

Report Title	LCR Seed Fund
Portfolio Holder	Portfolio Holder for Economic Development and Business
Summary of report	The paper seeks Liverpool City Region Combined Authority approval to award £10m capital funding through the Strategic Investment Fund to deliver the LCR Seed Fund (the Project).
Is this report exempt?	No
Is this a Key Decision?	Y In relation to expenditure or savings, it is likely to result in revenue in excess of £250,000 or capital in excess of £250,000.
Is the report urgent?	No
Is this decision to be exempt from call in?	No
Local Authorities affected	All
Impact and implications of this report	
Financial impact	Yes, see paragraph 4.1
Delegation (s) sought	
Supporting the Corporate Plan	A Fairer City Region √ A Stronger City Region √ A Cleaner City Region x A Connected City Region x A Vibrant City Region x
Climate Change Implications	No
Equality and Diversity implications	Yes, see paragraph 4.3
Social Value implications	No
Human Resources implications	Yes, see paragraph 4.4
Physical Assets implications	No
Information Technology implications	No
Legal implications	Yes, see paragraph 4.5

Risk and Mitigation	Yes, see paragraph 4.6
Privacy implications	No
Communication and consultation implications	Yes, see paragraph 4.7
Contact Officer(s)	John Willis, Interim Investment Lead Philippa Lee, Investment Associate
Appendices	No
Background Documents	No

Liverpool City Region Combined Authority

Friday, 15 March 2024

Report of the Executive Director - Investment and Delivery and the Portfolio Holder for Economic Development and Business

LCR SEED FUND

1. PURPOSE OF REPORT

- 1.1 To seek Liverpool City Region Combined Authority approval to award £10m capital funding through the Strategic Investment Fund to deliver the LCR Seed Fund (the Project).
- 1.2 To highlight that the original project secured Combined Authority approval for a £10m capital commitment in November 2022, but experienced a material change prior to the anticipated Fund launch in 2023. Approval is sought to allocate this sum to the revised Project.

2. RECOMMENDATIONS

- 2.1. It is recommended that the Liverpool City Region Combined Authority:
 - a) approve £10m capital investment in the LCR Seed Fund (the Fund), which will be managed via a Limited Partnership arrangement between the Combined Authority and the procured fund manager; and
 - b) delegate authority to the Executive Director – Investment and Delivery in consultation with the Treasurer and Monitoring Officer to carry out a competitive procurement process to select a fund manager to manage the LCR Seed Fund, and to finalise such legal agreements as may be required for the management and operation of the LCR Seed Fund.

3. BACKGROUND

- 3.1 The Project was originally designed in 2020 as part of the Economic Recovery Plan's strategy to deliver business support and long-term, stable investment opportunities to high growth potential companies within the Liverpool City Region.
- 3.2 The Economic Recovery Plan stresses the importance of investing in an economic infrastructure that drives the LCR's good growth and productivity. This in turn facilitates high-growth business development, generating high value jobs for residents with the ambition of boosting the economic performance of the LCR. The Recovery Plan specifically reinforces the need for LCR to rebuild the "fragmented finance runway". A reliance on personal financing, and a reluctance amongst founders of start-ups to take on debt, was identified as a key contributor to routine business failures, as well as cause of businesses leaving the region to seek

opportunities in other geographies, despite the region's routinely high business birth rates.

