the supply of growth finance for businesses looking to expand.

Against this backdrop, a consensus has developed among policymakers that there needs to be a co-ordinated approach to addressing the North of England's economic challenges and build on its strengths. This pan-Northern approach to policymaking gained further political momentum when, on 23rd June 2014, the then Chancellor George Osborne launched his vision for a 'Northern Powerhouse' in which the North of England's local areas would work together to achieve greater economic development than they could achieve by acting alone.

Since then, the Government has signalled its continued support for the North of England with commitments to a number of initiatives across a diverse range of areas, ranging from investing in transport to devolving powers to local people through devolution deals. Key Government announcements to date include:

- Investment in **infrastructure to increase connectivity**, including supporting the creation of Transport for the North with the resources and leadership to ensure this investment is well targeted. Government has already backed Transport for the North with over £300 million of funding to take forward key projects such as the Northern Powerhouse rail network (sometimes referred to as HS3) to connect the North's major economic centres, and strategic improvements to the region's road network, including the proposed Trans-Pennine tunnel.
- Investment in **science, education and the arts**, from the £235 million Sir Henry Royce Institute to the new £20 million a year Northern Powerhouse Schools Strategy. 2018 will also see the Great Exhibition of the North hosted in Newcastle and Gateshead, which will showcase the creative, cultural and design sectors across the entire region.
- Historic Northern Powerhouse **devolution deals**, devolving extensive powers and funding to give local areas greater control over transport, housing, skills and healthcare, as well as the levers they need to grow their economy. From 2017, Liverpool City Region, Greater Manchester, Sheffield City Region, and Tees Valley will have their own directly-elected mayors as well as long term investment funds totalling over £3 billion to boost local economic growth.
- Exposing investment opportunities to **international investors**, including promoting over £24 billion of opportunities in the North to Chinese investors and a commitment of £15 million to support further Northern Powerhouse trade missions, including to key emerging economies.
- A **Northern Powerhouse Investment Fund (NPIF)**, which is the subject of this report and which, together with a separate fund for the North East LEP, will facilitate investment of over £500 million across the region to help SMEs to achieve their growth ambitions, revitalise local economies and create jobs.

Chancellor of the Exchequer Phillip Hammond has recently reinforced this approach, commenting that:

*"The Northern Powerhouse project takes a visionary approach, linking the great cities of the North into a coherent economic entity, an interconnected region that raises productivity and delivers growth by making it easier and cheaper for firms and individuals to move goods, people, and ideas. [...] the Treasury, under my leadership, will continue to drive the Northern Powerhouse project, working in partnership with local leaders to see it deliver its potential for people in the North."*¹³

The Prime Minister, Theresa May, appointed Andrew Percy MP as Government's dedicated Minister for the Northern Powerhouse and pledged to put *"the whole machinery of government"* behind it.¹⁴ Greg Clark, Secretary of State for Business Energy and Industrial Strategy, has also highlighted the importance of local growth to the Government's Industrial Strategy:

*"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."*¹⁵

THE NORTHERN POWERHOUSE INVESTMENT FUND

The Northern Powerhouse Investment Fund (NPIF) aims to transform the finance landscape for smaller businesses in the North of England. By doing so it seeks to enable the region to realise its massive potential to achieve economic growth through enterprise.

NPIF will provide over £400 million of lending and investment directly to smaller businesses to boost economic growth and productivity in the Northern Powerhouse. NPIF will also attract additional private sector funding and create a sustainable ecosystem of high growth companies alongside the support network of funders and advisors that they need. We will measure success by the achievements of the businesses supported in terms of turnover, profitability and employment, as well as by the geographical spread of funding across LEP areas.

NPIF will support a wide range of firms at different points in their development, from early-stage businesses seeking microfinance to high potential firms wanting to take advantage of growth opportunities. Encouraging high potential firms is a particular UK challenge and an emphasis on equity funding may be needed to best support them, as discussed below. Whilst the UK performs relatively well in terms of creating new business start-ups, it is less effective at growing them compared to other countries.¹⁶ Yet evidence presented in Annex B shows that there are high growth firms in all LEP areas across the Northern Powerhouse. By creating a better environment for businesses to grow, the number of high growth firms which have a significant impact on productivity and job creation can be increased.

Nonetheless, increased availability of finance, or the provision of additional finance-related support, is only part of what is needed to realise the business growth opportunities across the Northern Powerhouse. Other factors play an important part in the growth mix. For instance, the ambition of entrepreneurs and business owners to become the high growth firms of the future is an important intangible factor. Research by Goldman Sachs, the Enterprise Research Centre and the British Business Bank has highlighted the gap between the UK and some of our major competitors in terms of growth ambition. Greater ambition will increase internationalisation and innovation among smaller businesses, helping to improve productivity and growth. For example, encouraging more domestically-focused small businesses to start or expand exporting could bring more than £1 billion of Gross Value Added (GVA) to the UK within a year.¹⁷

Recent research by Tech City and NESTA has highlighted the positive impact that the digital economy has had in transforming industries, including in the Northern Powerhouse.¹⁸ It highlights how a combination of skilled workforces, the appropriate use of finance and developing digital infrastructure can drive increased productivity. Digital technology businesses are present for example in Hull, Leeds, Liverpool, Manchester, Newcastle and Durham, Sheffield and Rotherham and Sunderland. Combined, these have created over 280,000 digital tech economy jobs and £10 billion of GVA, providing over 5% of the total GVA in the region.

This economic benefit again demonstrates the importance of putting in place the conditions for clusters not only to develop but also to interconnect, and there is strong evidence that collaboration between, and leadership from, key economic actors such as local authorities and universities is critical.¹⁹ As a spillover benefit, NPIF will play its part in developing that collaborative culture across the area it operates in, bringing into contact not only its financial partners but also the wider business community.

HOW NPIF WILL WORK

NPIF was launched at Autumn Statement 2015, when the then Chancellor George Osborne made the following announcement:

“The British Business Bank will work alongside LEPs in the North West, Yorkshire and the Humber and Tees Valley to create a Northern Powerhouse Investment Fund of over £400 million – subject to European funding arrangements. Together with a separate fund in the North East, this will make over £500 million available to SMEs across the Northern Powerhouse.”

Since this announcement the British Business Bank, working collaboratively with all ten participating LEPs, has developed the principles and governance behind NPIF with the aim of launching it in early 2017. This collaborative approach brings LEPs’ intimate knowledge of local businesses and economic conditions – which is essential given the variation in economic activity amongst SMEs across their areas as highlighted in Annex B – together with the experience and resources of the British Business Bank as Government’s centre of expertise in small business finance markets.

Instead of joining NPIF, the North East LEP decided to focus locally by developing a separate fund of funds to cover its area. NPIF and the North East LEP fund will share good practice and work together to maximise their combined impact on the Northern Powerhouse economy.

This will be the first time that LEPs in the UK have come together on this scale to pool their resources in a single fund of funds to meet the financing needs of smaller businesses. Doing so will allow resources to be targeted towards ambitious SMEs across a wider area, and the economies of scale associated with NPIF will enable more money to be invested directly in smaller businesses across the North. Additionally, the British Business Bank will provide dedicated NPIF staff who will work with local business support providers - including Growth Hubs - in the LEP areas to improve access to finance for SMEs.

