



 Delivered by British Business Bank
Financing growth for Midlands businesses

SPOTLIGHT: THE MIDLANDS ENGINE INVESTMENT FUND



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FOREWORD

SAJID JAVID, SECRETARY OF STATE FOR COMMUNITIES AND LOCAL GOVERNMENT AND MIDLANDS ENGINE MINISTERIAL CHAMPION, AND GREG CLARK, SECRETARY OF STATE FOR BUSINESS, ENERGY AND INDUSTRIAL STRATEGY

Situated at the heart of the United Kingdom, the Midlands contributes 13% to the UK economy, in terms of economic output. The Midlands Engine Investment Fund will help drive the strategically important Midlands economy by providing the finance local businesses need to grow and realise their full potential.

We are delighted to be introducing this report by the British Business Bank published alongside the formation of the Midlands Engine Investment Fund. We know that many people played a role in creating a fund that meets the needs of businesses across the whole of the Midlands. In particular, we recognise the dedication and forward thinking of the British Business Bank, Local Enterprise Partnerships, the West Midlands Mayor and business leaders; by working collaboratively they have created a fund of which they can all be truly proud.

The Government is firmly committed to driving growth and building on the strengths of areas across the whole of the United Kingdom to create a country that works for everyone - this is central to our Industrial Strategy. Our Departments are focussed on growth and localism. This fund exemplifies the strength that can be achieved by combining these agendas, demonstrates the commitment and belief the Government has in the Midlands Engine, and underlines the region's importance to local and national economies.

As the Ministers responsible for Communities and Local Government and Business, Energy and Industrial Strategy, we are delighted to see the opportunities this fund represents. We strongly believe that, given the right financial support, small businesses have the potential and the ability to transform the Midlands' economy.

A pan-Midlands approach to the delivery of small business finance makes both financial and economic sense. The fund is built on close relationships - at both national and local levels - between the UK's national development bank and local economic development partners in the Midlands. This model of joined-up working will pave the way for deeper ongoing co-operation, which will in turn promote economic growth across the region for the long term.

We are delighted with the creation of the Midlands Engine Investment Fund and wish everyone involved every success in realising their ambition to create a lasting economic outcome for the Midlands.



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EXECUTIVE SUMMARY

The Midlands lies at the centre of the United Kingdom, economically as well as geographically. It plays a central role in driving domestic and global innovation and is home to over 10 million people¹. The Midlands forms over one eighth of the UK economy, with economic output equivalent to almost £218 billion in 2015². It hosts over 780,000 businesses³ across the East and West Midlands and 14%⁴ of all UK high growth businesses are located in the region.

The area boasts an impressive 20 universities, 22 science parks, and 11 of England's cities - including Birmingham, which is the second biggest city in the United Kingdom. Beyond these cities are a number of vibrant market towns, as well as economically important rural areas, all of which make valuable contributions to the economy of the Midlands - and to the UK.

Through its leading role in the Industrial Revolution, the Midlands was historically at the forefront of heavy industries and manufacturing. The Midlands is still recognised for this expertise today and continues to host global brands and innovative supply chains in the manufacturing, aerospace, automotive and rail industries. It also boasts many clusters spanning a wide range of sectors - from advanced manufacturing to ceramics - which build on a strong research base.

The Midlands Engine, which covers 9 Local Enterprise Partnerships (LEPs), represents an ambitious project to achieve greater economic growth and productivity across the Midlands.

It is a key part of the Government's vision to grow the UK economy, and to create a country that works for everyone. It includes a number of initiatives, one of which is the Midlands Engine Investment Fund (MEIF). This new £250 million fund has been created collaboratively by the British Business Bank and the 9 LEPs that are part of the Midlands Engine, plus the South East Midlands LEP.

MEIF will be managed by the British Business Bank, working in close partnership with the LEPs. Using a 'fund-of-funds' structure, monies will be allocated to underlying 'sub-funds', which in turn will offer a mix of debt (early- and later-stage), and equity (proof-of-concept and equity finance) to smaller businesses across the MEIF area. MEIF will be split 60:40 debt to equity.

MEIF funding comes from a range of European and domestic sources. European Regional Development Fund (ERDF) grants (allocated to the LEP areas who are part of MEIF) together with UK Government funding have attracted matching loans from the European Investment Bank (EIB), alongside a further loan from the British Business Bank.⁵

This is the first time that LEP areas in the Midlands have aggregated their resources and collaborated on this scale to meet the financing needs of smaller businesses. Doing so through MEIF makes both financial and economic sense. MEIF will provide greater flexibility than previous delivery platforms to select investments from a pool of recipients across a wider area. Shifting from a number of standalone delivery partners to a single fund-of-funds structure, it will drive

greater economies of scale by simplifying its administration and operational costs, and will ensure more money is available to invest in smaller businesses.

As well as drawing monies from different sources, the fund will benefit from combining the LEPs' intimate knowledge of local businesses and economic conditions with the expertise and resources of the British Business Bank. As the Government's centre of expertise in small business finance markets, the British Business Bank can build on these existing foundations and foster a healthy funding ecosystem in the Midlands – just as it has done with the Northern Powerhouse Investment Fund (NPIF) – so that small businesses will be aware of, and able to access, the most suitable finance to help them realise their potential.

As the 'fund-of-funds' manager, the British Business Bank is accountable for ensuring that MEIF maximises the economic impact of the fund. The British Business Bank will be working with specialist managers to deliver MEIF finance to smaller businesses. These managers will be overseen by a Strategic Oversight Board (SOB) and two Regional Advisory Boards (RABs) representing the participating LEPs and Government.

MEIF funds will be available for investment over a five-year time frame. MEIF will support new and growing small and medium-sized enterprises (SMEs), providing £250 million to approximately 1,400 smaller businesses and helping to create approximately 3,800 jobs. In the process, MEIF will encourage entrepreneurship in the Midlands and will help to address the structural challenges in the Midlands SME finance market, which are discussed further in this report.

MEIF is a key component of the Midlands Engine initiative, which is part of the Government's broader Industrial Strategy, and the British Business Bank is proud to be developing its role in regional funding initiatives in this way. We look forward to supporting the Midlands in 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. Despite the British Business Bank being a relatively new institution, its programmes are already supporting £3.4 billion of finance to more than 59,000 smaller businesses and are participating in a further £5.8 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 its delivery partners at www.british-business-bank.co.uk.



THE MIDLANDS ENGINE

In early 2015, the then Chancellor set out an ambition for the Midlands to become the UK's Engine for Growth. The Midlands' LEPs came together to write the Midlands Engine Prospectus,⁶ setting out the ambitions, opportunities and challenges for the region. This was published in December 2015.

The Midlands Engine is driven by local partners with strong support from central Government and stakeholders, aiming to work together to realise the diverse opportunities available for the economic benefit of both the region and the country. It is a key part of the Government's vision to rebalance and grow the UK economy, and to create a country that works for everyone.

The Midlands Engine is an important part of the Government's Industrial Strategy, which commits to building on the diverse strengths of all of the UK's cities and regions in order to drive growth across the country. The approach will be flexible, in order to address the different challenges that different places face, and the Midlands Engine Strategy (described later in the report) ensures that we are effectively targeting our investments and interventions to meet the needs of the Midlands.

Aligned to the Industrial Strategy pillars on driving growth across the country, creating the right institutions and supporting businesses to start and grow, MEIF is a key initiative for providing finance for small businesses across the region. The Midlands Engine Strategy, published in March 2017, sets out Government's strategic vision for delivering the Midlands Engine and the actions Government will be taking to make this happen. The publication of this strategy is another step in the journey for the Midlands Engine. Government will work with stakeholders across the region and with the Midlands Engine Partnership - which brings together LEPs, local authorities, businesses, academic institutions and others into a voluntary, regional partnership that will support growth across the Midlands - to realise the region's aims. The strategy focuses on taking a co-ordinated approach to five key themes - namely improving connectivity, strengthening skills, supporting enterprise and innovation, promoting trade and investment and enhancing quality of life across the Midlands. It includes concrete commitments to a number of initiatives across a diverse range of areas, ranging from investing in transport to a new £20 million investment in a flagship Skills Challenge⁷ to improve skills across the Midlands.

The Midlands Engine Partnership will now build on the Midlands Engine Strategy. Members of the partnership will develop their own visions and action plans, setting out how they will deliver the opportunities identified in the Midlands Engine Strategy and maximising the potential in the region.

The Midlands⁸ has a diverse mix of strengths and opportunities. As mentioned earlier in the report, the West and East Midlands form 13% of the UK economy⁹ and are home to over 10.5 million people.¹⁰ There are almost 784,000 businesses in the West and East Midlands and 14% of the UK's high growth businesses are located in the region.¹¹ Economic activity is focussed in a number of key cities. For example, Birmingham – the UK's second largest city – accounts for over 20% of the West Midlands economy, while almost a quarter of economic activity in the East Midlands is located in Derby, Nottingham and Leicester. The Midlands also has a number of other major cities, vibrant towns and economically important rural areas.

