



North West Business  
Leadership Team

# Finance and Innovation:

Update Report



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# Finance and Innovation:

## Update Report

### Introduction

It has been a huge privilege to chair the wonderful work that was previously led by my predecessor, friend and NWBLT member Richard Gregory. The original report from Lee Hopley provided us with a challenging set of questions around innovation, access to finance, regional differences, ecosystems of public and private sector stakeholders and the role of local and national government.

The global Covid-19 pandemic has created opportunity for some, yet for many sectors and businesses, it has once again highlighted systemic challenges which impacts growth, productivity, skills, innovation, and wealth creation. The current macro-economic headwinds facing businesses of all sizes is another timely reminder of why it is essential the work, findings, and recommendations within the original report and in this update, continue to be owned and developed by business and government.

The need for business to reduce their carbon emissions and those within their supply chain, adds another critical dimension. The North-West is well placed to take



advantage of the opportunities to develop new renewable technologies and therefore, the need to innovate, be investment ready and to source the best form of capital, at the right time and with the right partner, once again reminds us that we all have a big role to play here.

Creating a sustainable and inclusive Northwest region will need cohesion, co-creation, creativity, and resilience. This has been another brilliant example of the North West Business

Leadership team addressing the tough questions in our quest to support the North West economy.

Thank you to everyone who has contributed to this report...the legacy of the work here will be determined by what we choose to do with the recommendations.

**Glenn Bemment,**  
*NWBLT Team Member and Chair of the Innovation Finance Group*

# Background

**In 2020, North West Business Leadership Team (NWBLT) embarked on a project to understand the dynamics of supply and demand for finance by innovation active businesses in the North West.**

The project involved commissioned research to identify challenges and opportunities particular to the North West and culminated in a report, launched in July 2020, which made a series of recommendations to improve the North West finance ecosystem.

The report outlined the steps needed to deliver more investment ready businesses, and a stronger finance pipeline for every stage of business growth across the North West. It was commissioned by the

North West Business Leadership Team, and supported by Pro Manchester, the Liverpool Chamber of Commerce, Innovate UK and the City Region Mayors of Liverpool and Greater Manchester.

The research was guided and informed by an active Steering Group comprised of representatives from across public and private sector institutions.



## 2020 Report Summary

Our original 2020 report found that finance alone will not drive the success of innovative entrepreneurs in the region. Businesses need to be better equipped with information and management skills to access the finance available and secure the confidence of investors. Outside of the dominant finance sector in London and the South East of England the pool of investors is always going to be more limited, which means firms located in regions such as the North West will need to work hard to present their business and its potential to financiers.

With a lower density of innovative businesses and finance providers in the region, compared with London, the networks that can connect the two become more important. The research found that these ecosystems of sector clusters, support organisations and funders are fragmented across the region. Pockets of good practice, notably in the city of Manchester, are helping to make more efficient and effective connections between entrepreneurs and investors. But many would-be finance seekers continue to struggle

to navigate the available support and have been frustrated by too many wrong doors. A clearer articulation of sectoral priorities at the regional and sub-regional level could also help to provide a rallying point for the networks to emerge.



# Report recommendations

The 2020 report made nine recommendations, grouped within three themes – securing the business base, capacity building and finance supply: -

## Securing the Business Base

- **Collaborative engagement with at risk sectors:** LEPs, industry bodies and higher education institutions should work collaboratively with these at risk sectors to secure on-going innovation grant and loan provision to enable them to maintain their position in global supply chains.
- **Business/investor engagement on new normal:** Engage with the networks and funds in the region to understand how future financing decisions may have been influenced by the recession. Early dialogue to understand shifts, should be private sector led.
- **Recovery advice & support:** LEPs need a clear strategy to deliver, sign-post or partner with public and private sector support bodies to ensure the recovery support is well matched with businesses that came into the crisis with a strong innovation focus.

## Capacity Building

- **Digital delivery of accelerator programmes:** Pilot digital delivery of start-up incubator and accelerator programmes.
- **Investment readiness support:** Private sector to lead on the development of an investment readiness support product tailored to local/regional circumstances. There must also be a clear distinction between improving management capability more generally across SMEs and the investment readiness needs of highly innovative firms.
- **Regional sector promotion strategy:** In line with the evolution of local industrial strategies, a more clearly articulated sector proposition would strengthen the hand of LEPs and other government departments and private sector bodies in promoting business capabilities to investors from across the UK.