NPIF will contribute to the long term success of the Northern economy by creating a funding ecosystem covering early- to later-stage debt and equity capital that will also catalyse the expansion of private sector provision. In addition NPIF will seek to create sustainable economic activity through supporting new and growing businesses; build a substantial structural and cultural legacy from a successful investment and lending programme; and develop a demonstrable presence across the NPIF area that will link up the regional finance community.

Funding for NPIF will be drawn from the next round of European Regional Development Fund (ERDF)²⁰ allocations for LEPs in the North West, Yorkshire and the Humber, loans from the European Investment Bank (EIB) and the British Business Bank and also grant funding. This will create a fund of over £400 million to be invested in smaller businesses across the ten participating LEP areas. A 'fund of funds' will allocate these NPIF resources to underlying fund managers or 'sub-funds', which will in turn lend to and invest in smaller businesses across the NPIF area.

NPIF PARTICIPATING LEPs:

1. Liverpool City Region
2. Lancashire
3. Greater Manchester
4. Cumbria
5. Cheshire and Warrington
6. York, North Yorkshire and East Riding
7. Sheffield City Region
8. Tees Valley Unlimited
9. Leeds City Region
10. The Humber

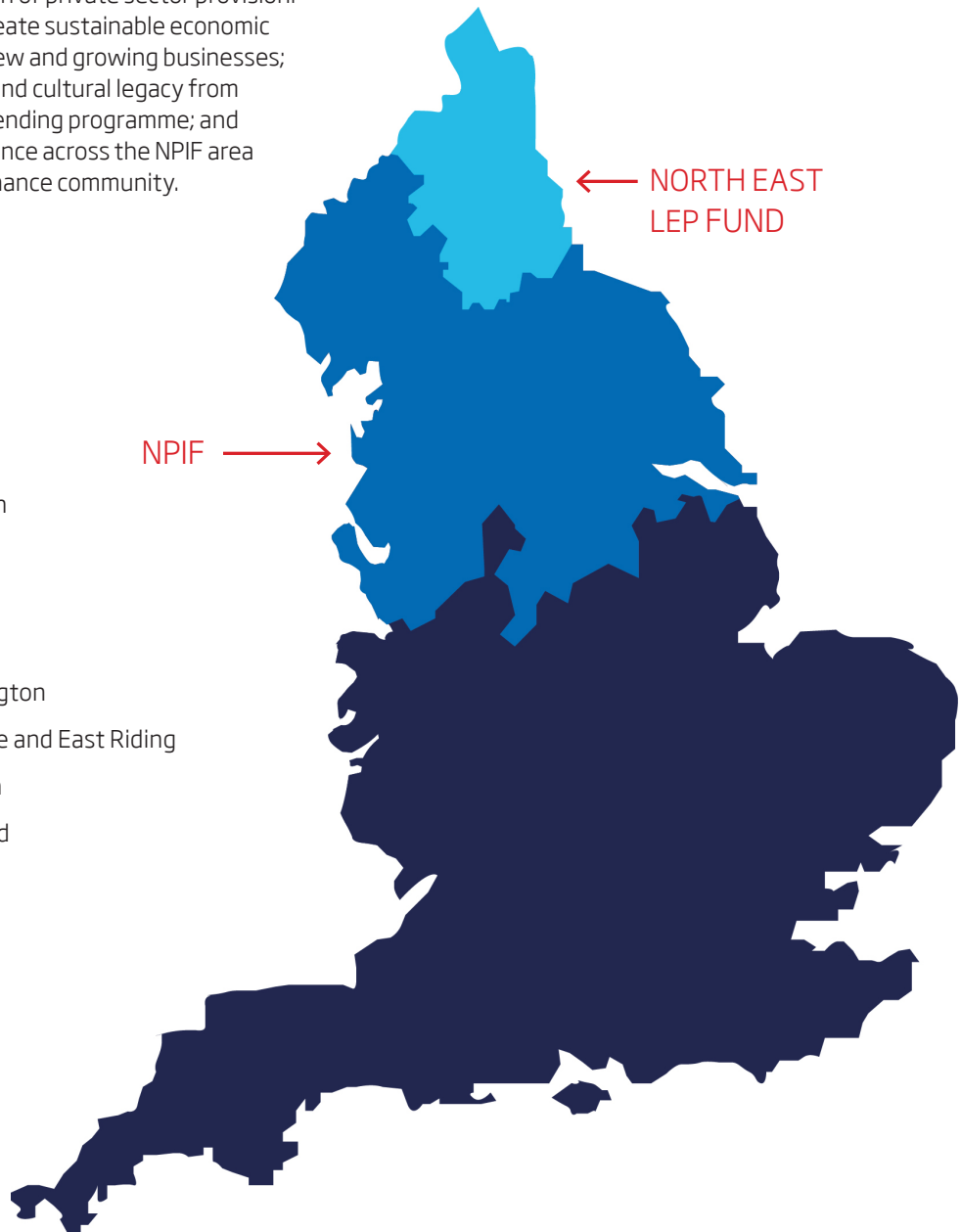


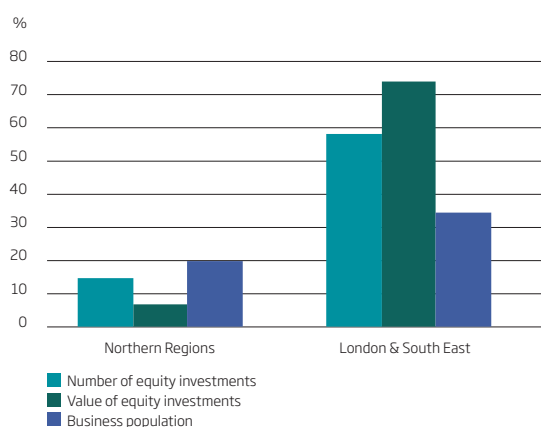
FIG 1.1
PROPORTION OF TOTAL GREAT BRITAIN
BANK LENDING BY AREA

Source: British Business Bank analysis of BBA data



FIG 1.2
PROPORTION OF TOTAL UK EQUITY
INVESTMENT BY AREA

Source: British Business Bank analysis of Beauhurst data



TYPES OF FINANCE PROVIDED BY NPIF

A wide range of types and amounts of finance will be made available to SMEs via the sub funds. LEPs and the British Business Bank have worked closely together to determine the types of finance that will best meet the needs of businesses across the NPIF area. Market assessments were conducted in the North East, North West and Yorkshire and the Humber, which have identified the following common gaps in the provision of finance:

- **Microfinance:** provision of small business loans (from £25,000 - £100,000);
- **Debt:** provision of business loans (from £100,000 - £750,000); and
- **Early-stage and later-stage equity:** provision of equity funding (from £50,000 - £2,000,000).

