



Combined Authority Board

24 July 2024

Title:	Business Growth & Social Impact Investment Fund Update
Report of:	Steve Clarke, Senior Responsible Officer Local Growth Fund, Market Insight and Evaluation
Lead Member:	Mayor Dr Nik Johnson
Public Report:	Yes
Key Decision:	No
Voting Arrangements:	No vote required

Recommendations:

A	The Combined Authority Board is asked to note the progress updates contained within this report.
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Strategic Objective(s):

The proposals within this report fit under the following strategic objective(s):

X	Achieving ambitious skills and employment opportunities
X	Achieving good growth
X	Enabling resilient communities

1. Purpose

1.1	This report provides the Combined Authority Board with a progress update since the last update was brought to the Board on 20 March 2024 through the Recommendations from Business Board.
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2. Proposal

2.1	<p>The Business Growth and Social Impact Investment Fund was designed to help address some of the challenges faced by businesses within certain key sectors and third sector organisations that are key to sustainable and inclusive economic growth across the CPCA region.</p> <p>The Investment Funding Programme is split into two distinct targeted funds that will be aiming to deliver the following key metrics:</p> <ul style="list-style-type: none">• Number of jobs created or retained in growth potential businesses in CPCA priority sectors including green-tech - Estimated 500 jobs• Number of jobs created or retained in third sector social enterprises - Estimated 85 jobs• Number of indirect and induced jobs created in business supply chains and wider economy – Estimated 185 jobs• Reduction in Greenhouse Gasses (tonnes of CO2 equivalent) – Estimated 9,000 tonnes p.a.
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	<ul style="list-style-type: none"> • Turnover growth of businesses in priority sectors • Financial returns – estimated £9.8million based on the financial model
2.2	<p>Fund 1 is £7,125,000 focussed on growth potential businesses that have limited access to funding from other sources.</p> <p>The fund will target high growth potential businesses in the emerging green tech sector as the first priority, but also key Cambridgeshire & Peterborough sectors of Digital and IT, Life Sciences, Agri-Tech and Advanced Materials and Manufacturing as the second priority.</p>
2.3	<p>Fund 2 is £2,375,000 aimed at providing grants or loans to third sector and Social Enterprise businesses that have limited access to funding from other sources. This will consist of smaller flexible loans or grants to support third sector.</p>

3. Background

3.1	<p>This Investment Fund Programme was developed in 2022 as part of delivering the Achieving Good Growth objective first set out in the Cambridgeshire and Peterborough Economic Growth Strategy which is focussed on reducing inequality between and within Greater Cambridge, The Fens, Greater Peterborough and Huntingdonshire, whilst increasing productivity and delivering our goal of growing gross value added to over £40bn by 2040. Securing a strong and sustainable economy for Cambridgeshire and Peterborough that is socially inclusive, environmentally responsible, and globally competitive.</p> <p>At its meeting on the 30 November 2022, the Combined Authority Board resolved unanimously to:</p> <ol style="list-style-type: none"> approve the Full Business Case for the Fund and approve the drawdown of £10million Gainshare; delegate authority to the Interim Associate Director Business in consultation with Chief Finance Officer and Monitoring Officer to complete procurement and contract with delivery partners to commence delivery of the fund.
3.2	<p>Update since approval of the Full Business Case</p> <p>The Full Business Case had assessed and proposed the model of delivery for Fund 2 as being managed by an in-house fund manager at the Combined Authority. However, following on from a period of market engagement which included a very well attended Market Engagement event and a follow up questionnaire gauging interest and ideas about innovative ways that the Fund could be designed, delivered and managed in the most effective manner, the project team decided to include both Funds in the open procurement for external fund managers with option in the Invitation To Tender (ITT) to bid for Fund 1, Fund 2 or both Funds.</p> <p>This means that both funds will now be delivered and managed by external Fund Managers during the 3 year investing period.</p>
3.3	<p>Procurement</p> <p>After an extended period of market engagement, followed by adjustments to the ITT to reflect feedback received the procurement was launched. In response to the Combined Authority's ITT and after completion of procurement processes, two delivery partners were successful in their bids to manage each fund.</p> <p>The award notifications were issued earlier this year and the legal agreements/contracts are being finalised ready for signing and mobilisation is anticipated during the summer months with an official launch being planned for both funds in September.</p>
3.4	<p>Fund 1</p> <p>This will be managed by The FSE Group - an early-stage fund manager, focused on investing in and lending to high-growth, innovation-led SMEs in underrepresented regions in the UK. The FSE Group have a strong track record in establishing regionally focussed, market gap funds and currently manage c.£325m of such funds in the East of England (including the Combined Authority region), South East England (Berkshire, Hampshire, Surrey, West Sussex), the Midlands, London, South West England (Cornwall, Devon, Dorset, Somerset), Yorkshire & Humber, and Scotland.</p> <p>As per the Business Case 70% of this Fund will go towards equity investment and 30% will be loans.</p>