Historically, the Midlands was at the forefront of the Industrial Revolution. Its towns and cities became synonymous with key industrial sectors – for example, Birmingham for a number of engineering trades, Leicester for textiles, and Nottingham for pharmaceuticals. The Midlands' products, skills and ideas continue to be exported all around the world.

Today, the region is a centre of excellence in a number of sectors, including advanced manufacturing, automotive and ceramics. But despite these historic strengths and areas of excellence, productivity in the Midlands was more than 13% lower than the UK average in 2015.¹² This report presents the latest comparative economic evidence for the Midlands economy, together with a range of indicators showing the specific opportunities and challenges for SMEs within the region.

SMEs account for over 99%¹³ of the UK business population. They are a significant source of growth and employment creation; high growth SMEs represent less than 1% of established businesses but generate 20% of all job growth amongst established businesses that grow.¹⁴ The West and East Midlands had the second highest rate of business births in the UK in 2015 (14.1 and 14.4), after London (18.6),¹⁵ but these regions performed less well on a per head basis.¹⁶ As evidence in Annex B demonstrates, looking across the English LEP areas, those in the Midlands have a mixed economic performance on a range of measures of enterprise, with marked differences across the region.¹⁷ For example, while Northamptonshire has one of the highest rates of business start-ups on a per head basis¹⁸ and Leicestershire has a high rate of fast-growing businesses other areas, such as parts of Lincolnshire and the Black Country, have considerably lower rates of both start-ups and fast-growing businesses.

MIDLANDS REGION KEY FACTS

	Number (approx.)	Share of UK
Population ¹⁹	10.5m	16%
Number of private sector businesses ²⁰	784,000	14%
Size of economy ²¹	£218bn	13%
Number of business births ²²	54,700	14%
Number of High Growth Businesses ²³	2,055	14%

The Midlands Engine Science and Innovation audit²⁴ was more detailed in its analysis of the existing strengths of the Midlands and the opportunities these presented. The audit concluded that there are a number of existing sectoral strengths, including capabilities in advanced manufacturing, automotive, connected and autonomous vehicles, life sciences and medical devices, ceramics, space technology, agri-food and drink processing and digital technology. It found that examples of these sector strengths are spread across the region.

The audit also found that within those successful industries there are a number of successful clusters underpinned by the area's strong science and research base which emanates from the universities located in the region. These clusters, which make a significant economic contribution to the local and wider economy, include clusters of advanced manufacturing in sectors such as aerospace, nuclear, pharmaceuticals and engineering.

There are also examples of collaboration between clusters. For example, the Midlands Aerospace Alliance²⁵ connects aerospace clusters across the Midlands, and Medilink²⁶ links the healthcare sector in both the West and East Midlands. The Midlands Engine Strategy announced that, in addition to helping existing industrial clusters maximise their potential, it will foster new and emerging clusters, including an anticipated Space Park in Leicester to build on the success of the National Space Centre by creating a global hub for space technologies.

Enabling these various strengths to develop further, particularly with an emphasis on innovative technology, will likely lead to improved economic performance and positive spill over effects.²⁷ But this 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 and increase productivity. MEIF will make a major contribution by supporting the ambitions of SMEs through the provision of finance and the creation of a healthy business and financial ecosystem.

THE MIDLANDS ENGINE INVESTMENT FUND

The Midlands Engine Investment Fund (MEIF) is a key part of the Midlands Engine Strategy. It aims to transform the finance landscape for smaller businesses in the Midlands and to realise the region's potential to achieve economic growth through enterprise. As well as providing £250 million of lending and investment to smaller businesses, it will help to develop the business networks and the wider ecosystem that are crucial to achieving long-term prosperity in the Midlands.

MEIF is available to support a wide range of businesses at different points in their development, from early-stage businesses seeking small business loans through to businesses wanting to take advantage of their growth potential through equity investments. Encouraging businesses with growth potential to scale up is a particularly UK challenge (and a requirement for equity funding is particularly acute for this type of business, as discussed below on page 14). While the UK performs relatively well internationally in terms of creating new business start-ups, fewer of its scale-up businesses grow, compared to other countries.²⁸ There are high growth businesses in all the LEPs across the MEIF area (see Annex B). By creating a better environment for businesses to grow and scale up, the number of high growth businesses can be increased, and positive spill over effects on productivity and job creation in the region can be realised.

Nonetheless, increased availability of finance and the provision of additional finance-related support are only part of what is needed to realise the business growth opportunities across the 10 LEPs. Other factors also play an important part in the growth mix. For instance, the ambition of entrepreneurs and business owners to become the high growth businesses 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 its major competitors in terms of growth ambition. Greater ambition on the part of entrepreneurs and business owners could increase internationalisation and innovation among smaller UK businesses, helping to improve the productivity and growth of those businesses and, in turn, the productivity and growth of the UK. For example, encouraging more domestically-focused small businesses to start – or expand plans for – exporting could bring more than £1 billion of Gross Value Added (GVA) to the UK within a year.²⁹

The impact of MEIF will therefore not only be financial and structural (as it shapes and develops markets) but also cultural; as the resources, institutions, networks and aspirations required for pan-Midlands economic co-operation and collaboration become embedded. MEIF funding will boost economic growth and productivity throughout all 10 LEP areas participating in the fund, acting as a catalyst to leverage additional private sector funding and creating a sustainable ecosystem of high growth companies alongside the support network of funders and advisors that they need. Success will be demonstrated by the achievements of the businesses supported, measured by the additional turnover, profitability and numbers of jobs created, as well as by the geographical spread of funding across LEP areas.

HOW MEIF WILL WORK

This is the first time that LEP areas in the Midlands have come together on this scale to pool their resources in a single fund-of-funds to meet the financing needs of smaller businesses. In addition to leveraging additional finance, MEIF allows resources to be targeted at SMEs with growth ambitions across a wider area than was possible for funds delivering previous rounds of ERDF funding. The economies of scale generated by MEIF will enable more money to be invested directly in smaller businesses across the Midlands.

Since MEIF was first announced at Budget 2016,³⁰ the British Business Bank has worked collaboratively with participating LEPs to combine 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. Additionally, the British Business Bank has two dedicated MEIF Relationship Managers – one with a focus on the West Midlands and one with a focus on the East and South East Midlands. These Relationship Managers will work with local business support providers (including Growth Hubs) in the LEP areas to support access to finance for SMEs and to connect the regional finance community. The combination of the capital provided by MEIF and the British Business Bank's Relationship Managers working on the ground to connect local actors will serve to establish the roots of a funding ecosystem covering both early- to later-stage debt and equity capital. MEIF will also catalyse the expansion of private sector provision in the Midlands.



LEPS PARTICIPATING IN MEIF:

- Black Country
- Coventry and Warwickshire
- Greater Birmingham and Solihull
- Stoke-on-Trent and Staffordshire
- The Marches
- Worcestershire
- Derby, Derbyshire, Nottingham and Nottinghamshire (D2N2)
- Greater Lincolnshire
- Leicester and Leicestershire
- South East Midlands

Funding for MEIF is drawn from: the current round of European Regional Development Fund (ERDF)³¹ indicative allocations for the 10 participating LEP areas (which cover the West Midlands and the East and South East Midlands); loans from both the European Investment Bank (EIB) and the British Business Bank,³² and grant funding from HM Government. This will create a fund of £250 million available to fund managers to invest in smaller businesses across the Midlands.

TYPES OF FINANCE PROVIDED BY MEIF

MEIF will not invest directly in businesses. It has a fund-of-funds structure and will allocate monies to a number of underlying sub-funds, which will in turn lend to - and invest in - smaller businesses across the MEIF area. The sub-funds will make a wide range of types and amounts of finance available to SMEs. Information on how to access them can be found at the dedicated MEIF website: www.meif.co.uk.

Participating 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 MEIF area. Analysis undertaken by Regeneris³³ for the EIB and the Department for Communities and Local Government identified the following particular gaps in the provision of finance in the East Midlands and West Midlands regions:

- **Small business loans:** provision of micro-finance (from £25,000 - £150,000)
- **Later-stage debt:** provision of business loans (from £100,000 - £1.5 million)
- **Proof-of-concept:** provision of early-stage equity funding (up to £750,000)
- **Equity:** provision of equity funding (up to £2 million)

The Regeneris report suggests these issues are exacerbated for small and micro businesses with a limited asset base or track record. The report also suggests there is significant latent demand from businesses that are discouraged from applying for finance. This theme also applies to larger SMEs in the MEIF area that are seeking larger amounts of debt finance, although the share of bank lending going to SMEs in the Midlands is broadly in line with the proportion of businesses located there. Data from the British Bankers Association (see fig 1.1) indicates that 14% of approved bank loans by value - and 14% by number - went to the Midlands in between Q2 2016 and Q1 2017, which is in line with the area's proportion of the UK business population.

In addition to gaps in the provision of finance, there are also differences in the awareness of different funding sources in UK regions. The British Business Bank 2016 Business Finance Survey³⁴ indicated that businesses in the North and Midlands showed higher awareness of central and local government grants, whereas businesses in London reported greater awareness of equity-based finance, such as venture capital and business angels. 65% of businesses in the Midlands reported being aware of venture capital, compared to 77% of businesses in London. Only 35% of businesses in the Midlands were aware of business angels, compared to 56% of businesses in London.