Recent analysis undertaken by Regeneris for the European Investment Bank and the Department for Communities and Local Government identified a need for debt finance across the Northern Powerhouse. The analysis identified a clear rationale for providing microfinance to smaller businesses, with up to 50% of micro businesses (1-9 employees) in the NPIF area encountering difficulties when seeking to obtain finance and 35% unable to obtain any finance at all. Market failures arise due to micro businesses being much less likely to have assets and a track record to back their loan applications. There is also significant latent demand from businesses that are discouraged from applying for finance. This theme applies equally to larger SMEs in the NPIF area which are seeking larger amounts of debt finance, with the analysis also identifying a need to provide access to loans ranging from £100,000 to £750,000.²¹

Nonetheless, the share of bank lending going to SMEs in the North is broadly in line with the proportion of businesses located in the region. 23% of approved bank loans and overdrafts by number - and 20% by value - went to the North in 2015, which is in line with its business population (20%).²² Bank lending to London and the South East is in fact under-represented (26% by number and 29% by value) compared to the proportion of businesses located in the area (35%). This may reflect more alternative funding sources being available in London and the South East and the lower supply of private sector equity finance in the North, rather than an over-supply of debt finance there. Differences in sectoral composition and business demand for finance may also explain regional differences.

Data from the 2016 British Business Bank Equity Tracker report²³ shows that 15% of equity investments by number and 7% by value went to the North in 2015, which is significantly lower than both its share of the wider business population (20%) and its share of high growth businesses (21%). This is partly due to less developed

networks of equity finance providers and advisors, but may also reflect lower awareness of, and therefore lower demand for, equity finance.

The number of identified equity deals in the UK overall has increased by 191%, from 437 in 2011 to 1,270 in 2015. But the growth in number of identified equity deals in Northern regions has been lower over the same period, at 103%, with no increase since 2013. By sharp contrast, London and the South East has seen growth of 290% between 2011 and 2015, with particularly strong increases from 2013 onwards. These large increases have seen the proportion of deals in London and the South East increasing over time from 44% of all UK deals in 2011 to 59% in 2015.

Similarly, the increase in the value of equity investments for known deals in the North has also been lower, increasing by 102% between 2011 and 2015, with £260 million invested in the North in 2015. In comparison, equity investments in London and the South East have increased by 332% over the same time period, with investment value increasing strongly from 2013 onwards to £2.7 billion in 2015.

Equity finance is widely accepted as an important ingredient for early-stage innovative businesses and for those businesses with the potential for high growth and looking to scale up. For many high growth businesses, external equity finance from a venture capitalist or business angel brings wider benefits, including additional expertise as well as financial resources. It is therefore particularly likely to be a beneficial finance option for businesses looking to expand. With a significant proportion of its resources going towards equity, NPIF is being specifically designed to support this sector of the market.

Looking more closely at the sources of equity finance, local regional and devolved Government funds are disproportionately represented in the North and are estimated to have been involved in more than half of all equity deals between 2011 and 2015. By contrast, Private Equity funds²⁴ are involved in just 23% of deals in the North. Crowdfunding equity investments are also lower in the North, forming 12% of equity investments compared to 23% in London and the South East. Crowdfunding has increased by 952% in London from 2012 to 2015 with 402 investments in 2015, but this growth has not been replicated in the North, where there were just 18 announced crowdfunded investments in 2015 within the dataset.²⁵

The relatively weak private sector equity funding landscape may therefore leave businesses in the North more reliant on debt finance than businesses in London and the South East - meaning that a debt finance landscape comparable to the rest of the country could still require more urgent improvement in the North, alongside equity provision.

FIG 1.3
NUMBER AND VALUE OF EQUITY INVESTMENTS PER YEAR BY AREA

Source: British Business Bank analysis of Beauhurst data

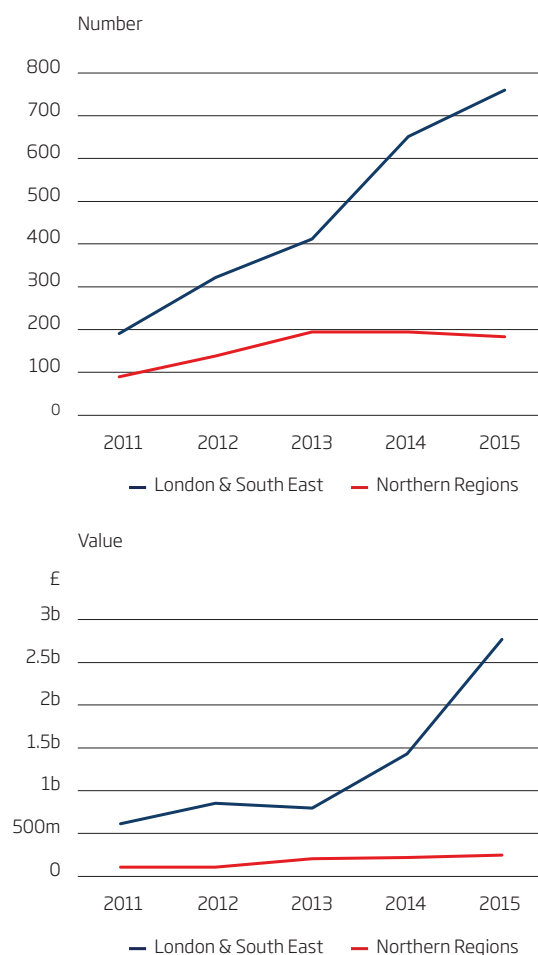
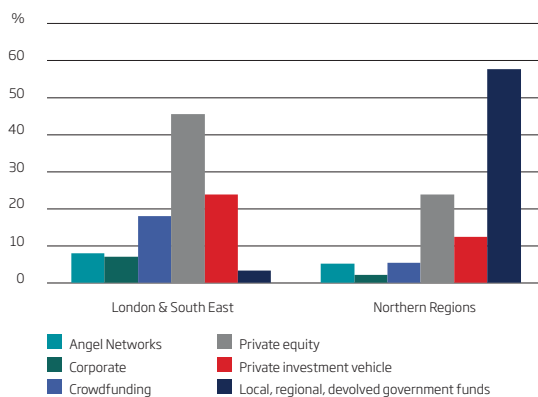


FIG1.4
PROPORTION OF EQUITY DEALS INVOLVING
DIFFERENT INVESTOR TYPES (2011-2015)

Source: British Business Bank analysis of Beauhurst data



As well as debt finance, therefore, NPIF will also provide additional early- and later-stage equity to businesses looking to grow. The North has the potential to become a vibrant and sustainable venture capital market. Of course there are important differences between regional and national economies, but by way of analogy the economy of the North is bigger than the economies of a number of other European countries including Norway, Poland, Ireland, Finland, Greece, Denmark, Austria and Belgium.²⁶ In fact, the Northern economy is most similar in size to Sweden, which is recognised as having an active venture capital market²⁷ and has become a leading hub for technology, with government involvement in the 1990s creating the right conditions for success.²⁸ There are 70 venture capital fund managers in Sweden, yet out of 372 active fund managers in the UK only 18 currently have their headquarters located in the North.²⁹ This would suggest that there is ample potential to increase the supply of venture capital funding in the North, alongside improving other environmental factors.