## Finance Supply

- **Focus on finance supply:** angel co-investment, seed capital fund: Cross-region working to reboot and expand the regional angels programmes to increase the amount of early stage equity capital and raise the profile of angel investment activity.
- **Pivot from recovery advice to referrals and ecosystem build:** Build on any new support arrangements implemented through the recovery to build a more structured approach to a referrals pipeline of innovative business propositions to finance providers.
- **Investment and digital:** Scale up digital adoption to sustain investment, particularly in the dominant manufacturing sector so the region captures benefits from the net zero transition and supply chain reconfiguration that is likely to be a consequence of the current crisis.

Following publication of the report, the Steering Group overseeing the work agreed that initial priorities should be around: -



**Finance supply: angel co-investment, seed capital fund:** Cross-region working to reboot and expand the regional Angels programmes to increase the amount of early-stage equity capital and raise the profile of angel investment activity; and



**Building a more structured approach to a referrals pipeline** of innovative business propositions to finance providers.

**This report summarises the progress made by NWBLT and other stakeholders in the region in moving forward the initial priorities highlighted above. Our 2020 report kick started a series of powerful conversations regionally and nationally and these have now genuinely begun to shift the dial on the availability of Innovation Finance in the North West.**



## Finance Supply

Over the last year, NWBLT has brought together a number of key actors from the region's innovation, funding and business support landscape to better understand what work is ongoing already in the region to improve the availability of early-stage finance in the north west. A full list of partners involved can be found in the acknowledgements at the end of this update report.

A workshop in August 2021 identified three specific areas of focus in addressing the initial recommendations: how to understand where opportunities are in the region in order to build

and make visible to funders an attractive pipeline of potential investable businesses, how to better support and direct businesses to alternative sources of finance if their initial attempts are unsuccessful and how data can be better used to underpin this activity.

Prior to the workshop, a number of qualitative interviews were conducted with finance providers active in the North West. This informed the development of a range of policy options, which are summarised below in the coloured boxes. An update on progress against each is also provided.





1. Government action should focus on increasing supply of regional early-stage finance. It will be important that this takes a long-term view, ensuring that organisations can scale up to disburse funding and do so on a sustained basis.
2. Fledgling early-stage funding markets benefit from a public-private partnership approach to funding. This can offer funds, networks and syndicates the scale to makes investments that genuinely address the investment gap in the region. Public sector co-funding can also support operational and management costs associated with investing in early-stage businesses.<sup>1</sup>

Progress has been made on these two options. Most notably, significant additional funding has been confirmed for Innovate UK and for the British Business Bank (BBB) Northern Powerhouse Investment Fund (NPIF) and its Regional Angels Programme.

In addition, the North West is the second largest hub for private capital investment in the UK after London and the south east. 9% of total investments in the UK by BVCA members went to North West businesses .

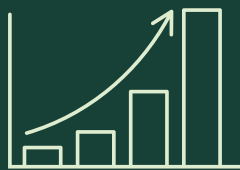
**2020:**

# 293,550 active enterprises in the North West.

**29,520** of these  
employ 10 or more people;  
of these



**1,300 (4.4%)**  
were classed as being high  
growth (UK average 4.3%).



# 38.7%

of businesses  
surviving after 5  
years (from 2015).  
UK: 39.6%



# 37,780

new business births  
(2019: 39,205) – the  
lowest since 2015  
(36,500)



Source: <https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/businessdemographyreferencetable>

<sup>1</sup> BVCA Nations and Regions Report: North West England, British Venture Capital Association, April 2021

It is important to recognise that, in the time since publication of our report and recommendations, some significant progress has been made in the region. A number of key projects and initiatives have been developed that, once fully operational, could lead to a marked improvement in the innovation finance picture in the North West.

## Innovate UK

Innovate UK has made several advancements since the publication of our original 2020 report. They secured an increased budget for supporting innovative firms to grow and scale through products such as SMART, Innovation Loans, Investor Partnerships and the growing Innovate UK EDGE Team of specialists based across the North West.

They have also launched Portfolio<sup>2</sup>, an online platform that provides an overview of investment and collaboration opportunities into some of the UK's most innovative businesses.

In Greater Manchester the Innovation Accelerator presents an opportunity for Innovate UK and Innovation

Greater Manchester to offer businesses a more coordinated support offer.

Innovate UK is also committed in its Plan for Action<sup>3</sup> to develop new place-based programmes with their partners. It is hoped that more information will follow on how this will benefit the North West.