The regional disparities are even more pronounced when we look at awareness of specific providers of alternative sources of finance on a regional basis. Of those businesses that were aware of equity finance, only 13% of businesses in the Midlands could name a specific venture capital provider, and only 10% could name a business angel. This compares to 29% of businesses in London being able to name a specific venture capital provider and 21% naming a business angel.

Differences in sectoral composition may partially explain regional differences in the awareness and usage of different sources of finance, with businesses in some sectors more likely to use particular types of finance. For example, data from the Asset Based Finance Association indicates a high proportion of clients in the services, manufacturing and distribution sectors making use of asset based finance.³⁵

FIG 1.1
PROPORTION OF APPROVED BANK LENDING
IN GREAT BRITAIN TO SMES BY AREA
(Q1 2017-Q2 2016)

Source: British Business Bank analysis of British Bankers Association (BBA) data

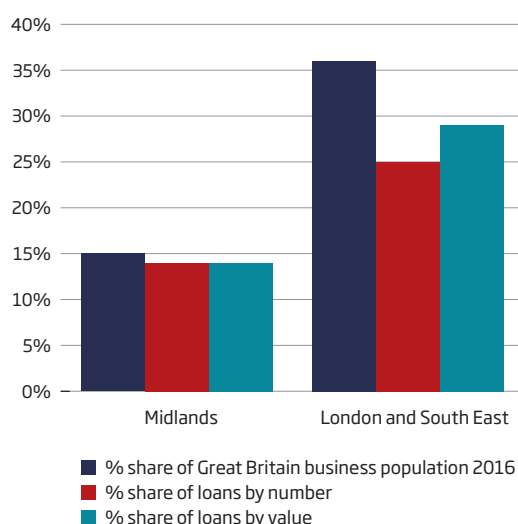


FIG 1.2
PROPORTION OF TOTAL UK EQUITY INVESTMENTS BY AREA (2016)

Source: British Business Bank analysis of Beauhurst data, BEIS Business Population Estimates 2016 and ONS High Growth Firms 2011-2014

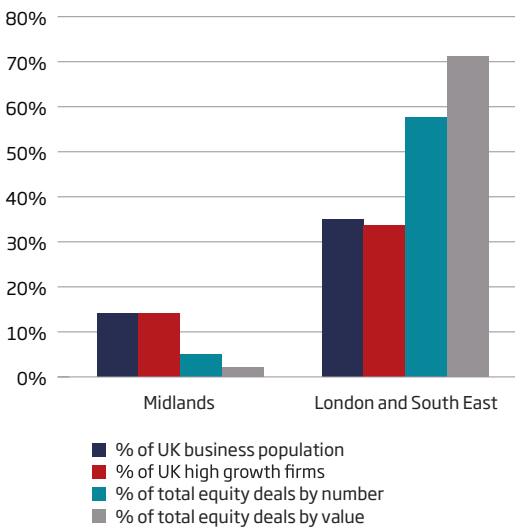
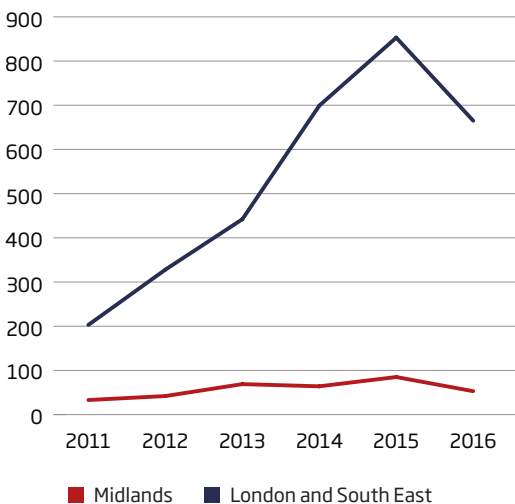


FIG 1.3
NUMBER OF EQUITY INVESTMENTS BY AREA (2011-2016)

Source: British Business Bank analysis of Beauhurst data



British Business Bank analysis of Beauhurst data³⁶ shows that 5% of equity investment in SMEs by number of deals - and 2% by value - went to the Midlands in 2016. This is significantly lower than the region's share of the wider business population (14%) and also of its share of high growth businesses (14%).

This is partly due to less developed networks of equity finance providers and advisors, but may also reflect lower awareness of, and therefore demand for, equity finance. The British Business Bank 2016 Business Finance Survey also showed clear regional differences in awareness of - and demand for - equity finance. Of the businesses in the Midlands that were aware of equity finance, only 3% had considered raising equity finance, compared to 11% of businesses in London.

Figures 1.3 and 1.4 show that equity deals by both number and value slowed down in the UK over 2016 following a strong 2015. Further information on the trends in UK equity finance over 2016 can be found in the British Business Bank's Equity Tracker.³⁷

Despite the slowdown in 2015-16, the number of identified equity deals in the UK overall increased by 148% over the past four years, from 462 in 2011 to 1,148 in 2016. Notably the growth in the number of identified equity deals in the Midlands was lower during this period, at 61%, in sharp contrast to London and the South East, where the number grew by 228% from 2011 to 2016.

The difference by value is much starker. Since 2011 the value of identified equity investments in the UK has increased by 166%, from £1.28 billion to £3.42 billion. Overall there has been an increase in the value of equity investments in the Midlands over the last four years, up from £80 million in 2011 to £85 million in 2016, an increase of 7%. However, in London and the South East equity investment over the same period increased by 274%, from £650 million to £2.43 billion.

London and the South East now accounts for 58% of all identified equity deals by number and 71% by value. This compares to 5% by number and 2% by value in the Midlands. Taken together, these differences make a clear case for a new approach to improving the equity funding environment and ecosystem in the Midlands.

Equity finance is widely accepted as an important ingredient for early-stage innovative businesses, and for those businesses with the potential for high growth that are looking to scale up. For many high growth businesses, external equity finance from venture capitalists or business angels brings financial resources and wider benefits, including additional expertise. It is therefore particularly likely to be a beneficial finance option for businesses looking to expand. It is estimated there are over 2,055 high growth businesses³⁸ in the Midlands and with a significant proportion of its resources going towards equity, MEIF has been specifically designed to encourage and support this area of the market.

Looking more closely at the sources of equity finance, local regional and devolved Government funds are disproportionately represented in the Midlands and are estimated to have been involved in more than a quarter (29%) of equity deals between 2011 and 2016, compared to only 5% in London and the South East. By contrast, private equity funds³⁹ were involved in 36% of deals in the Midlands, compared to 43% in London and the South East in the same period. Crowdfunding equity investments were also lower in the Midlands, involved in 16% of equity investments, compared to 20% in London and the South East. Crowdfunding has increased by 752% in London and the South East from 2012 to 2016 (with 196 investments in 2016) but this growth has not been replicated in the Midlands, where there were just 12 announced crowdfunded investments in 2016 within the Beauhurst dataset.⁴⁰

FIG 1.4
VALUE OF EQUITY INVESTMENTS BY AREA (2011-2016)

Source: British Business Bank analysis of Beauhurst data

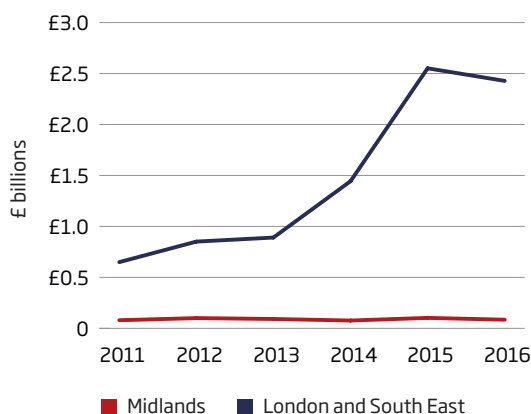


FIG 1.5
PROPORTION OF TOTAL EQUITY DEALS BY INVOLVEMENT OF INVESTOR TYPE AND AREA (2011-2016)

Source: British Business Bank analysis of Beauhurst data

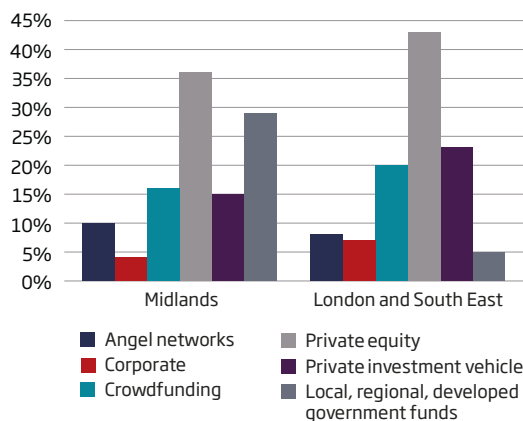
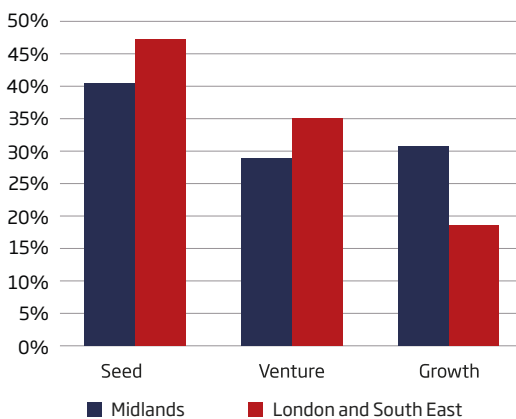


FIG 1.6
**PROPORTION OF TOTAL EQUITY DEALS
 BY STAGE AND REGION**

Source: British Business Bank analysis of Beahurst data



Looking at equity investment between 2011 and 2016 by stage, the Midlands had a higher proportion of the number of deals at the growth stage (31% of deals) compared to the average for all UK regions, which was 21%. However, the Midlands had a smaller proportion of seed stage deals (41% of all deals compared to the 44% average), and also a smaller proportion at the venture stage (28% compared to 35%).