GOVERNANCE

The British Business Bank has overall responsibility for delivering NPIF funding to small businesses. To ensure that LEP areas have strategic input, a Strategic Oversight Board (SOB) has been established to advise on both design and delivery. The current membership includes five LEP members who were nominated by the participating LEPs to collectively represent them - these are currently Leeds City Region, Lancashire, Greater Manchester Combined Authority, Sheffield City Region and Tees Valley Unlimited - with additional members representing HMT,

HOW DOES NPIF BUILD ON WHAT HAS GONE BEFORE?

The last round of European Regional Development Funding (ERDF) was available to be invested between 2007-2013. A number of regions in the North of England adopted a 'fund of funds' model developed by the European Commission in conjunction with the European Investment Bank (EIB) as a way to deliver the funding. These were called Joint European Resources for Micro to Medium Enterprises (JEREMIEs).

In order to deliver the JEREMIE projects, each of the three Northern regions established a separate fund of funds to deliver a mix of debt and equity finance to SMEs:

- **Finance Yorkshire:** a £113 million holding fund managed by Finance Yorkshire Limited which is being invested via three sub-funds;

- **North East Finance:** a £159.5 million holding fund managed by North East Finance which is being invested via seven sub-funds; and
- **The North West Fund:** a £155 million holding fund managed by North West Business Finance Limited which is being invested via six sub-funds.

NPIF's structure will build on the model provided by the JEREMIEs but it will be on a larger scale, combining new ERDF funding from across the North with additional loans from the British Business Bank and the EIB. This will give NPIF more flexibility to select investments from a wider pool of potential recipients. Economies of scale and simplified administration will also ensure that more money is available to invest in smaller businesses across the NPIF area.

BEIS, DCLG, EIB and the British Business Bank. The SOB is currently chaired by Roger Marsh as Chair of the Leeds City Region Enterprise Partnership.

Once funds are flowing, the SOB will be supported by two Regional Advisory Boards (RABs). They will focus on overseeing the sub-funds' operations and performance against the investment guidelines, and will review and advise on the sub-fund managers' strategies to achieve the required investment levels and returns. There will be one RAB for the North West and one for Yorkshire, the Humber and Tees Valley.

To help deliver their objectives, fund managers and LEPs will be supported by two Business Bank staff working across the NPIF area, one based in and serving the North West and one based in and serving Yorkshire, the Humber and Tees Valley. These staff will in turn be supported by the Business Bank's regional team. They will raise awareness of finance options for SMEs; make links between the British Business Bank's national programmes and SMEs in the NPIF area; and establish close links with Growth Hubs and intermediary bodies to improve awareness and cross-referral between financial intermediaries and SMEs seeking finance.

DEPLOYMENT OF FUNDS

It is anticipated that NPIF funds will be available for investment from early 2017 onwards. There will be an initial investment period of five years, meaning that investments can be made until at least 2021. There will then follow a 'portfolio' period, lasting for at least a further five years, during which fund managers will seek to maximise returns for the fund – through exits, loans reaching maturity and follow-on investment for businesses with significant growth opportunities – and, importantly, create a legacy for the NPIF area. This means that the sub-funds will have an overall minimum life of ten years.

Sub-funds will generally make individual investments below £2 million, although exceptions may be made. Overall, NPIF will aim to deploy 60% of its funding as debt finance (this will include an initial allocation of £20 million to provide microfinance to SMEs which will be reviewed based on demand) and 40% as equity finance. The sub-funds will collectively seek to fund businesses across all ten LEP areas based on initial allocations which will be subject to review depending on demand.

EVALUATION

To evaluate the deployment of NPIF funding, the British Business Bank will monitor each of the sub-funds' financial performance and benchmark them against comparable finance providers to check that the overall programme is delivering value for money. This is important to ensure good use of public funds in the Northern economy in the long term. But we will also monitor:

- **The numbers, locations and sectors of businesses supported;**
- **The overall geographical spread of funding across LEP areas;**
- **The amount of finance provided, and the terms on which it is offered; and**
- **The purpose of the loan or investment.**

Our monitoring will reveal the range of businesses receiving finance and the use to which that finance is put, enabling us to evaluate its expected economic impact. To evaluate the actual impact of the finance provided on growth and productivity at a later stage we will track:

- **The growth in turnover of the businesses supported; and**
- **Changes in employment and profitability of the businesses supported.**

In the longer term, the potential impact of NPIF goes well beyond the deployment of its funds. By supporting new and growing SMEs, creating jobs and encouraging entrepreneurship, a sustainable legacy will be established that will benefit the entire area. This legacy will include the development of a financial ecosystem in which entrepreneurs and finance providers can build the relationships and infrastructure to effectively deliver finance to businesses with high growth potential. This broader legacy has the potential to increase and support entrepreneurial ambition in the Northern economy over time. We will therefore also monitor changes in ambition both to start-up and to scale-up a business.

NORTHERN POWERHOUSE SUCCESS STORIES

The Northern Powerhouse is home to a number of innovative businesses which have successfully benefitted from alternative sources of funding. Ranging from micro loans funding the start-up of fledgling businesses to equity investment enabling established businesses to export, both JEREMIEs and British Business Bank programmes have helped to create an environment where SMEs can access finance suitable for their needs. The case studies below highlight the range of finance options provided to businesses in the Northern Powerhouse in recent years.



The Advanced Manufacturing Park (AMP) is a 100 acre site in Rotherham, South Yorkshire. It is a joint venture between public and private sector organisations to create an internationally recognised centre for engineering, innovation, research and manufacturing excellence.

The AMP's goal is to capitalise on the advanced engineering and manufacturing expertise within the region. At its hub, the AMP has some of the world's leading materials and manufacturing technologies organisations including Rolls-Royce, Castings Technology International, and TWI Technology Centre (Yorkshire). It also houses two of the seven centres which make up the Government's High Value Manufacturing Catapult,³⁰ the Nuclear Advanced Manufacturing

Research Centre (NAMRC) and the University of Sheffield AMRC with Boeing.

These organisations enable manufacturers of all sizes and sectors to take advantage of advanced technologies and new market opportunities so they are better able to create sustainable employment and export the region's expertise in manufacturing design, technology, skills and innovation around the world. Technology developed on the AMP site is already being utilised in leading edge projects such as within Formula One and the next generation of military and commercial aircraft, including the new Boeing 787 Dreamliner. The AMP invested over £38 million of European Regional Development Funding from 2007-2013.



Amplience is a UK company which has one of its main offices in Middlesbrough. It is a digital content business that helps retail businesses around the world create engaging online experiences. Since 2007, Amplience has worked with a wide range of retailers, constantly iterating its technology and allowing customers to do more with their online channels.

£1.3 million of equity funding from North East Finance helped Amplience to leverage an additional £19 million from the private sector and create and safeguard 40 jobs. This investment allowed the company to build a platform that incorporates the strengths of dynamic media, rich shoppable content, video and image optimization, and user generated content.



Bill Dyson Skip Hire is a waste management service based in Pudsey which serves clients from domestic to industrial proportions. As an expanding business it was looking to purchase three new vehicles which would open further business opportunities.