The Liverpool City Region was unveiled in September as one of just two national pilots (along with Tees Valley) for Innovate UK/UKRI's new Launchpad initiative aimed at levelling up R&D funding outside the Greater South East of England, and setting a significant precedent in terms of place-based innovation funding. The pilots programme is



worth £15m over 3 years, and offers grant of £15k and £25k-£100k to individual businesses, plus £150k-£1million for collaborative R&D projects involving a RTO. The LCR pilot focuses on growing activities in the advanced manufacturing innovation cluster centred there, and contributing to delivering the twin north star ambitions of 5% of GVA R&D investment p.a. by 2030 and net zero by 2040.

## British Business Bank

Northern Powerhouse Investment Fund (NPIF) offers<sup>4</sup> micro finance (£25k - £100k), debt finance (£100k - £750k) and equity finance (£50k - £2m) for SMEs. Research suggest that NPIF now supports almost one-in-five equity deals in the North West. Since its launch in 2017, the Fund has invested over £318m across 1,300+ investments, leveraging an additional £437m of private sector investment.

The 2021 Budget and Spending Review allocated a further £660m for the next phase of NPIF, which

should be operational by the time the current Fund is fully invested in December 2023. Nationally, BBB has also been allocated £150m over three years to develop a Regional Angel's Programme<sup>5</sup>, working with a number of existing angel investors, syndicates, EIS managers with angel networks and investment platforms. This presents a significant opportunity to close the regional equity gap and better meet the needs for early-stage finance in the region.



<sup>2</sup> <https://iukportfolio.ukri.org/>

<sup>3</sup> <https://www.ukri.org/about-us/innovate-uk/our-plan-for-action/>

<sup>4</sup> <https://www.npif.co.uk/>

<sup>5</sup> <https://www.bbinv.co.uk/regional-angels-programme/>



## Northern Gritstone

Launched in 2021 this new investment company has been founded by the Universities of Leeds, Manchester and Sheffield. It intends to *“be one of the largest investors into academic spin outs in the United Kingdom, dedicated to financing companies in...sectors such as advanced materials, energy, health technology and cognitive computation”*<sup>6</sup>.

By May 2022, the company had secured investment of £215 million ahead of its first close, with funds coming from a range of individual and institutional investors including the Greater Manchester and West Yorkshire Pension Funds.

The company plans to raise £500m overall.



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<sup>6</sup> <https://northern-gritstone.com/>



# LYVA Labs (LCR Ventures Ltd)

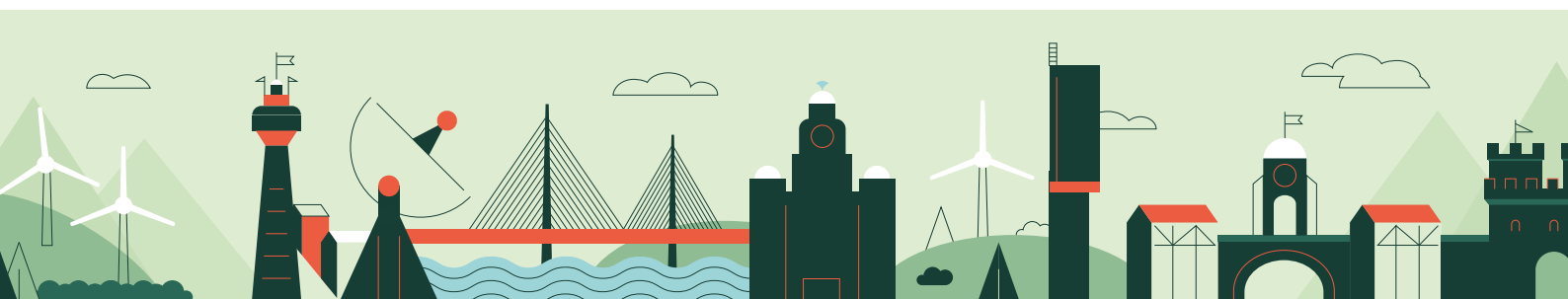
Established in 2021 with an initial investment of £10.5m from Liverpool City Region Combined Authority, LYVA Labs<sup>7</sup> will provide 'incubator' services and funding to very early-stage start-up companies in the City Region's health and life sciences sector. The company will take an equity stake in return for financial support and expertise. Despite only being formally established in with spring 2022 the company has already completed its first investment and has a number of others in the pipeline.