Pitchbook data suggests there are only 27 private sector equity investors in the Midlands, out of a total of 647 active private equity investors in the UK.⁴¹ This would suggest that there is ample potential to increase the supply of venture capital funding in the Midlands, alongside improving other environmental factors.

The relatively weak private sector equity funding landscape may leave businesses in the Midlands more reliant on debt finance compared to businesses in London and the South East. This, coupled with a comparatively high proportion of equity deals in the Midlands involving some government investment (29% compared to only 5% in London), may indicate a relatively underdeveloped equity ecosystem in the Midlands region.

Alongside debt finance (see page 18), MEIF will therefore provide additional early- and later-stage equity to businesses looking to grow, supporting the Midlands' potential to become home to a vibrant and sustainable venture capital market.

HOW DOES MEIF BUILD ON WHAT HAS GONE BEFORE?

The previous round of European Regional Development Funding (ERDF) was available to be invested between 2007-2015. A number of standalone platforms were developed in the Midlands to deliver ERDF funding to SMEs, through a mixture of debt and equity finance products.

An alternative 'fund-of-funds' model to deliver ERDF finance to small businesses was also created for the previous round of ERDF funding, by the European Commission in conjunction with the European Investment Bank (EIB). This model was adopted in the North East, North West, and Yorkshire and Humber regions in England, as well as in Wales. These funds of funds were called Joint European Resources for Micro to Medium Enterprises (JEREMIEs).⁴²

MEIF will be on a larger scale than previous funds in the Midlands and it will build on best practice from both the platforms developed in the Midlands and from JEREMIEs developed in other regions. Economies of scale and simplified administration will also ensure that more money is available to invest in smaller businesses across the MEIF area.

GOVERNANCE

The British Business Bank has overall responsibility for delivering MEIF funding to small businesses. To ensure that LEP areas have strategic input, a Strategic Oversight Board (SOB) advises on both design and delivery. The current membership includes seven LEP members who were nominated by all the participating LEPs to collectively represent them.⁴³ There are additional members representing: HM Treasury; Department for Business, Energy and Industrial Strategy; Department for Communities and Local Government; European Investment Bank, and the British Business Bank. The SOB is currently chaired by Nick Pulley who is the Chair of the Leicester and Leicestershire Enterprise Partnership (LLEP).

Two Regional Advisory Boards (RABs) will be created to support the SOB. The RABs will advise on the sub-funds' operations and performance. They will review and advise on the sub-fund managers' strategies in order to achieve the required investment levels and returns for MEIF. There will be one RAB for the LEPs in the West Midlands and one for the LEPs in the East and South East Midlands.

To help deliver their respective objectives, fund managers and LEPs will be supported by two Relationship Managers working across the MEIF area, one for the West Midlands and one for the East and South East Midlands. These two people will in turn be supported by the British Business Bank's regional team.

DEPLOYMENT OF FUNDS

MEIF funds have an initial investment period of five years, which means lending and investment can be made until at least 2022. There will then follow a realisation period lasting for at least a further five years, during which time sub-funds will seek to maximise returns for the fund through loans reaching maturity, exits, and follow-on investment for businesses with significant growth opportunities. This means that the sub-funds will each have an overall minimum life of 10 years.

MEIF FUNDS - LOANS AND INVESTMENTS AVAILABLE TO SMES

- **Small business loans:** provision of microfinance (from £25,000 - £150,000)
- **Later-stage debt:** provision of business loans (from £100,000 - £1.5 million)
- **Proof-of-concept:** provision of early-stage equity funding (up to £750,000)
- **Equity:** provision of later-stage equity funding (up to £2 million)

Sub-funds will make individual investments between £25,000 and £2 million, although exceptions may be made. Overall, MEIF will aim to deploy 60% of its funding as debt finance and 40% as equity finance.

EVALUATION

To evaluate the deployment of MEIF funding, the British Business Bank will monitor the financial performance of each sub-fund and benchmark the sub-funds against comparable finance providers to check that MEIF is delivering value for money. This is important to ensure good use of public funds. The Business Bank will also monitor:

- Numbers, locations and sectors of businesses supported
- Overall geographical spread of funding across LEP areas
- Amount of finance provided, and the terms on which it is offered

This level of monitoring will reveal the range of businesses receiving finance as well as the geographic spread, enabling the Business Bank to evaluate MEIF's expected economic impact across the area.

To evaluate the wider economic impact of the finance provided, the British Business Bank will conduct periodic evaluations assessing growth and productivity changes over time, in particular tracking:

- The growth in turnover of the businesses supported
- Changes in employment of the businesses supported

In the longer term, the impact of MEIF has the potential to last well beyond the deployment of its funds. By supporting new and growing SMEs, creating jobs and encouraging entrepreneurship, MEIF will establish a sustainable economic legacy benefitting the entire area. This legacy will include the development of a financial ecosystem in which entrepreneurs and finance providers can build the necessary relationships and infrastructure to deliver finance to businesses with high growth potential. This broader legacy has the potential to increase and support entrepreneurial ambition in the Midlands economy over time. The British Business Bank will therefore also monitor changes in businesses' ambitions to both start up and scale up.

MIDLANDS ENGINE SUCCESS STORIES

The Midlands Engine is home to many innovative businesses which have successfully benefitted from alternative sources of funding. Ranging from small business loans funding the start-up of fledgling businesses to equity investments enabling an established business to export, 'local' and British Business Bank programmes have helped to start 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 Midlands Engine and the wider region in recent years.⁴⁴

Name: Amanjot Johal
Business name: 40 St Pauls
Location: Birmingham
Website: www.40stpauls.co.uk

When Aman Johal spent a year in London setting up a bar for another company he was struck by the quality he found in the capital. Great cocktails were everywhere and he felt service was key. He spotted a gap in the market in his home town of Birmingham and, given he already had a strong background in the industry and had won numerous awards, he decided to replicate in Birmingham what he found in London.

Aman used his £25,000 Start Up Loan to set up his business and renovate premises that provide seating for around 25. The unique characteristic of 40 St Pauls is the range of gins on offer - currently over 140 - and the bespoke flavour matching service. He has an additional interest in whiskey, tequila and rum and hopes to open another bar that focuses on these spirits.



Name: Rachel De Caux and Paula Short

Business name: Beauty Boulevard

Location: Lincoln

Website: www.beautyblvd.com



Lincoln-based cosmetics company Beauty Boulevard approached the Investment Readiness team of the Business Lincolnshire Growth Hub in April 2016 for advice and support, prior to pitching on TV show Dragon's Den.

Glitter Lips had started as a sideline product to the core business of hair and beauty, but had experienced remarkable growth in sales. Founders Rachel De Caux and Paula Short needed help to take the next step in realising their growth potential. They needed a significant injection of cash into Beauty Boulevard to be able to scale up their ordering, meet increased demand from their salon clients and support a new opportunity to stock a high street retailer. They also needed help with migrating from from a small office/storage base above a shop in central Lincoln to premises that would be capable of meeting international demand.

Rachel and Paula worked with Russell Copley from the Growth Hub on their funding strategy, valuations, financial assessment and – most importantly – their pitching skills. They filmed Dragon's Den in May and, despite not getting an investment offer from the Dragons on the day, they appeared on the show in September as one of the featured pitches. As a result of this exposure, and with continued support from the Business Lincolnshire Growth Hub (including live pitching at the local "Taming the Dragons" event), Beauty Boulevard has successfully concluded equity negotiations with a private investor, and has secured back-to-back distribution, logistics and operational support agreements, allowing Rachel and Paula to focus on sales, marketing and new product development.



Name: Rosie Ginday
Business name: Miss Macaroon
Location: Birmingham
Website: www.missmacaroon.co.uk

Miss Macaroon, set up by social entrepreneur and trained pastry chef Rosie Ginday, is a high-end patisserie with a difference. This social enterprise business specialises in baking French macarons, hand-made by long-term unemployed young people, ex-offenders and care leavers aged between 18 and 35.

After finding it difficult to secure finance from social and traditional lenders, Miss Macaroon successfully approached BCRS Business Loans, an accredited lender for the British Business Bank's Enterprise Finance Guarantee programme. Just seven months later, Rosie opened her first store in Birmingham's Great Western Arcade, helping to create new jobs locally and enabling her to provide more training opportunities for vulnerable young people. In the store's first six months the Miss Macaroon team have helped get two long-term unemployed people into full-time work and one into further work experience.