The company approached Tudor Financial Consultants Ltd with a temporary cash flow issue. Tudor referred them to The Business Enterprise Fund, which has offices throughout the region. The loan application was turned around swiftly and three new vehicles were purchased with a loan backed by the Enterprise Finance Guarantee scheme, bringing the fleet to a total of nine and enabling the business to accept larger contracts.



Meridian Driver is based in Manchester and supplies bus drivers to national operators. After receiving a 12-month contract to supply and manage 90 drivers operating in the Bristol area for one of the UK's premier bus companies, the company has recruited more than 70 personnel to date and advertised nationally for the remainder. As many of the drivers would be relocating from across the UK for the duration of the contract, Meridian Driver is responsible for organising and paying for drivers' accommodation as well as for the weekly payroll.

Because some bus operators have 90 day payment terms, Meridian found that the amount owing from outstanding invoices can be as much as £1 million for 90 drivers at the end of the three months. Ultimate Finance, supported by the British Business Bank's Investment Programme and other commercial sources, provided Meridian Driver with a £750,000 invoice finance facility, which enabled the company to meet its cashflow needs and to expand its operations.



4040 Media, through its brands Wyzowl.com and Publi.sh, is a market leading explainer video company. One of the early pioneers in showing how explainer videos could transform the effectiveness of inbound marketing, it has made over 1,500 videos in the last five years for clients across 40 countries. Customers include recognised names such as Seagate, Oracle and Deloitte, but also many of the most exciting tech stars in the US and Europe.

4040 Media was set up by founder CEO Matt Byrom six years ago. It currently employs 25 staff in its offices in Southport, including a mix of artists, designers, animators and marketers. In 2016 the company raised a funding round of £500,000, consisting of bank term lending and equity. The funding will be deployed to drive the next phase of growth – a combination of investment in its own marketing and sales resource, plus development of new products and services. The equity investment was led by Redstone Venture Managers, supported by a co-investment from the Angel Co-Fund.



Choppers is a Hull-based Coffee shop. Christopher Wray noticed that in his home town of Hull there were a limited number of food vendors catering for workers in an area dominated by large office spaces. He decided to set up his own coffee shop to take advantage of this gap in the market and Choppers was born.

Christopher used a £6,000 government backed loan from the Start Up Loans Company to help him take on premises and install equipment. Choppers now has a profitable business selling Fairtrade coffee and a range of homemade soups and other snacks. Christopher has branched out and now also sells his wares at Sunday markets and has stalls at local festivals. He hopes to expand into other premises in the near future.



Heck Foods based in Bedale, North Yorkshire is a family-run premium sausage maker, founded by Yorkshire farmers Andrew and Debbie Keeble in 2012. Heck's brands are sold throughout the UK in Tesco, ASDA, Morrisons, Booths and Waitrose, and via its own website.

Heck needed finance to help the company raise awareness of the brand among consumers. The founders recognised the benefits that external investment would bring and felt that Panoramic Growth Equity, which is supported by the British Business Bank's Enterprise Capital Funds programme, was the best fit for the company and its aims. In September 2014, Panoramic invested £1 million of growth capital in Heck Foods, enabling the company to enhance its customer service and marketing capabilities and to be more visible at shows and events. Heck's sales are now £1.5 million ahead of budget.

HOW TO APPLY FOR NPIF FUNDING

NPIF will not invest directly in businesses. Instead, it will establish three sub-funds which will each have an area of specialism and will make direct debt, equity, and microfinance investments respectively. Once sub-fund managers have been selected, we will be able to clarify their contact details, application processes, and criteria to qualify for funding.

It is anticipated that NPIF will announce successful sub-fund managers in early 2017. Each sub-fund will be responsible for delivering funding across all LEP areas. Details on progress and announcements of the sub fund managers can be found at:

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

For further enquiries on NPIF, please e mail: info@british-business-bank.co.uk.

WHERE CAN I FIND ADVICE ON ACCESS TO FINANCE?

The **Business Finance Guide** has been devised for businesses and advisers by the British Business Bank and the ICAEW, supported by a further 21 major professional, membership and representative organisations. It is a unique guide that sets out the factors to consider and outlines sources of finance available to businesses ranging from start-ups to SMEs and growing mid-sized companies. The Business Finance Guide draws on the considerable expertise of its many contributors, who together represent more than a million members drawn from businesses, finance providers and advisory firms and organisations. The guide also includes several tools and ideas to help businesses consider their options, make decisions and plan how they will finance expansion. A new, interactive version was launched this year and is available here: <http://thebusinessfinanceguide.co.uk/bbb>.

Each LEP area has a **Growth Hub** which can provide business support to SMEs locally. Growth Hubs are free at the point of access and are able to tailor support to meet the needs and demands of their local areas. Growth Hubs bring together public and private sector partners to promote, co-ordinate and deliver business support. They provide a mechanism for integrating national and local business support so that it is easier for businesses to access this support. You can find your nearest growth hub at: <http://www.lepnetwork.net/growth-hubs/>.

The **Business Finance and Support Finder** is an interactive tool that is searchable by sector, business size, location, activity and business stage. It allows businesses to search for government-backed support and finance, including grants, loans and other finance, as well as mentoring, consultancy and other forms of support. The Business Finance and Support Finder can be accessed here: <https://www.gov.uk/business-finance-support-finder>.

The **Business Support Helpline** can offer further information and guidance and can also direct businesses to more support. The helpline provides national information, plus advice and signposting to publicly funded sources of help, both locally and nationally. The helpline is a multi-channel service and can be directly accessed either by telephone (0300 456 3565), web chat, Twitter, Facebook or YouTube. Details can be found here: <https://www.gov.uk/business-support-helpline>. It is a national, two-tier service for all businesses:

- **Tier 1** handles basic queries and provides signposting, diagnostic support and guidance to potential entrepreneurs, and established businesses, to help them start and grow.
- For businesses requiring additional support, for example those that are in crisis, facing significant business challenges, or showing potential to grow, the Helpline also offers a Tier 2 service - a call back phone appointment with one hour of free one-to-one support.

ANNEX A

OVERVIEW OF THE NORTHERN ECONOMY

FIG1.5
GVA PER HEAD 2014 (UK = 100)

Source: Source: ONS (2016) 'Regional Gross Value Added (Income Approach): December 2015'

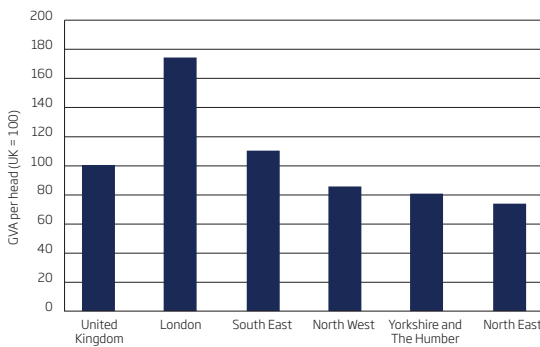
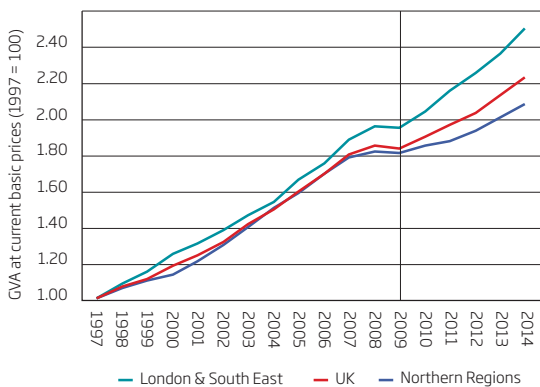