Their experience so far has highlighted the need for access to a pool of experienced Non-Executive Directors / advisors that can support early-stage and growth businesses to address gaps in their management expertise and capability and hone their business plan and funding pitch.

LYVA Labs is now expanding its activity into new sectors to turn more entrepreneurial ideas into high-growth businesses and create high-value jobs.

This is in response to Project Boom, commissioned by the LCR Innovation Board to examine how economic growth could be maximised and accelerated by the distinctive innovation assets of LCR.

LYVA Labs will address the three urgent needs identified by the report, namely improving the commercialisation of ideas generated by the city region's knowledge base, enhancing innovation collaborations between the knowledge base and city region industry, and developing large scale collaborations to exploit the city region's unique base and capabilities.



The original NWBLT Innovation Finance Report was published around 18 months after the UK government's Patient Capital Review<sup>8</sup>. One of the primary responses to the Review's findings was the creation of British Patient Capital<sup>9</sup> as a commercial subsidiary of BBB.

Resourced with an initial £2.5bn to invest over 10 years, British Patient Capital has now become a significant investor in venture and venture growth opportunities in the UK. In July 2021 the company launched a £200m Life Sciences Investment Programme and the £375m Future Fund Breakthrough initiative.

<sup>7</sup> <https://www.liverpoolcityregion-ca.gov.uk/metro-mayor-announces-10-5m-for-new-investment-company-as-he-reveals-liverpool-city-regions-ambition-to-be-an-innovation-powerhouse/>

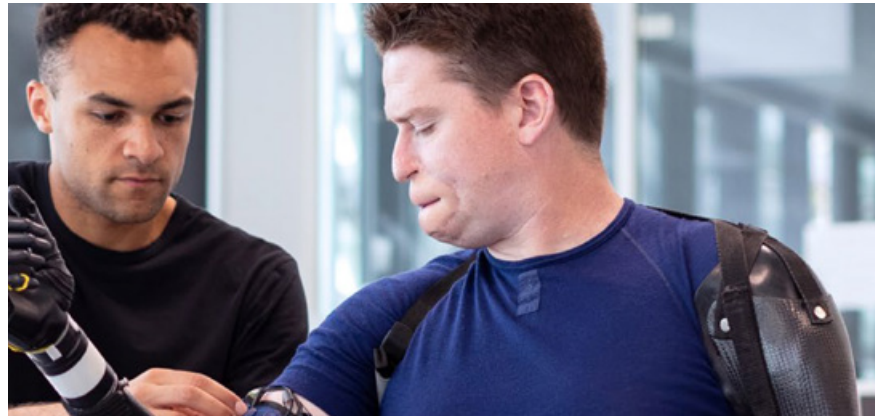
<sup>8</sup> <https://www.gov.uk/government/publications/patient-capital-review>

<sup>9</sup> <https://www.britishpatientcapital.co.uk/>



**3. Support through public funds must take a long-term view and offer some predictability for investors in order to have impact.**

Short-term competition style funding opportunities are seen as sub-optimal in building engagement and a track record.



Whilst the picture on patient capital is improving, a statement from BPC in February 2022<sup>10</sup> marking the one-year anniversary of the launch of the Kalifa Review of UK FinTech noted: -

*“...structural issues still remain. While funding nearly doubled in 2021, the majority of private market capital continues to come from outside the country, with UK institutional investors in particular being reticent when it comes to investing in domestic innovation”.*

**4. The British Business Bank should be one of the key partners in co-funding arrangements.**

The terms of engagement need to be more transparent with increased outreach and engagement from the BBB rather than the onus being on investors to engage.

Relevant regional partners and the Bank to continue to engage closely to ensure a high level of awareness of the British Business Bank offering amongst investors and investees

For smaller businesses, the British Business Bank has programmes across debt and equity which are designed for businesses at three stages of growth: Start Up; Scale Up (those with high growth

potential); and Stay Ahead (viable companies seeking to stay ahead in their market). The Bank has a core objective to identify and reduce regional imbalances in access to finance for smaller businesses with notable specific programmes outlined previously. As of December 2021, The Bank’s core programmes are supporting £928 million of finance in the North West, to 7,477 smaller businesses.

The Bank’s programmes are adding to the availability of finance in the region. The Northern Powerhouse Investment Fund has been mentioned elsewhere in the report. The Bank’s Regional Angels Programme has three delivery partners based in the North West – Praetura Ventures (Manchester), Deepbridge Capital (Chester) and DSW Angels (Warrington). The Bank also works with investor networks such as Fund Her North to stimulate new women angel activity and enhanced support for female founders across the North of England.