Ultimately, the aim is to help as many young people as possible secure sustainable, full-time employment. Miss Macaroon plans to open a second store in the UK within the next year.



Names: Foresight Nottingham Fund, James Butcher, Kieran Forsey, Jan Fura
Business name: S4RB
Location: Nottingham
Website: www.s4rb.com

Solutions for Retail Brands (S4RB) provides cloud-based software and professional services to private brand retailers, helping some of the world's largest retailers in the UK and North America - including Asda, Boots, Waitrose and Walmart - to manage their own brand products. S4RB currently employs a team of 24 at its head office in Nottingham.

Development capital finance secured from the Foresight Nottingham Fund, an Enterprise Capital Fund supported by the British Business Bank, enabled S4RB to further invest in R&D and in its US expansion. The investment has allowed S4RB to work with local universities to accelerate development of their UBX data analytics, which provide deeper insights and automatic notifications to retail brand teams and their suppliers, allowing them to respond more quickly for customers.



Names: Stephen Adderley and Felicity Adderley-Hill

Business name: Adderley Hill & Co

Location: Worcestershire

Website: www.adderleyhill.co.uk

Worcestershire-based accountancy firm, Adderley Hill & Co., set up in 2013 by husband and wife team Stephen Adderley and Felicity Adderley-Hill, secured additional capital from the Worcestershire Business Loan Fund to support its growth objectives. These were: moving into bigger office space; hiring additional staff members, and finalising the purchase of a second practice.

Promoted by the Worcestershire Business Central Growth Hub, the Worcestershire Business Loan Fund supports viable SMEs that are based within the county by providing loans from £10,000 to £50,000. The scheme was introduced by Worcestershire County Council and BCRS Business Loans, a provider of alternative finance across the Midlands, to support growing local businesses.

By providing finance and support for companies to start-up, scale-up and stay ahead, MEIF will increase the number of high-growth businesses across the Midlands region. The Midlands has an excellent reputation for generating businesses with high growth potential, as evidenced by a recent flotation on the London Stock Exchange's AIM market.



Names: Michael Ellis, Joan Ellis

Business name: Van Elle Holdings Plc

Location: Derbyshire

Website: www.van-elle.co.uk

Van Elle is the UK's largest geotechnical contractor and offers a wide range of ground engineering techniques and services to customers in a variety of UK construction end markets including the new-build residential, infrastructure, commercial, industrial and public non-housing sectors.

In 2014, Van Elle Holdings plc, based in Pinxton, Derbyshire, joined London Stock Exchange's business support programme, ELITE, which helps companies scale and prepare for external investment. Van Elle finished the ELITE programme in April 2016 and went on to IPO on AIM in October 2016. The company raised £40 million, of which £10 million was new money.

HOW DO I APPLY FOR MEIF FUNDING?

MEIF does not invest directly in businesses. Instead, it operates a funds-of-funds model whereby external delivery partners operate debt funds, small business loans, and proof-of-concept and equity funds. These funds will be operated throughout all 10 LEP areas so that every area has at least one of each fund type available.

Case studies and details of how to access the sub-funds can also be found at the dedicated MEIF website: www.meif.co.uk.

For further enquiries about MEIF please email: 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 Institute of Chartered Accountants in England and Wales, supported by a further 21 major professional, membership and representative organisations. It is a unique guide that outlines the different sources of finance available to businesses - 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 in 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.

The interactive version is available at: www.thebusinessfinanceguide.co.uk.

Each LEP area has a **Growth Hub** which can provide business support to local SMEs and tailor support to meet the needs and demands of their local areas. Growth Hubs bring together public sector and private sector partners to promote, co-ordinate and deliver business support. They provide a mechanism for integrating national and local business support, making it easier for businesses to access this support.

Businesses can find their nearest growth hub at: www.lepnetwork.net/growth-hubs.

The Business Finance and Support Finder

is an interactive tool, 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 at: www.gov.uk/business-finance-support-finder.

The Business Support Helpline

can offer further information and guidance and 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 by telephone (0300 456 3565) or by webchat, Twitter, Facebook or YouTube.

Details can be found at: www.gov.uk/business-support-helpline.

The Helpline is a national, two-tier service for all businesses:

- Tier 1 handles basic queries and provides signposting, diagnostic support and guidance to pre-starts, start-ups, and existing businesses, to help them start and grow.
- For businesses that require additional support, such as those 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
MIDLANDS ECONOMY

The Midlands contributes significantly to the overall success of the UK economy. In terms of Gross Value Added (GVA), the Midlands contributes 13% to the UK total, which is equivalent to the share contributed to GVA by Wales, Scotland and Northern Ireland combined (13%).⁴⁵ The region has almost 784,000 businesses. The majority of these (74%) have no employees, but this is slightly below the UK average (76%).⁴⁶ A quarter (25%) of Midlands businesses have 1-49 employees, 0.7% have 50-249 employees and the remaining 0.1% are large businesses with 250 or more employees, which is broadly in line with the UK business population.

The sectoral composition of businesses in the Midlands largely matches the overall UK average. 'Manufacturing' and 'Wholesale and retail trade' are over-represented, however 'Information and communication' and 'Professional, scientific and technical activities' are under-represented in the Midlands regions compared to the UK average, and particularly so in comparison to London and the South East.

A clear and persistent feature of the Midlands economy is its lower economic prosperity compared to the UK average. The Midlands regions have lower GVA per capita than the UK average. The East and West Midlands had a GVA per capita in 2015 of £21,000 (rounded to nearest £500) compared to the UK average of £25,500.⁴⁷ 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.⁴⁸

Moreover, regional variations in economic growth have increased over time, with the East Midlands and West Midlands regions growing at a slower rate than the UK average, and markedly slower than London and the South East, which are the fastest growing regions in the UK. A comparison of regional GVA in 1997 to 2015 shows GVA has increased over this period by 120% in London and the South East, compared to 81% in the Midlands regions and 97% across all UK regions.

FIG 1.7

**GROSS VALUE ADDED (GVA) PER HEAD
2015 BY REGION**

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

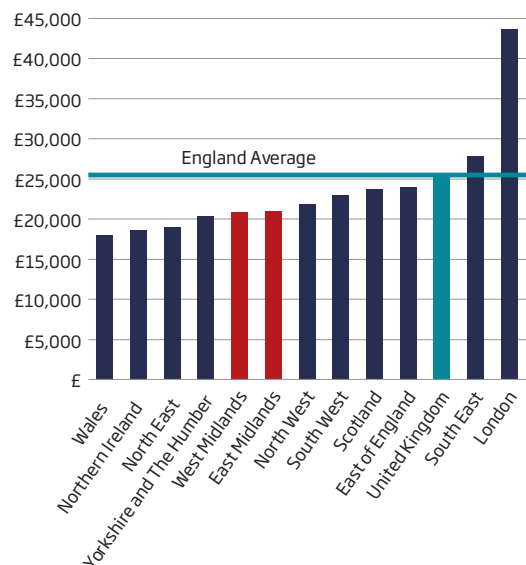


FIG 1.8

**GROSS VALUE ADDED (GVA) 2015 AT CURRENT
BASIC PRICES (INDEXED TO 1997=100) BY AREA**

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

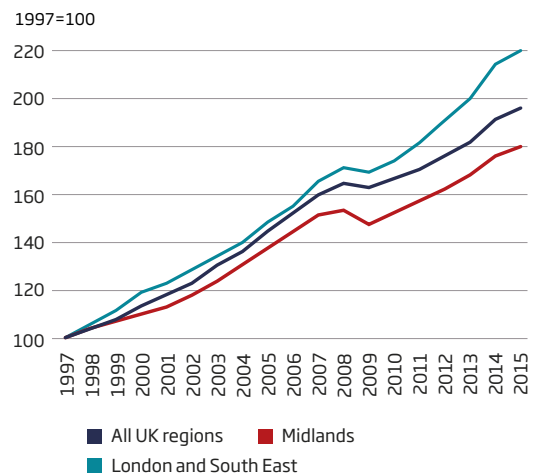
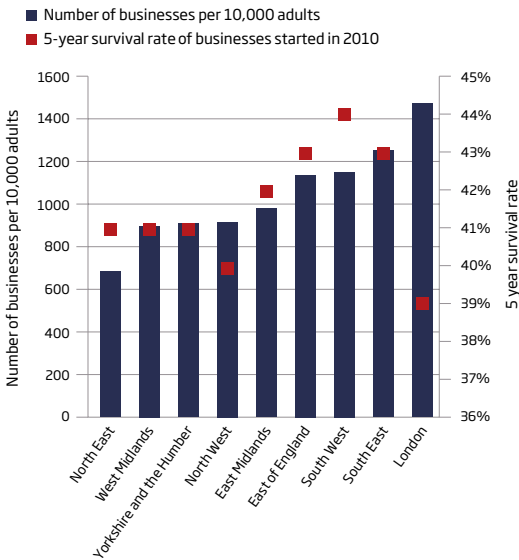


FIG 1.9
NUMBER OF BUSINESSES PER 10,000 ADULTS (2016) AND 5-YEAR SURVIVAL RATE OF BUSINESSES STARTED IN 2010 (2015) BY REGION

Source: BEIS Business Population Estimates 2016 and ONS Business Demography 2016



This disparity has been particularly noticeable since the financial crisis, with London and the South East having recovered more quickly and grown more strongly since 2009. Some areas in the Midlands have had strong growth in recent years, with GVA growing by 8% in Solihull in 2015, and by 5% in Birmingham and Leicester, while others, such as Wolverhampton and West Northamptonshire, experienced negative growth of nearly -2%.