FIG1.6
GVA AT CURRENT BASIC PRICES (1997 = 100)

Source: Source: ONS (2016) 'Regional Gross Value Added (Income Approach): December 2015'



The North contributes significantly to the overall success of the UK economy. In terms of Gross Value Added (GVA), the North contributes 19% to the UK total, exceeding the share of GVA from Wales, Scotland and Northern Ireland combined (13%).³¹ The North has over one million private sector businesses. The majority of these (74.4%) have no employees, but this is slightly below the UK average (75.7%).³² The sectoral composition of businesses in the North largely matches the overall UK average. 'Manufacturing' and 'Distribution, transport, accommodation and food' are over-represented, however, and 'Information and communication' and 'Professional and business support services' are under-represented in Northern regions compared to the UK average, and particularly so in comparison to London and the South East.

A clear and persistent feature of the Northern economy is its lower economic prosperity compared to London and the South East. Northern regions have lower GVA per capita than the UK average. In 2014, the North East, North West and Yorkshire and Humberside had a GVA per capita of 74%, 85.4% and 80.7% of the UK average respectively.³³ Lower GVA per capita is explained by both lower productivity and lower output levels leading to spare capacity, for instance in the form of unemployed labour.³⁴

Moreover, regional variations have increased over the last 17 years, with the Northern regions growing less quickly than the combined London and the South East area. Comparing regional GVA in 1997 to 2014 shows GVA has increased by 128% in London and the South East, compared to 92% for the Northern Regions.

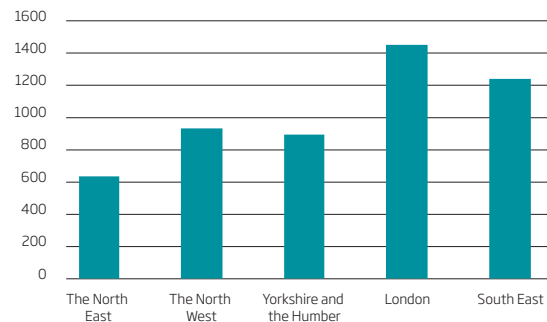
The disparity is particularly noticeable since the financial crisis, with London and the South East having grown more strongly since 2009. It is also reflected in employee numbers, where the North has shown the same pattern of employment growth as the South, but at a much later stage and at a slower rate. Whilst the UK started coming out of recession in 2009, the number of employees in the North of England only began to rise again from 2012.³⁵ A number of factors lie behind this difference in relative performance, including for example skill and innovation levels. This report looks particularly at areas that NPIF seeks to influence, namely levels of entrepreneurial activity and the ability of firms to access finance.

Northern England has relatively lower levels of entrepreneurial activity than London and the South East. For instance, London has 1.7 times as many businesses per 10,000 resident adult population as the North (1,434 compared to 854). Greater levels of entrepreneurship in the North could contribute to improvements in economic performance, with new businesses having the potential to grow, create employment and introduce innovative new products.

Higher levels of enterprise in London partly reflect London's role as the capital city. It is widely recognised³⁶ that the availability of housing wealth (often measured through house prices) is an important factor linked to new business start-ups. Housing wealth, alongside other sources of internal funding, can help alleviate the credit constraints new entrepreneurs often face when setting up their businesses, but net wealth per household is lower in the North compared to London and the South East.³⁷ There is, however, no evidence to suggest that businesses in the North are any less viable than in London and the South East, as the five-year survival rate is identical for both areas at 41%.³⁸ This is why NPIF will make microfinance available to support early-stage businesses and encourage start-ups.

FIG 1.7
NUMBER OF BUSINESSES PER 10,000
RESIDENT ADULTS, JANUARY 2015

Source: BIS³⁹



ANNEX B

LEP-LEVEL ECONOMIC ANALYSIS

The ten LEPs forming the NPIF area have very diverse economic and business characteristics. The following table, drawing on recent work by the Enterprise Research Centre,⁴⁰ reveals the extent of that diversity and why the LEPs' knowledge of their local economies is so important in the design of NPIF. It shows the number of registered businesses, number of private sector jobs, proportion of businesses that are fast growing, and employment rate for each LEP area within NPIF.

Further evidence from the Enterprise Research Centre⁴² shows how LEPs in the NPIF area compare against other English LEPs on a number of measures of enterprise including:

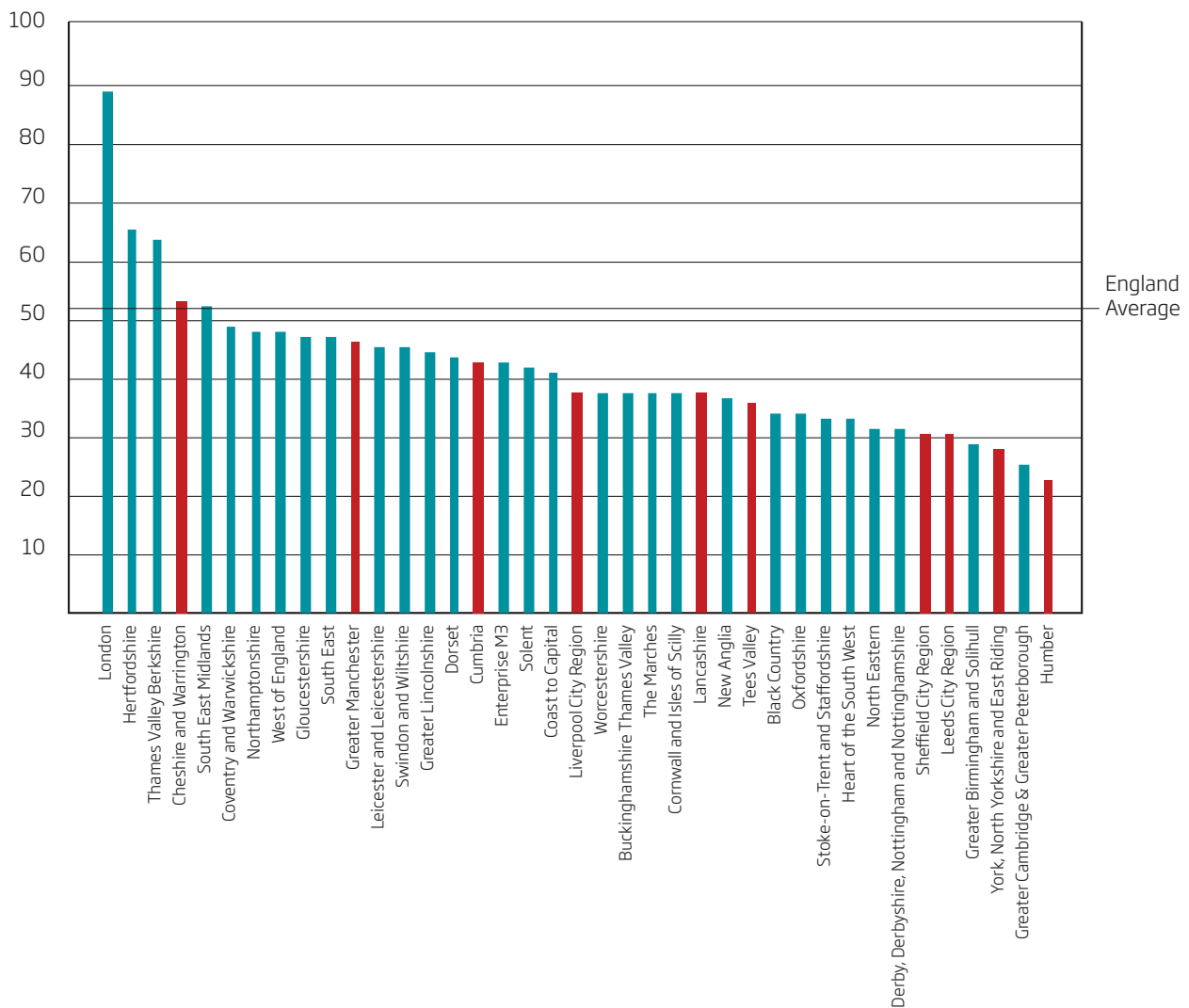
- Start-ups per 10,000 population;
- Proportion of businesses that are high growth; and
- Proportion of firms reporting finance as a barrier to growth.

