

LIVERPOOL CITY REGION COMBINED AUTHORITY

To: The Metro Mayor and Members of the Combined Authority

Meeting: 29 April 2022

Authority/Authorities Affected: ALL

EXEMPT/CONFIDENTIAL ITEM: In Part:
Report - Not exempt
Appendix 1 - Exempt by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972

KEY DECISION Yes (Number 267)

REPORT OF THE PORTFOLIO HOLDER INCLUSIVE ECONOMY AND THIRD SECTOR AND EXECUTIVE DIRECTOR OF INVESTMENT AND DELIVERY

STRATEGIC INVESTMENT FUND – LCR ANGEL NETWORK

1. PURPOSE OF REPORT

This report seeks Combined Authority (LCRCA) approval to award Strategic Investment Funding (SIF) to support the development and delivery of the LCR Angel Network (the Project) which is currently managed by not-for-profit funder Merseyside Special Investment Fund (MSIF). The Project will support small and medium sized enterprises (SMEs) to grow and create jobs for LCR residents, through the coordination of targeted investment into them and mentoring from private “angel” investors. The Project will scale up and adequately resource the existing LCR Angel Network to do this.

2. RECOMMENDATIONS

It is recommended that the Liverpool City Region Combined Authority:

- (a) approve £0.5m from SIF Gainshare Revenue for the Project; and
- (b) grant delegated authority to the Executive Director of Investment and Delivery to finalise negotiations of detailed funding terms and associated agreements for the Project specified at (a) above in consultation with the Combined Authority Monitoring Officer and Executive Director of Corporate Services.

3. PROJECT SUMMARY

3.1. Background

3.1.1. Business Angel Investors (Angel Investors or Angels) invest their *time & expertise* (as well as capital) to help young companies grow with a significant degree of mentoring. This access to funding and guidance is often crucial to businesses at an early stage of their lifecycle, supporting the development of their leaders and providing funding that will help them to scale. Angels are therefore a foundational element of a thriving business ecosystem.

3.1.2. [LCR Angel Network](#) was established in 2018 by MSIF, Brabners and Grant Thornton, to encourage investment by high net worth individuals (HNWI) in companies at the earliest stage of their lifecycle. It is currently run on a pro bono basis by MSIF and Brabners, with approximately 100 investors in the network, but operation has traditionally been hampered by a lack of dedicated resource and subsequent inactivity amongst those Angels.

3.2. The Need

3.2.1. High growth technology and research/innovation businesses struggle to gain finance as they may not see significant revenue or profitability for several years. In 2021, EY released its 'Fast Growth Insights Report' which noted that 65% of the UK's high growth firms felt that access to capital at this stage was a problem for their business.

3.2.2. Investment from Angels often comes in the form of equity risk capital. This is a critical form of funding for early-stage businesses, allowing them to prove their revenue model and product, then secure larger venture capital funding and scale. The British Business Bank suggests equity funding is particularly suited to research & innovation businesses, with 63% of high growth or scaling business using angel funding (Scale-up Institute 2020).

3.2.3. These challenges are particularly acute in Liverpool City Region. In fact, the LCR Economic Recovery Plan (2020) highlights the City Region's "fragmented investment runway" as a barrier to growth. MSIF commissioned feasibility research into the early stage funding market failures and possible solutions in the City Region (partly funded by SIF pre-development). It concludes that the main barriers are supply (i.e. few sources of capital) and coordination (limited investor networks, accessibility of investors etc). The report made recommendations for the development of an angel network and seed fund in LCR to address these market failures. The report formed an evidence-based foundation for the development of the full business case for this Project. Note that a separate SIF project is looking to develop an LCR seed fund in line with the feasibility report's recommendations.

3.3. The Project

- 3.3.1. To address these challenges, the LCR Angel Network is seeking £0.5m of SIF funding from Gainshare Revenue, matched by MSIF on a 50:50 basis, to support the growth and development of LCR's angel investment community, early-stage funding landscape and the wider LCR business/ innovation ecosystem over a 5-year period.
- 3.3.2. Funding would support resource to coordinate the network in LCR, including a platform to convene, share and facilitate a diverse range of pre-qualified investment opportunities with investors. The Project would also facilitate angel pitch events and the recruitment of additional angels from the LCR and beyond, drawing capital into the LCR and supporting LCR businesses.
- 3.3.3. The Project will be delivered by a not-for-profit newco and wholly owned subsidiary of MSIF. Activities enabled by CA-funding will be guided by a project steering group which includes MSIF, CA, UK Business Angel Association (UKBAA), local business and angel investor representation.
- 3.3.4. The Project aims to:
- Increase the number & diversity of angels actively participating.
 - Create an approachable network that local entrepreneurs from all backgrounds can easily access.
 - Increase investment activity, competence and experience in the LCR.
 - Fully integrate the network with the wider LCR ecosystem.
- 3.3.5. The Project will follow best practice on diversity and inclusion, in line with industry best practice developed in collaboration with the UKBAA. In particular, this will involve specific measures to drive access and participation for both entrepreneurs and investors with protected characteristics. The measures run across three main themes and will form conditions to the CA's funding:
- the network's processes (pitching, deal sharing and partnerships);
 - the network's strategic commitments to diversity and data collection & reporting; and
 - diversifying the angel investor community.
- 3.3.6. This Project directly addresses the identified coordination failure by providing the infrastructure to connect investors with investment opportunities. It also addresses the supply-side failures (by amplifying access to early-stage capital).
- 3.3.7. By stimulating more activity amongst existing investors and attracting new investors to the City Region, the LCR Angel Network will make a step change in the direction of travel for the early stage businesses within the ecosystem who currently have all of the ingredients to scale-up less the access to financial capital.