Growth in employee numbers has also been slower in the Midlands than in other English regions. Between 2009 and 2015 there was employee growth of around 5% in the East Midlands and 6% in the West Midlands, compared to growth of 18% in London and 8% in the South East, over the same period.⁴⁹

Several factors are likely to lie behind this difference in relative performance including, for example, skill and innovation levels. Despite the Midlands having the second highest rate of business births after London,⁵⁰ on a per head of population basis, the region has relatively low levels of entrepreneurial activity. For instance, London has 1.6 times as many businesses per 10,000 resident adults as the Midlands (1,464 compared to 932).⁵¹ Raising the level of entrepreneurship in the Midlands in future could contribute to improvements in economic performance, since new businesses have the potential to grow, create employment and introduce innovative new products.

Higher levels of enterprise in London reflect in part London's role as the capital city. It is recognised⁵² 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 face when setting up their businesses, but net wealth per household is lower in the Midlands compared to London and the South East.⁵³ However there is no evidence to suggest that businesses in the Midlands are any less viable than in London and the South East. Indeed the five-year survival rate is slightly higher in the East Midlands (41.9%) and West Midlands (41.3%) regions than it is in London (39.3%).⁵⁴ MEIF will make small business loans available to SMEs to address the issues highlighted in this Spotlight report (see page 10) to support early-stage businesses and encourage start-ups.

ANNEX B:LEP-LEVEL
ECONOMIC ANALYSIS

The 10 LEPs forming the MEIF area have very diverse economic and business characteristics. The following table, drawing on recent work by the Enterprise Research Centre,⁵⁵ shows the extent of this diversity and underlines the importance of the LEPs' knowledge of their respective local economies in the design of MEIF. The table shows: the number of registered businesses; the number of private sector jobs; the proportion of businesses that are fast-growing, and the employment rate for each LEP area within MEIF. 11 LEP areas are presented in the table and charts below because the ERC data was published prior to Northamptonshire and South East Midlands LEP areas merging, which was a decision taken by these LEPs with government approval.

It should be noted that some LEP areas overlap, therefore it is not possible to combine these figures to give totals for the MEIF area.

Further evidence from the Enterprise Research Centre shows how LEPs in the MEIF area compare to other English LEPs on several measures of enterprise including:

- Start-ups per 10,000 population
- Proportion of businesses that are fast-growing
- Proportion of businesses reporting finance as a barrier to growth

This data is presented in the following three charts. The Midlands LEP areas are highlighted in red to enable comparison with other LEP areas.

Midlands Engine Investment Fund area LEPs	Private sector businesses (ERC 2016)	Private sector jobs (ERC 2016)	Proportion of businesses that are fast-growing	Employment rate (Nomis Jan-Dec 2016)
Black Country	30,113	313,824	11.5%	65%
Coventry and Warwickshire	32,286	307,159	11.6%	73%
Derby, Derbyshire, Nottingham and Nottinghamshire	61,714	823,168	11.5%	75%
Greater Birmingham and Solihull	60,097	659,793	12.2%	69%
Greater Lincolnshire	30,983	219,055	11.4%	73%
Leicester and Leicestershire	33,235	283,843	12.7%	72%
Northamptonshire	27,087	282,003	12.3%	*
South East Midlands	67,191	638,824	12.0%	77%
Stoke-on-Trent and Staffordshire	32,326	294,119	12.2%	77%
The Marches	21,019	154,974	12.3%	78%
Worcestershire	20,030	150,053	11.7%	76%

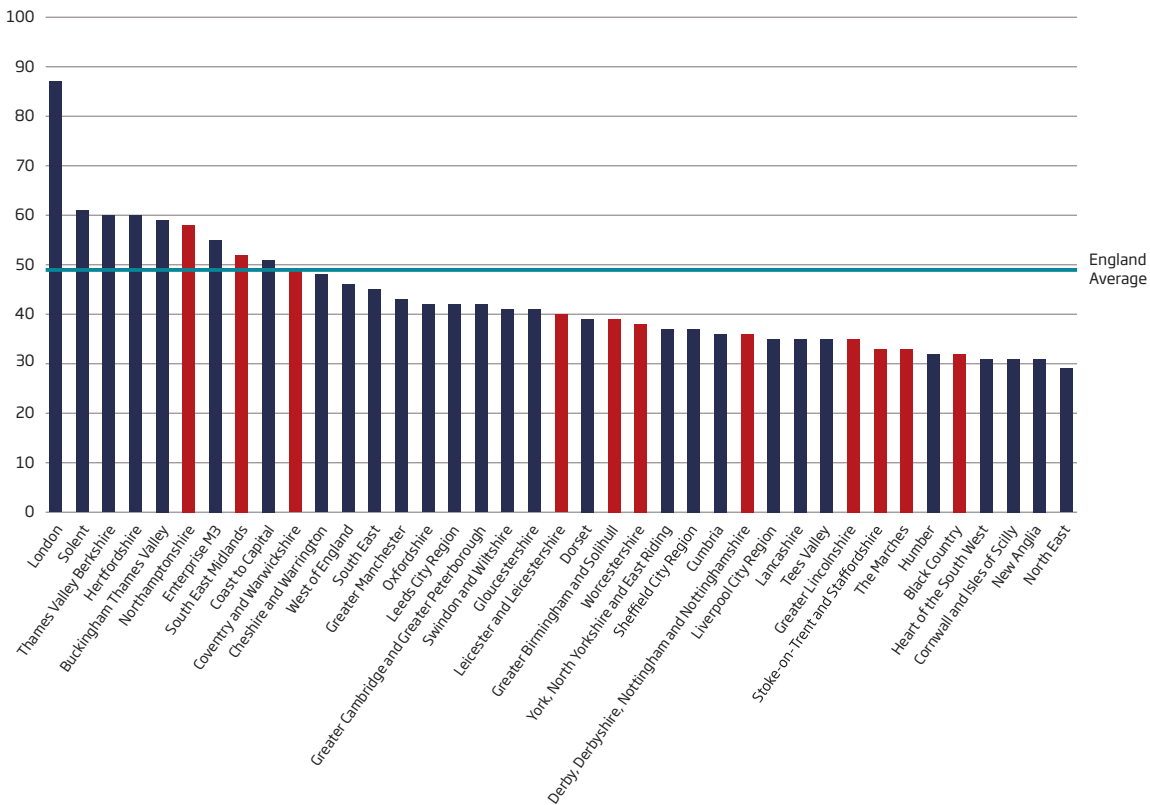
* Employment data for Northamptonshire is not provided as this area is now covered under South East Midlands LEP due to LEP changes.

START-UPS PER 10,000 POPULATION

8 LEPs in the Midlands Engine Investment Fund area are below the England average for business start-ups per 10,000 population. Only Northamptonshire (57.5%), South East Midlands (52.2) and Coventry and Warwickshire (49.4) have a start-up rate above the English average (48.6). Four LEPs in the MEIF area have start-up rates below 35, with the Black Country having the lowest rate at 32.