- 3.3. The LCR Seed Fund was designed as part of a suite of Combined Authority funded programmes to address this through providing business support and enhanced finance opportunities for early-stage companies. These programmes, specifically the Baltic Ventures, Finance Hub, Gather and LYVA Labs are now in delivery.
- 3.4. The Full Business Case for the Project was refreshed in December 2023 and the Strategic Case evidences the case for intervention remains strong. Demand for funding has increased, in part due to the number of high growth businesses graduating from Combined Authority funded programmes and increase in University spin out activity.
- 3.5. The Project demonstrates a move away from grant funding as it would be setup as a Limited Partnership wherein, through a specialist Seed Fund Manager, the Combined Authority invests into a portfolio of LCR based companies in return for equity stakes.
- 3.6. The recommendation is that the Fund is sector agnostic to serve businesses across all LCR local authority areas, but it will be guided by the Combined Authority's strategic focus on priority sectors and clusters of opportunity as set out in its Plan for Prosperity, Economic Opportunities Framework, and Investment Strategy.
- 3.7. As part of this revised proposal, the Combined Authority would be the lead investor in a £10m Fund, with an aspiration to increase this sum and develop a larger more sustainable fund through private sector investment. It is the ambition of the Combined Authority to leverage co-investment at both Fund and deal level in order to deliver greatest impact and meet demand across the region. The summary of quantified impacts produced through the revised Full Business Case confirms that a £10m investment in the Seed Fund would generate significant GVA benefits and a favourable BCR of 1.9. Fund level investment would thereafter improve the BCR and GVA impact.
- 3.8. The market for fund manager services and the value of the fees in respect of the fund manager contract (typically 2-4% of the fund value) necessitates a public procurement exercise is undertaken. The procurement exercise will aim to ensure the Fund Manager is embedded into the Liverpool City Region Innovation Eco System and integrated into existing programme delivery. The Combined Authority will ensure the Social Value Policy and Framework is included in the limited partnership agreement and investment operating guidelines. This includes its commitments to equality, diversity and inclusion, net zero and social impact.

4. IMPACT AND IMPLICATIONS

4.1. Financial

The core request is for the £10m capital funding contribution. This should be considered as equity investment finance and the intention is that any return could be reinvested or returned by the fund.

The Fund Manager has direct responsibility for bringing in external networks and investment, identifying investment opportunities, nurturing investees and supporting follow-on investment. As with the Combined Authority's commercial loan facilities, the Fund Manager commands a fee structure. Prospective fund managers will be invited to submit fee management proposals as part of the procurement exercise. Whilst there are industry norms, proposals are expected to reflect the ambition to attract Fund Level investment and have a visible, active presence in Liverpool City Region. This will be determined as part of the procurement process in line with standard market practices.

Based on an initial £10m fund, the Combined Authority's economic modelling indicates that the fund will:

- Deliver total net GVA Benefits of £18.8m.
- Benefit Cost Ratio 1.9.
- Support the creation of 140 new jobs.
- Leverage significant co investment at deal level.
- Increase the number of high growth enterprises.
- Increase the number of knowledge intensive businesses and commercialisation of innovation.

As highlighted, the ambition is to attract significant private sector investment in the Fund. Co-investment and particularly Fund Level co-investment will significantly increase the net GVA Benefits and improve the BCR.

4.2 Supporting the Corporate Plan

There is a clear fit between the proposal and the Combined Authority's Corporate Plan ambition to be a stronger city region, as well as a number of other core policy documents as follows:

1. **The Plan for Prosperity:** The LCR Seed Fund is identified as a key driver of innovation and business growth in the Plan for Prosperity. The Plan highlights the importance of maximising the full potential of the region's innovation and business ecosystem, for the benefit of the whole city region. It notes the need for businesses to receive "seamless access to finance" to support the formation, growth and investment of High Growth Enterprises. Strengthening the finance ecosystem is identified in the Plan as one of the key areas of focus, given the critical importance of accessing early-stage capital to business growth.

2. **The LCR Economic Recovery Plan** stresses the importance of investing in an economic infrastructure that drives the LCR's good growth and productivity. This in turn will facilitate high-growth business development, generating high value jobs for residents with the ambition of boosting the economic performance of the LCR. The LCR Economic Recovery Plan specifically reinforces the need for LCR to rebuild the "fragmented finance runway" and to remedy the "inconsistent support offer to growing companies", with this being crucial to overcome the longstanding "stubborn performance gaps" between the city region and the highest performing places nationally and internationally. Access to finance is identified in the Recovery Plan as one of the key constraints on the LCR business ecosystem. It also notes the importance of building an investment ladder, providing funding for businesses at all stages of growth.

3. **The Economic Opportunities Framework (The Framework)** builds on the objectives set out in the Corporate Plan and is designed to set out a long-term focus that binds together the City Region's economic strengths, opportunities and assets that can help build prosperity and support increased investment. The Seed Fund project is a carefully designed intervention to reinforce the early-stage funding landscape for businesses with high-growth potential.