- 5.** For many would-be and unsuccessful seekers of finance the routes to access both advice and finance are not always clear, with referrals and connections often happening on an ad-hoc basis. Some closer collaboration between and across investors and support providers – both public and private sector, would be beneficial in providing more structured routes to appropriate finance of alternatives, where appropriate.

Our report and subsequent conversations highlighted the challenges faced by many early-stage and growth companies in navigating the array of funding opportunities open to them and in being effectively signposted towards alternatives when their initial lender or investor of choice turns them down.

NWBLT Member Lloyds Banking Group (LBG) has been working with the British Business Bank (BBB) to develop proposals for a pilot project whereby LBG Regional Managers could be supported to refer unsuccessful lending applications to other parts of the funding ecosystem, in particular the Northern Powerhouse Investment Fund Managers.

<sup>10</sup> <https://www.britishpatientcapital.co.uk/british-patient-capital-comments-on-the-one-year-anniversary-of-the-launch-of-the-kalifa-review/>



# Pipeline

In terms building a more robust pipeline of investable opportunities and stimulating the demand side for innovation finance, we have worked with organisations like Be The Business, Innovate UK, British Business Bank and the LEPs and the Combined Authorities in the region to look in more detail at what could make a positive difference.

## Data

Access to and sharing of appropriate data in a timely fashion remains a key barrier to a more joined up business support offer for innovation businesses. It is also an obstacle to connecting the available money supply with the potential investment opportunities. The range of different actors involved often don't fully appreciate the potential value and benefit of the data that they hold (whether aggregated or on an individual business / client basis) to other parts of the support network.

It has proven challenging to secure information from partners about what data they collect and how they use it. Issues have included: -

- a reluctance to share data because of confidentiality, commercial sensitivities, GDPR fears and internal policies of organisations.
- Varying formats and quality of between organisations making aggregation difficult
- Data is often dispersed in partner organisations

Also, it has been hard to get a clear view on the extent to which they might be willing and able to contribute to a regional data trust<sup>11</sup> that could be interrogated by project partners (within the limits of existing data protection rules) in order to identify when additional or specific support might benefit a particular business. This includes

the opportunity to share information (with consent of the business) between HMRC and the banking sector.

A suggestion was made to develop one or more case studies on how partners could gather data on a firm which had engaged with multiple parts of the ecosystem. The case study may have provided a clearer understanding of the data typically collected about a business and for what purposes. This would have helped to identify opportunities where the sharing of non-commercial data between partners could have been of value for the business and the partners.

<sup>11</sup> <https://theodi.org/article/data-trusts-in-2020/>





*One of the key aims of our work has been to improve the visibility and the 'line of sight' between investors and the investable strengths in the region.*

## Opportunities

The Finance and Innovation Report highlighted the importance of building the regional profile as somewhere with a strong and visible pipeline of investable propositions. A strengthened profile would more consistently attract and engage investors in the long-term.

One of the key aims of our work has been to improve the visibility and the 'line of sight' between investors and the investable strengths in the region. This aspect was led for us by Innovate UK working with the region's Local Enterprise Partnerships and Mayoral Combined Authorities. It re-looked at the information held on the business base and their innovation strengths as seen by the local innovation leads and within Innovate UK's award portfolio. We were able to look into segmentation in line with the seven technology families identified in the UK Innovation Strategy, the signs of clustering in the North West and how they relate to the objectives of investment finance.

An important finding from this work was that the science and innovation strengths that we typically identify for our region are often misaligned with the expectations of most private sector investors. To give two examples, advanced materials (discovery and development) and nuclear energy technologies are both closely related to the national priorities for innovative technologies, whereas the region's unicorn businesses are more generally found in e-commerce and fintech. This supports the creation of dedicated funding sources for businesses working in advanced fields of technology, such as the funds that Northern Gritstone and LYVA Labs aim to provide.

Through this workstream it has been important to respect and reflect existing local area strengths and priorities and the government has indicated that will involve those with local intelligence when developing its national understanding on innovation clusters led through BEIS.

Furthermore, work is underway in a number of areas in the region to review and refresh evidence that was gathered as part of undertaking Science and Innovation Audits in 2016-18 and Local Industrial Strategies in 2018-19. These refreshed datasets should provide additional rich evidence bases to inform where activity and support should be focussed looking ahead.