LEP	Number of registered businesses	Private sector jobs	High growth businesses 2011-2014	Employment rate (Jan 2015-Dec 2015) ⁴¹
Cheshire and Warrington	41,898	344,488	13.3%	75.2%
Cumbria	22,944	153,607	13.1%	78.0%
Greater Manchester	85,631	833,378	16.2%	70.1%
Humber	23,982	246,295	14.7%	71.8%
Lancashire	48,823	311,001	14.5%	72.6%
Leeds City Region	86,758	912,579	16%	72.5%
Liverpool City Region	36,590	364,455	16.1%	67.6%
Sheffield City Region	39,736	429,865	15%	71.8%
Tees Valley	15,746	164,324	14.7%	68.8%
York, North Yorkshire and East Riding	37,513	228,359	14.5%	78.5%

START-UPS PER 10,000 POPULATION

Only Cheshire and Warrington LEP has a start-up rate higher than the English average, at 53 start-ups per 10,000 adult population. A number of LEPs in the NPIF area including Sheffield City Region, Leeds City Region, York, North Yorkshire and East Riding, and the Humber have start-up rates that are significantly lower than other English LEPs. In particular, the Humber has the lowest number of business start-ups per 10,000 population of all English LEP areas (23), which is less than half the England average (51).

FIG 1.8
Source: Enterprise Research Centre

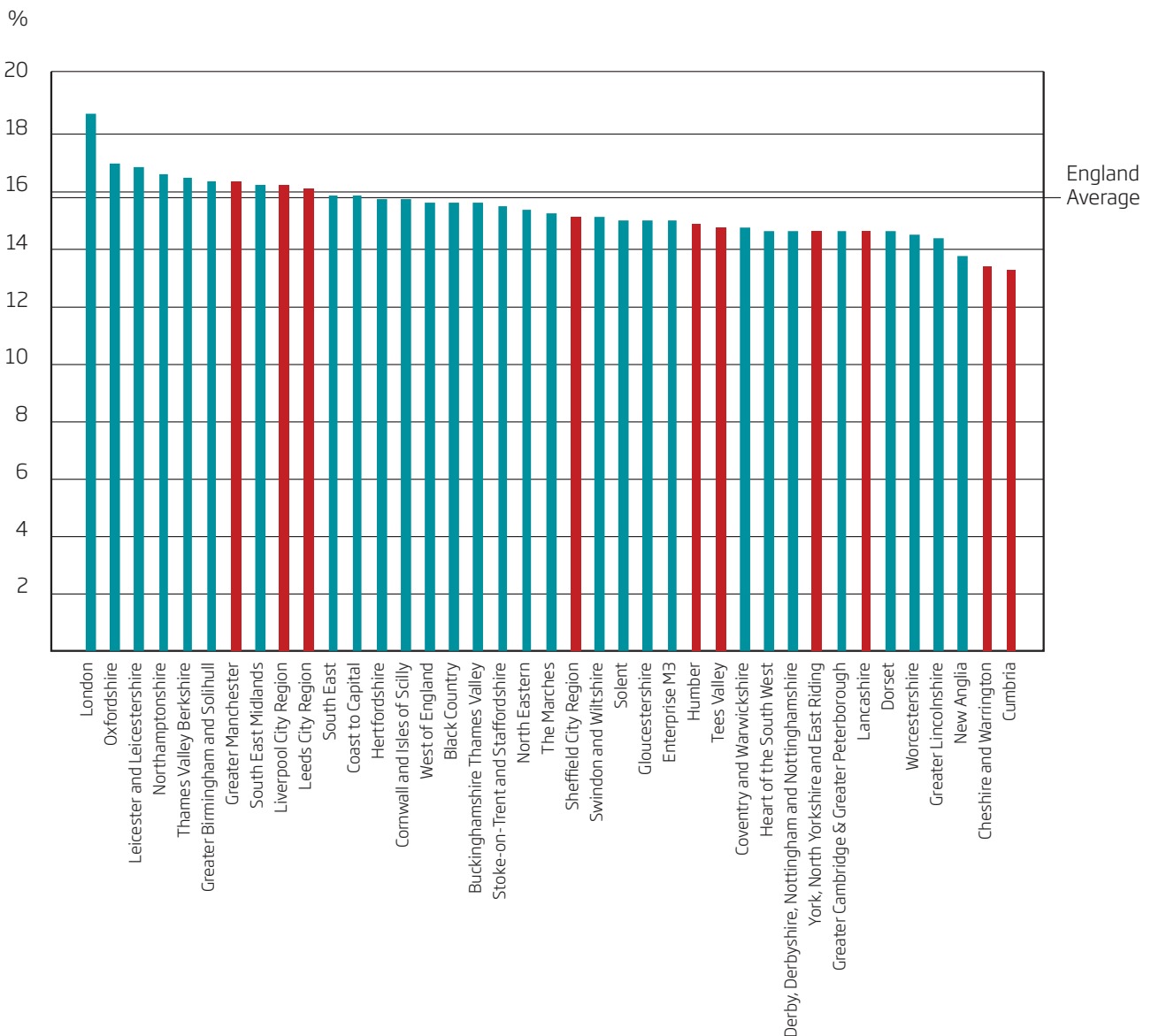


PROPORTION OF BUSINESSES THAT ARE HIGH GROWTH

It was highlighted earlier in this report that 21% of the UK's total number of high growth businesses - defined as those with average annualised growth in employment of 20 per cent or more over a three year period and with 10 or more employees at the start - are located in the North. These comprise around 15% of the North's total business population, approximately the same proportion as in other regions outside of London, although the proportion for London is significantly higher (18.6%).⁴³

Within the NPIF area, there are large differences in the incidence of high growth businesses. Greater Manchester, Liverpool City Region and Leeds City Region all have a higher proportion of high growth businesses compared to the English average (16%). The NPIF area also contains the two LEPs with the lowest proportion of high growth businesses (Cheshire and Warrington, and Cumbria).