4. SUMMARY APPRAISAL

SQW were appointed to conduct an external economic appraisal of the Project. The report estimates that the Net Present Public Value (NPPV) of the Project stands at £6.1m with a BCR of 14.0, and therefore represents high value for money.

5. EXTERNAL INVESTMENT PANEL CONSIDERATIONS

- 5.1. At its meeting on the 17 February 2022, the SIF External Investment Panel endorsed the full business case to proceed to the LCR Combined Authority for consideration.
- 5.2. The panel noted the importance of diversity and inclusion considerations for the Project going forward. They emphasised the importance of working with a diversity of investors that represent the diversity of the population of the City Region, as well as ensuring that diversity and inclusion are integrated into all recruitment, operations etc of the Project.

6. RESOURCE IMPLICATIONS

6.1. Financial

In addition to the £0.5m of Gainshare Revenue requested from SIF, the Combined authority has also contributed £48k Pre-Development funding towards the development of the Project. This funding will be matched 60:40 by MSIF.

6.2. Human Resources

The Investment Team and Legal Team will lead the preparation of the Funding Agreement with MSIF and LCR Angel Network, once established.

The Investment Team and Legal Team will work closely with MSIF for the initial funded period to determine and ensure an appropriate long-term governance structure is in place. It is estimated that this period will be 6-12 months.

The Programme Management Office will have responsibility for providing assurance and monitoring of the Combined Authority's investment.

6.3. Physical Assets

There are no physical asset implications arising from this report.

6.4. Information Technology

There are no IT implications arising from this report.

7. LEGAL IMPLICATIONS

- 7.1 The LCRCA will enter into Funding Agreements with MSIF and the new company, once established, which will be drafted by Legal Services in accordance with agreed Head of Terms for the scheme.
- 7.2 The proposed funding arrangements will be subject to the UK's Subsidy Control Commitments, which replaced EU State Aid rules for all funding arrangements agreed after 1 January 2021 (the end of the Brexit transition period). This includes principles on subsidy control which are set out in the UK-EU Trade and Co-operation Agreement.

8. RISKS AND MITIGATION

- 8.1. Angel engagement and retention. The Project may not attract, recruit and retain enough angel investors to make the Network model work. To mitigate this, early identification of potential lead angels has taken place, and the Investment Director will further this process once in post. Investment in brand development and digital infrastructure will support continual angel recruitment and retention – locally, nationally and globally.
- 8.2. Lack of quality deal flow/pipeline. Quality angel investment opportunities may not be identified in material numbers, resulting in poor deal flow. To mitigate this, key relationships across the LCR will be targeted, leveraged and strengthened to bolster the deal flow, with a dedicated Investment Director in place to identify potential opportunities. The network will invest in early year pipeline growth and leverage the LCR Finance Hub's services for training/pitch preparation.

9. EQUALITY AND DIVERSITY IMPLICATIONS

An Equalities Impact Assessment has been undertaken in relation to the Project and the Project applicant has completed the Social Value Questionnaire, which accords with LCR aims. Specific actions have been written into the funding conditions to promote equality and diversity following collaboration with the UKBAA to incorporate industry best practice with regard to diversity and inclusion.

10. PRIVACY IMPLICATIONS

There are no privacy implications in this report.

11. COMMUNICATION ISSUES

All projects will be subject to the LCRCA's branding guidelines and publicity requirements placed upon them as part of the funding agreement. In addition, the LCRCA will, through its adopted communication protocols, publicise the award of funding to the Project.

12. CONCLUSION

- 12.1. This report presents the proposed development of an Angels Network to support the growth of the business and innovation ecosystem in the City Region by attracting high net worth angel investors to invest their time, expertise and capital in the City Region's businesses to allow them to grow and create good quality jobs for LCR residents.
- 12.2. Delegated approval is sought for the Executive Director of Investment and Delivery to proceed with the finalisation of the funding agreements in consultation with the Combined Authority Monitoring Officer and Executive Director of Corporate Services.

AILEEN JONES
Executive Director of Investment and Delivery

COUNCILLOR J WILLIAMSON
Portfolio Holder: Inclusive Economy and Third Sector

Contact Officer(s):

Aileen Jones, Executive Director of Investment and Delivery

Tel: 07775110317 Email: aileen.jones@liverpoolcityregion-ca.gov.uk

Appendices:

Appendix One – Investment Panel FBC (Exempt)

Background documents:

None