## Shaping National Policy

We have shared our Finance and Innovation Report and its recommendations widely since it was published in July 2020 and it is encouraging to see the importance of early-stage finance for innovation businesses increasingly reflected in policy and strategy at the national level.

The UK Innovation Strategy, launched by BEIS in July 2021 made explicit reference to the issue of both access to finance and the need for better and more joined up support for SMEs: -

*“However, gaps remain. Information asymmetries and coordination failures mean that smaller, earlier-stage businesses can be overlooked by investors...Information failures make it harder for some SMEs to navigate financial markets and identify the right type of finance to suit their needs, whilst others lack the investment readiness and skills to stand a good chance of securing it...Through the work of our key public bodies and by working alongside industry, we want to ensure the system is easy for businesses and innovators to navigate...”<sup>12</sup>*

NWBLT Members and stakeholders also had the opportunity to update the Secretary of State for Business, Energy and Industrial Strategy, Rt. Hon. Kwasi Kwarteng MP in October 2021, and hear directly from him about how importantly government views this agenda.

Moving forwards NWBLT will continue to make the case for better targeting of investment and support for innovation businesses in the region, and work with others to highlight and champion the excellence and the opportunities that the North West presents.

## Other issues

Our view remains that the overall volume of innovation finance available in the UK is not the issue. The proportion of it accessible to and deployed in the North west is. As highlighted above, there has been some welcomed progress in developing the supply side in the region. There is still more that can be done to plug some of the gaps in the funding runway in the region and help those areas with less developed funding ecosystems to enhance their offer.

There is also the question of how collectively we work to increase the demand-side for innovation finance. The 2021 BEIS Innovation Survey highlights that whilst the picture has improved, the north west still ranks 7th out of 9 regions in the UK for the level of ‘innovation-active’ businesses. How do we encourage companies to innovate, and in turn use their specific challenges as a means of encouraging entrepreneurs to develop their ideas in order to provide solutions?

One of the key recurring issues raised during the last twelve months has been the concern over what will happen to the existing business support network once current EU-funded programmes end in 2023. The ongoing and evolving picture around LEPs and Growth Hubs which currently coordinate much of the place-based business support activity in the region is also an area that needs greater discussion.

Ethnic minority businesses also continue to experience barriers in accessing finance and support. Whilst many of the challenges faced are common to the wider early-stage business community, they are amplified for Black business owners and entrepreneurs. Some of this is down to issues around perceived and actual discriminatory treatment leading to a lack of trust in formal business support and finance providers<sup>13</sup>.



<sup>12</sup> Innovation Strategy, July 2021, p.25

<sup>13</sup> ‘Time to Change: A blueprint for advancing the UK’s Ethnic Minority Businesses’, May 2022, Centre for Research in Ethnic Minority Entrepreneurship, p.9





## An Ongoing Journey

This update report marks a point in time in an ongoing journey. The work to improve the North West finance ecosystem continues. At this stage, we recommend a further series of actions and areas of focus, which are set out for consideration, below.

- Continue to support Innovate UK and other partners to shine a spotlight on clusters of existing and emerging innovation excellence that could develop in their maturity and become national assets, if given tailored support in coordination with local agencies.
- Further investigation about how data could be shared to leverage opportunities for businesses across the NW.
- Work with localities to support conversations around investor networks and funding opportunities, make connections where appropriate and continue to support efforts to plug gaps in the regional funding runway.
- Explore further opportunities for established business leaders to support new and growing businesses through the sharing of advice and expertise.
- Continue to emphasise to government the importance of finance, and initiatives like EIS and SEIS in supporting rebalancing the economy through innovation and productivity improvements.
- Work with The Black United Representation Network CIC and other organisations representing Ethnic Minority Businesses to explore opportunities for building trust in the finance and business support ecosystem.

# Acknowledgements

Many individuals and organisations have been generous with their time and expertise to support the work reflected in this update report. The following list is not exhaustive, but particular thanks go to:

Sue Barnard (British Business Bank), Glenn Bemment (Lloyds Banking Group), Andy Devaney (Cheshire and Warrington LEP), Steven Heales (Greater Manchester Combined Authority), Rick Holland (Innovate UK), Lee Hopley (UK Finance), Anthony Impey (Be the Business), Lisa Maynard-Atem (The Black United Representation Network CIC), Helen Oldham (NorthInvest), Andrew Wilkinson (Northern Gritstone), Matt Wright (Lancashire LEP) and Ben Heyward (Liverpool City Region CA).





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