FIG 1.9
Source: Enterprise Research Centre

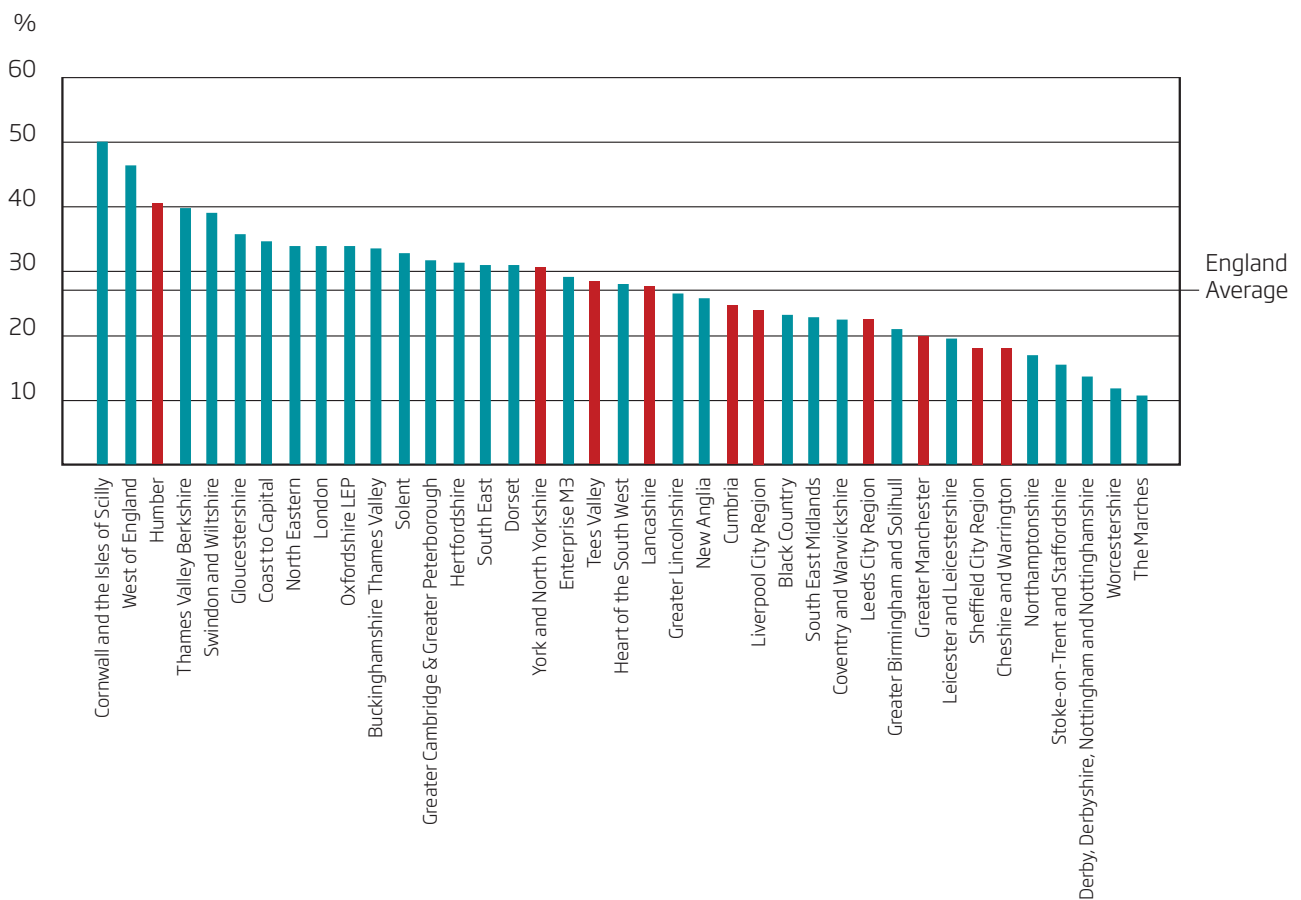


PROPORTION OF FIRMS REPORTING FINANCE AS A BARRIER TO GROWTH

NPIF aims to improve access to finance for businesses at different stages in their development. Whilst not representative of the wider business population, the proportion of 'Growth Accelerator'⁴⁴ clients (between April 2012 to March 2015) reporting finance as a barrier to growth varies considerably across the region.⁴⁵ Four LEPs within the NPIF area have a greater proportion of businesses citing finance as a barrier to growth than the English average of 27%. This includes the Humber; York, North Yorkshire and East Riding; Tees Valley Unlimited; and Lancashire. Other areas like Greater Manchester, Sheffield City Region and Cheshire and Warrington report better access to finance than the English average.

FIG 1.10

Source: Enterprise Research Centre



ENDNOTES

- Coverage of NPIF spans from Tees Valley to the East Midlands - where 5 local authorities outside Yorkshire are included in the Sheffield City Region LEP. Unless otherwise stated, references to the North or the Northern Powerhouse in this report include all 11 LEP areas in the region, including the North East. References to the NPIF area, however, include the 10 participating LEP areas only.
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- For instance, the UK is ranked third out of 14 OECD countries in terms of the proportion of start-up businesses less than two years old in the business population, but is ranked 13th when it comes to the proportion of start-up businesses with 1-9 employees that grow to 20 plus employees within three years. OECD (2014) 'The Dynamics of employment growth: New evidence from 18 countries'. <http://cep.lse.ac.uk/pubs/download/dp1274.pdf>.
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- Regeneris Consulting Limited (2015) 'Using Financial Instruments for SMEs in England in the 2014-2020 Programming Period'. <https://www.llep.org.uk/content/uploads/2015/07/SME-ex-ante-Block-One-SUMMARY-13-2-15.pdf>.
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- Figures from Preqin: <https://www.preqin.com/>. This is based on Head Office address. Large fund managers may have regional offices in the North which will not be counted in these figures.
- Catapult centres are a network of world-leading centres designed to transform the UK's capability for innovation in specific areas and help drive future economic growth. The High Value Manufacturing Catapult offers technology innovation and scale-up capabilities across the spectrum of manufacturing industries through seven centres located across the UK. <https://hvm.catapult.org.uk/>.
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42. Enterprise Research Centre (2015) 'Growth Dashboard'. <http://www.enterpriseresearch.ac.uk/wp-content/uploads/2015/06/2015-UK-Growth-Dashboard-Report.pdf>.
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44. Growth Accelerator was a Government supported advice service targeted at high growth potential businesses. On 26th November 2015 the Department for Business, Innovation and Skills (BIS) issued a formal instruction to providers of the Business Growth Service not to enter into any further contractual commitments.
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