FIG 1.10
START-UPS PER 10,000 POPULATION BY LEP AREA

Source: Enterprise Research Centre, Growth Dashboard 2016



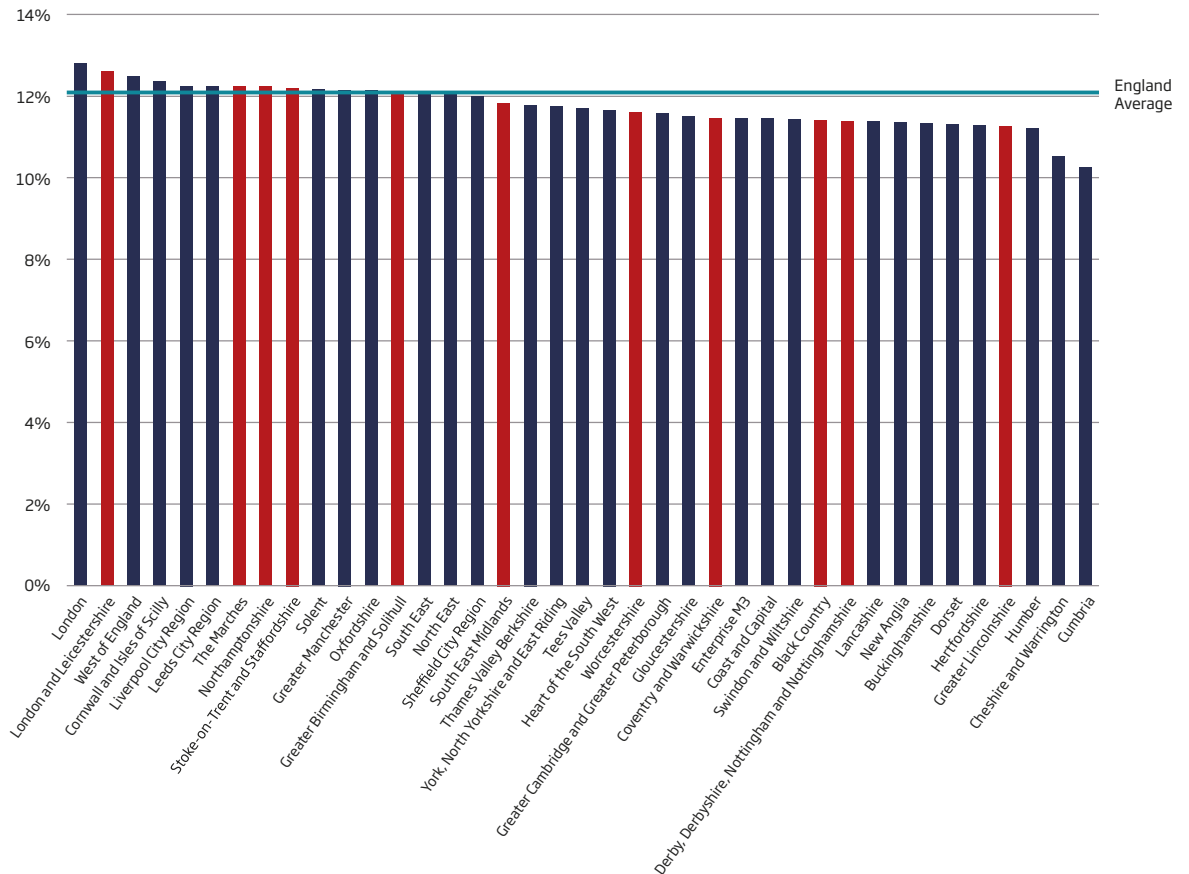
PROPORTION OF BUSINESSES THAT ARE FAST-GROWING, BY LEP

14% of the UK’s total number of high growth businesses – defined as those with average annualised growth of 20 percent or more and with 10 or more employees in the starting period – are in the Midlands.⁵⁶

Within the MEIF area there is some variation in the proportion of businesses classed as fast growing⁵⁷ by LEP area. Leicester and Leicestershire has the highest rate in the Midlands at 12.7%, compared to Greater Lincolnshire which has the lowest rate at 11.4%. However, these rates are broadly similar to the England average of 12.2%.

FIG 1.11
PROPORTION OF FAST-GROWING BUSINESSES (2012-2015) BY LEP AREA

Source: Enterprise Research Centre, Growth Dashboard 2016



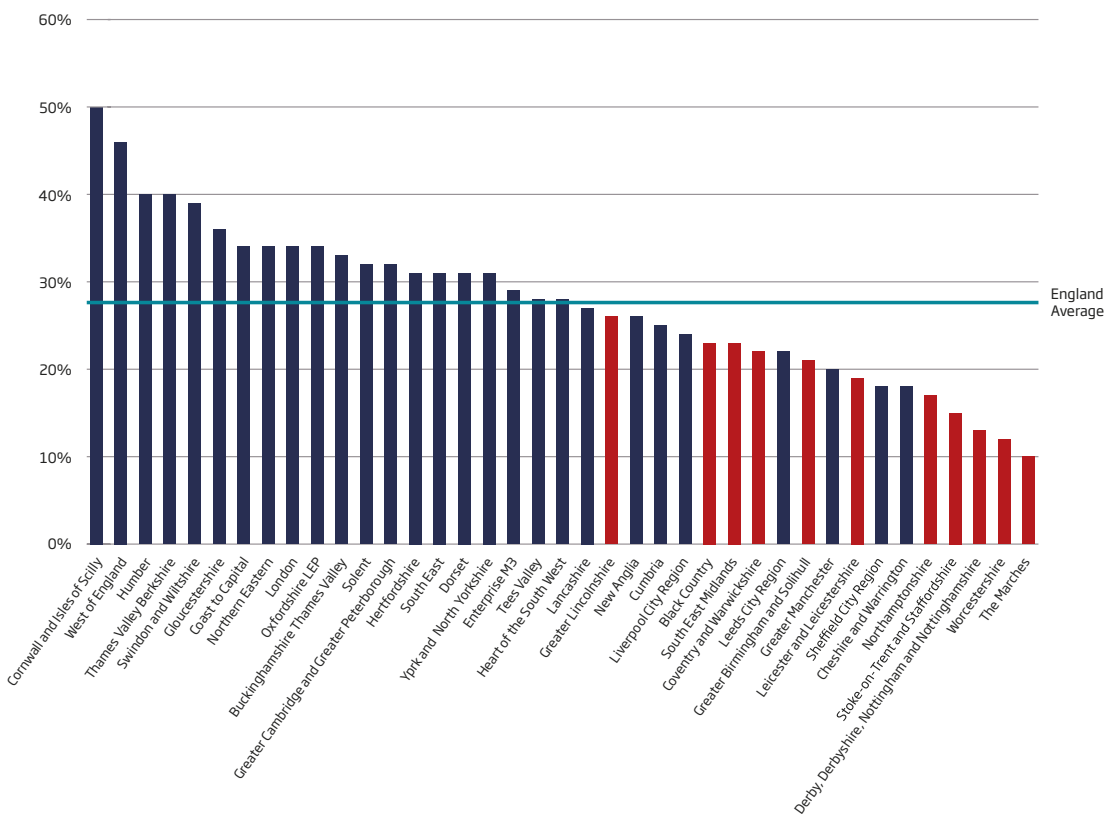
PROPORTION OF BUSINESSES REPORTING FINANCE AS A BARRIER TO GROWTH

MEIF aims to improve access to finance for businesses at different stages in their development. While not representative of the wider business population, the proportion of those businesses participating in the ‘Growth Accelerator’⁵⁹ programme for high growth potential businesses that reported finance as a barrier to growth (between April 2012 to March 2015) varies considerably across the region.⁶⁰ All the LEP areas in the Midlands had a lower proportion of businesses citing finance as a barrier to growth than the England average of 27%, with five of them reporting the lowest levels of all English regions. Businesses in the Midlands that

participated in the Growth Accelerator programme were more likely to cite ‘strategy and management’ and ‘skills and staff’ as barriers to growth compared to other regions. This could partially explain the lower proportion of businesses citing finance as a barrier to growth, as businesses may feel other issues are a greater barrier to growth. However, this information is now somewhat dated as the data was collected between 2012 and 2015 and it covered only a subset of the small business population. This data is included to allow comparison with the Northern Powerhouse Investment Fund Spotlight report.