3.5	<p>Fund 2</p> <p>This will be managed by Allia Impact Ltd - based in the Cambridgeshire and Peterborough region for 25 years, with designated third sector and environmental business centres in Cambridge and Peterborough. Allia has experience of running programmes aimed at the third sector and Social Enterprise both by them and in collaboration with specialist partners. These include social enterprise, tech for good, and charity startup programmes that cover the launch, early stages of growth, environmental and financial sustainability, and mentorship programmes. Allia also has facilitated grant making, social investment, social business hubs, and other aspects of social innovation ecosystem building.</p> <p>The Business Case stated that 70% of this Fund will go towards grants and 30% will be loans, however after Market feedback regarding flexible loans and also a component of flexible loans proposed through the bidders responses, this will now be 70% loans and 30% grants.</p>
3.6	<p>Governance</p> <p>Fund 1 Governance Arrangements</p> <p>A Steering Group will be established to oversee the operation of the Fund and will meet quarterly to monitor the progress against Key Performance Indicators (KPIs) and address any changes required in relation to the investment policy, business targeting and to opine on any points of policy. It is envisaged that three appointments will be made by the CPCA to this Steering Group, which could include Business Board members, and Investment Committee member and senior officers. Members of this group will not be involved in the individual loan/investment decisions but will have sight of the overall portfolio positions and have controlling position on Investment policy and wider policy issues.</p> <p>Fund 2 Governance Arrangements</p> <p>A Panel will be established that meets monthly, or even more frequently if required, to review the grants and loans applying to the Fund. It is proposed that delegated places on this panel will include an independent advisory expert, Combined Authority senior officers and representatives from the Combined Authority Business Board and the Combined Authority Investment Committee. This panel will have responsibility in assisting with the strategic direction of the fund and reviewing the pipeline of prospectus applicants alongside agreeing grant and loan award decisions.</p> <p>In parallel with the governance arrangements outlined above their will also be monthly Contract Performance meetings between the Fund Managers and Combined Authority Officers.</p>

4. Appendices

4.1 [Full Business Case](#)

5. Implications

Financial Implications

5.1 As approved and included in the Combined Authority Medium Term Financial Plan the following budget is available for this programme:

Fund 1 – the total capital funding excluding management fee is currently set at £7,125,000.

Fund 2 – the total capital funding excluding management fee is currently set at £2,375,000.

There is also a total revenue budget for admin of £500,000 included in the MTFP.

While the overall funding allocations have not changed, the increase in the share of loans proposed in Fund 2 may result in a higher financial return than the original proposals – this is not certain as it would depend both on the market taking up the loan offer, and company performance in the case of the proposed flexible loan agreements. In-line with the prudent approach taken to other business investments future returns have not been assumed within the MTFP so any return on this project will represent an increase in funding to the CPCA in future years.

After the projected 10-year duration (3 years investment plus 7-year exit period) the revolving equity will have increased and been returned to CPCA for re-investment.

	In other areas these funds have been re-invested to create a revolving fund for investment fund. The expectation is that funds will be reinvested in the area but this would be subject to approval from the Combined Authority at the time, and based on the performance of the programme.
Legal Implications	
5.2	The open procurement has concluded, and notification of successful outcome was given to the two successful bidders. Fund 1 and Fund 2 will operate under two separate legal arrangements which are very close to being finalised.
Public Health Implications	
5.3	The aim of this investment programme is to contribute towards the vision from the Cambridgeshire and Peterborough Economic Growth Strategy which states: Cambridgeshire and Peterborough is the place where unique business, natural and research assets tackle world problems whilst creating good jobs and healthy lives for all our residents in all our places. We are globally leading and competitive, and also more equal and sustainable. Also the investment programme may contribute towards the mayoral ambition to have a healthier and more prosperous Combined Authority region, this by providing funding to third sector organisations with a social impact focus or businesses trading in the context of addressing the issues facing residents through encouraging the presence of more compassionate employers, socially responsible employment and tackling inequalities.
Environmental & Climate Change Implications	
5.4	Given the regional ambition for support to transition to Net Zero, businesses focusing on investing in products and services that contribute to the Net Zero agenda will be prioritised through this fund.
Other Significant Implications	
5.5	None.
Background Papers	
5.6	Combined Authority Board - Gainshare Equity Fund Report Combined Authority Board 30 November 2022 Agenda Item 4.5
5.7	Combined Authority Board – Minutes of meeting 30 November 2022 Minute 309
5.8	Business Growth & Social Impact Investment Fund Update to Business Board 4th March 2024
5.9	Combined Authority board – 20 March 2024 Recommendations from Business Board