It is also key to mention the Project's alignment with other CA funded and specialist programmes that are working toward a Stronger City Region:

- **Angel Network** – The Angel Network already plays a key role in providing alternative finance options for founders through a pool of experienced angel investors that invest independently or in syndicate. Activity for this increased as of July 2023 with the appointment of a dedicated Director. The Angel Network presents opportunity for investment at deal level.
- **Baltic Ventures** – Launched in September 2023, the annual Tech Accelerator programme provides founders with pre-seed investment, alongside a series of masterclasses and wraparound business support to scale their businesses. The annual programme will produce a strong cohort of diverse tech-focused businesses seeking seed stage investment.
- **LYVA Labs** – Having been in delivery for two years, LYVA Labs is a key player in supporting the development of innovative businesses at pre-seed stage through its expertise and incubator programmes. Graduates of these programmes are anticipated to be quality deal flow for the Seed Fund.

As part of this ecosystem, the LCR Seed Fund is anticipated to provide the 'missing rung' of finance to enable the growth of early-stage businesses with high growth potential.

4.3 **Equality and Diversity**

The Seed Fund project will deliver on the Combined Authority's commitment to improving equality, diversity and inclusion (EDI). The Fund Manager will be responsible for identifying and nurturing the investee companies. The EDI ambitions and track record of prospective fund managers will be examined as part of the procurement process and as part of the establishment of the Limited Partnership through ongoing monitoring.

Evidence could include:

- Membership/partnerships of groups and networks that promote EDI (including the LCR's NIA Black Business Hub and meaningful engagement with the Race Equality Hub);
- Commitments to charters specific to underrepresented groups (such as the Investing in Women Code and equivalent standards);
- Adoption of industry best practice guidelines such as the British Venture Capital Association on integrating ESG considerations into investment strategy.
- A well developed and employed EDI Policy (including comms and PR);
- A track record of investing in diverse companies and teams, including adoption of specific LCR investment sourcing paths to improve diversity.

4.4 Social Value

The Combined Authority's Social Value Policy and Framework outline its commitment to "ensure that Social Value is a key factor in investment decisions", and the refreshed SIF Investment Strategy (2023) demands that every project funded commits to positive and measurable actions across three strands:

- Demonstrating social value
- Supporting our transition to net zero
- Embedding equality, diversity and inclusion

Given the crucial role of the Fund Manager to the project, the public procurement exercise will place suitable weighting toward assessing the bidding companies' commitment toward the Combined Authority's priorities.

4.5 Human Resources

The Investment Team and Legal Team will lead the preparation of Limited Partnership Agreement, Fund Manager Agreement as well as associated legal documentation. Much of this has already been developed prior to the material change and will now need some modification to reflect the Combined Authority-led Fund.

It is estimated that this period will be three months. No additional Combined Authority resource is anticipated as part of this process.

Assurance Services will have responsibility for managing the delivery of the Combined Authority's investment through monitoring its outputs.

4.6 Legal

The Combined Authority will enter into a Limited Partnership Agreement as well as a contract with the appointed Fund Manager. Detail of accrued interest earned from investment as well as the Combined Authority's equity stake in each company invested in, as well as the process for how this can be managed in the long term (i.e., retained shares or exiting of the Fund), will be captured as part of this structure.

As part of the process for setting up the Limited Partnership and the Fund, the Investment team and Legal Services will consider Subsidy Control rules and ensure that the Subsidy Control Principles are applied where relevant.

4.7 Risks and Mitigation

The key identified risks and mitigations are set out in the LCR Seed Fund Strategic Investment Panel Paper in the exempt Appendix.

Once the Fund has been established and is in operation mode, the key risk management procedures will be the responsibility of the Fund Manager. The Fund Manager will be responsible for applying best practice and complying with all regulatory requirements.

4.8 Communication and Consultation

All projects will be subject to the Combined Authority's branding guidelines and publicity requirements placed upon them as part of the funding agreement. In addition, the Combined Authority will, through its adopted communication protocols, publicise the award of funding to the project. Focused efforts will be made to ensure that the Seed Fund is promoted across the City Region, to maximise the reach to prospective investee companies and alignment with other existing specialised growth and investment programmes.

5. CONCLUSION

- 5.1. It is recommended that the Combined Authority approve the £10m capital commitment.
- 5.2 It is recommended that the Combined Authority approve that officers run a competitive procurement process to select a fund manager to manage the LCR Seed Fund.

DR AILEEN JONES
Executive Director - Investment and
Delivery

CLLR MIKE WHARTON
Portfolio Holder for Economic
Development and Business

Appendices:

None

Background Papers:

None