FIG 1.12
PROPORTION OF BUSINESSES REPORTING FINANCE AS A BARRIER TO GROWTH BY LEP AREA

Source: Enterprise Research Centre, Growth Dashboard 2015⁵⁸



FOOTNOTES

- 1 ONS Population Estimates for UK, England and Wales, Scotland and Northern Ireland mid-2016. <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland>.
- 2 Regional Gross Value Added (income approach), UK: 1997 to 2015. <https://www.ons.gov.uk/economy/grossvalueaddedgva/bulletins/regionalgrossvalueaddedincomeapproach/previousReleases>.
- 3 BEIS Business Population Estimates 2016. <https://www.gov.uk/government/statistics/business-population-estimates-2016>.
- 4 ONS Ad Hoc Analysis of High Growth Businesses 2011-2014 high growth business in this publication is defined as a business with average annualised growth in employees of 20 per cent or more over a three-year period and with 10 or more employees in the starting period. <https://www.ons.gov.uk/businessindustryandtrade/changesandbusiness/birthsdeathsandsurvivalrates/adhocs/006529countofhighgrowthenterprisesurvivingenterprisesandactiveenterpriseswith1employeefortheperiod2010to2014bydistrictcountiesunitaryauthoritiesstandardsandindustrialclassificationsic2007>.
- 5 Loan provided by British Business Bank Financial Services Ltd.
- 6 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/482247/midlands-engine-for-growth.pdf.
- 7 <https://www.gov.uk/government/news/midlands-engine-to-roar-ahead-with-ambitious-new-strategy>.
- 8 Covers the East and West Midlands as defined by the ONS Government Office Regions (GORs).
- 9 Regional Gross Value Added (income approach), UK: 1997 to 2015. References to the Midlands region cover both the East and West Midlands as defined by the Office for National Statistics. This however excludes the South-East Midlands LEP, which is classified as in the East of England region by the ONS. Coverage of MEIF spans from the Welsh borders to the North Sea coast - a full list of the LEPs included in MEIF is provided in Annex B and references to the MEIF area cover these 10 LEPs. The Midlands Engine has slightly different coverage to MEIF. Further detail is provided on the Midlands Engine website. <http://www.emcouncils.gov.uk/Midlands-Engine>.
- 10 ONS Population Estimates for the UK, England and Wales, Scotland and Northern Ireland mid-2016. Refer to note 1 for link to source.
- 11 ONS Ad Hoc Analysis of High Growth businesses 2011-2014. Refer to note 4 for link to source.
- 12 ONS Regional and sub-regional productivity in the UK: January 2017. Gross Value Added on a per hour basis. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/articles/regionalandsubregionalproductivityintheuk/jan2017>.
- 13 ONS Business Demography, UK 2015. <https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/bulletins/businessdemography/previousReleases>.
- 14 ERC Contribution to job creation by high growth SMEs. <https://www.enterpriseresearch.ac.uk/publications/contribution-to-job-creation-by-high-growth-smes/>.
- 15 ONS Business Demography, UK 2015 The business birth rate is calculated as the number of new (registered) businesses in a region in a given year divided by the number of active (registered) businesses in the region in the same year. The ONS statistics provide information on businesses that are registered for PAYE or VAT. Refer to note 13 for link to source.
- 16 BEIS Business Population Estimates 2016. Table B, Number of businesses per 10,000 resident adults. The BEIS statistics provide an estimate of the registered and unregistered businesses in the UK. Refer to note 3 for link to source.
- 17 Enterprise Research Centre (2016) 'Growth Dashboard' Dashboard data by region (2012-2015). <http://www.enterpriseresearch.ac.uk/wp-content/uploads/2015/06/2015-UK-Growth-Dashboard-Report.pdf>. 'Fast growth' is classified as the proportion of businesses with 20% or more annual average growth over 2012-2015. Annex B provides further breakdown by LEP area.
- 18 ERC Growth Dashboard. In Northamptonshire, there were 58 business births for every 10,000 population in 2015 and in Leicestershire and Leicestershire, 12.7% of businesses were classed as fast growing, the sixth highest rate across the English LEPs. See Annex B for detailed LEP-level analysis.
- 19 ONS Population Estimates for UK, England and Wales, Scotland and Northern Ireland mid-2016. Refer to note 1 for link to source.
- 20 BEIS Business Population Estimates 2016. Refer to note 3 for link to source.
- 21 Regional Gross Value Added (income approach), UK: 1997 to 2015. Refer to note 2 for link to source.
- 22 ONS Business Demography, UK 2015. Refer to note 13 for link to source.
- 23 ONS Ad Hoc Analysis of High Growth businesses 2011-2014. Refer to note 4 for link to source.
- 24 The audit was delivered in partnership with government and the report was launched alongside four others on 3rd November 2016. <https://www.midlandsengine.org/our-five-themes/innovation/science-innovation-audit/>.
- 25 The Midlands Aerospace Alliance was formed in 2003 to support and represent the aerospace industry across the Midlands region. <http://www.midlandsaerospace.org.uk/maa>.
- 26 For nearly two decades Medilink has been providing specialised business support to health technology companies around the country. <http://www.medilinkuk.com/>.
- 27 Policy Exchange (2014) 'Silicon Cities: Supporting the development of tech clusters outside London and the South East of England'. <http://www.policyexchange.org.uk/images/publications/silicon%20cities.pdf>; BIS (2012) 'Industrial strategy: UK Sector Analysis' BIS Economics Paper No. 18. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/34607/12-1140-industrial-strategy-uk-sector-analysis.pdf.
- 28 For instance, the UK is positioned fifth out of 14 OECD countries in terms of the proportion of start-up businesses less than two years old in the business population (the UK position is third for countries that have data for both start-up and scale up metrics). The UK is positioned 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>.
- 29 Enterprise Research Centre, Goldman Sachs and British Business Bank (2015) 'Unlocking UK productivity: Internationalisation and Innovation in SMEs'. <http://www.enterpriseresearch.ac.uk/wp-content/uploads/2015/11/Internationalisation-and-Innovation-Report-web-pages-.pdf>. Gross Value Added (GVA) is a measure of the value of goods and services produced in an area, industry or sector of an economy.
- 30 <https://www.gov.uk/government/topical-events/budget-2016>.
- 31 ERDF is a source of funding from the European Union which helps to support regional development. Each Member State is provided with an allocation of money which is used to address regional disparities within their borders.
- 32 Loan provided by British Business Bank Financial Services Ltd.
- 33 Regeneris Consulting Limited (2015) 'Using Financial Instruments for SMEs in England in the 2014-2020 Programming Period'. <http://british-business-bank.co.uk/ourpartners/midlands-engine-investment-fund/>.
- 34 British Business Bank 2016 Business Finance Survey - Ipsos MORI.
- 35 Asset Based Finance Association data 2016. <http://www.abfa.org.uk/news/statistics.asp>.
- 36 The British Business Bank applies an SME filter to the Beauhurst data which covers a broad range of equity investors. <https://www.beauhurst.com/>.
- 37 <http://british-business-bank.co.uk/research/>.
- 38 ONS Ad Hoc Analysis of High Growth businesses 2011-2014. Refer to note 4 for link to source.
- 39 The term Private Equity here is used to include Venture Capital funds.
- 40 British Business Bank analysis of Beauhurst data. <http://about.beauhurst.com/>.
- 41 Figures from British Business Bank analysis of Pitchbook data.
- 42 http://www.eif.org/what_we_do/resources/jeremie/index.htm?lang=en.
- 43 Derby, Derbyshire, Nottingham and Nottinghamshire (D2N2 LEP), Leicester and Leicestershire (LLEP), South East Midlands (SEMLEP), Black Country LEP, Greater Birmingham and Solihull (GBSLEP), Stoke-on-Trent and Staffordshire (SSLEP) and Worcestershire (WLEP).
- 44 There are different eligibility rules for ERDF Financial Instruments and wider HM Government access to finance measures, the case studies in this section are historic examples of businesses which have received investment and are not an indication of eligibility criteria for investment from MEIF.
- 45 Regional Gross Value Added (income approach), UK: 1997 to 2015. Refer to note 2 for link to source.
- 46 BEIS Business Population Estimates 2016. Refer to note 3 for link to source.
- 47 Regional Gross Value Added (income approach), UK: 1997 to 2015. Refer to note 2 for link to source.
- 48 ONS Regional and sub-regional productivity in the UK: January 2017. The Midlands regions significantly lag behind London and the South East in terms of nominal GVA per hour worked.
- 49 Business Register and Employment Survey (BRES) 2014 revised and 2015 provisional. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployee/types/bulletins/businessregisterandemploymentsurveybresprovisionalresults/2014revisedand2015provisional>.
- 50 ONS Business Demography: UK 2015. Refer to note 13 for link to source.
- 51 BEIS Business Population Estimates 2016. Refer to note 3 for link to source.
- 52 For instance, Black J, de Meza D, Jeffreys D (1996) 'House prices, the supply of collateral and the enterprise Economy' Economic Journal, 106(1):60-75; Berggren, B, Flii, A and Wilhelmsson, M (2015) 'The effect of house prices on business start-ups: A review and analysis using Swedish regional data'. No 15/8, Working Paper Series from Department of Real Estate and Construction Management & Centre for Banking and Finance (cefin), Royal Institute of Technology. http://swopec.hhs.se/kthrec/abs/kthrec2015_008.htm.
- 53 British Business Bank Analysis of ONS data: ONS (2016) 'Aggregate wealth, by region and component: Great Britain, July 2010 to June 2014'. <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/adhocs/005306aggregatewealthbyregionandcomponentgreatbritainjuly2010tojune2014>.
- 54 ONS Business Demography, UK 2015. Survival rate is for businesses started in 2010. Refer to note 13 for link to source.
- 55 Enterprise Research Centre (2016) 'Growth Dashboard'. <https://www.enterpriseresearch.ac.uk/uk-local-growth-dashboard-2016/>. The figures for private sector businesses are based on 2015 data on registered businesses and does not take into account businesses that are not registered for PAYE or VAT. More recent data on business counts by LEPs is available; however, the ERC data is provided to provide context for the start-ups per 10,000 population and for the fast-growing business rate, which is calculated as a proportion of total businesses for comparability with the Northern Powerhouse Investment Fund Spotlight report.
- 56 ONS Ad Hoc Analysis of High Growth businesses 2011-2014. Refer to note 4 for link to source. High growth firms are defined as any business with average annualised growth of 20 per cent or more and with 10 or more employees in the starting period. This differs to the ERC definition and the two publications cover different time periods, which explains the differences between the two data sources.
- 57 The ERC defines fast growth as annualised average growth in employment of 20% or more over a three-year period (2012-2015).
- 58 Note: the finance as a barrier to growth data comes from the 2015 ERC growth dashboard, whereas the other two indicators on start-ups and high growth are based on the 2016 growth dashboard. Survey data on the finance as a barrier to growth was only available in the 2015 publication and to allow comparison with the NPIF spotlight report it is included here.
- 59 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.
- 60 Enterprise Research Centre (2015) 'Growth Dashboard' <http://www.enterpriseresearch.ac.uk/wp-content/uploads/2015/06/2015-UK-Growth-Dashboard-Report.pdf>. The dataset used in the production of the barriers to growth data has been compiled by the Business Growth Service based on their diagnostics of client needs at the start of their customer journey with Growth Accelerator. The Growth Accelerator data on barriers to growth is based on over 23,000 clients between April 2012 and March 2015.

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