NORTH WEST BUSINESS LEADERSHIP TEAM

Finance and Innovation Report

Essential Enablers to Drive Future Business Growth

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FOREWORD

from Richard Gregory OBE
Senior Advisor, Virgin Money UK PLC

This report was commissioned with the aim of making an important contribution to the future of the North West economy before the onset of Covid-19 with its unprecedented challenges and uncertainties for our health, businesses, livelihoods and futures. There has been a huge collective effort to grapple with the immediate effects of the crisis and as we begin to navigate the path to economic recovery, a clear view of what will constitute a 'new normal' is still, slowly, emerging.

What we can be reasonably certain of is that a dynamic and more resilient business sector – adapting to a new demand environment, embracing the technology solutions we have all become more familiar with during the crisis, refocusing innovation efforts – will be a critical underpinning of our economic and jobs recovery in the coming months and years.

Before the Covid-19 crisis, we were starting to build a consensus on the UK's long term economic priorities. There was a recognition that growth and economic success needed to be 'levelled up' across UK regions. The climate emergency also required new thinking about how we transition to a net zero economy and take advantage of the global opportunities that this could offer. And as we forged new relationships with Europe and trade deals with the rest of the world, we needed to ensure this unlocked potential growth in global supply chains.

Despite the significant disruption that individuals and businesses have faced at the beginning of 2020, these priorities should remain. The government will have an on-going role in stimulating the economy and to ensure we can build back better. These recovery efforts must, however, also continue to address some of the long-standing challenges to entrepreneurship and growth. One key element, which is the focus of this report, is the need to ensure that growing and innovative businesses have access to an adequate supply of finance.

Pre-Covid-19 this was a key component of the levelling up agenda, with institutions and agencies evolving their support efforts, tailoring them to local needs in order to build a more dynamic financing landscape for high-growth potential businesses. This was overlaid with an ambition to put the UK's innovation performance on a par with international competitors.

This new report reveals that positive signs of progress were indeed emerging across the North West. However, progress was uneven across the region and gaps in the funding runway remained. One important conclusion is that simply increasing the pool of available capital alone will not be sufficient for the region's future growth needs. We need to better equip innovative and scaling businesses with the skills and knowledge to access the right finance at the right time and to strengthen the ecosystems of support to efficiently connect investors with investable propositions.

The recommendations provide the beginnings of a framework for how we can build on the recent progress to deliver a coherent financial landscape for innovative businesses. They are the future wealth creators of our economy, never has it been more urgent to understand how best to support their successful development. We can aim to build better ecosystems, more investment ready businesses and a stronger finance pipeline for every stage of business growth.

I hope this report can add to the evidence base in support of further positive change across the region. Change involving opportunities and actions for national government and devolved authorities, private and public sectors, working together effectively to support the innovators of the North West.

On behalf of the North West Business Leadership Team I would like to thank our Steering Group members who gave generously of their time and provided illuminating insight and feedback throughout this project, and our report author Lee Hopley for shining a bright, focused light on the way forward.

"Before the crisis struck, the Liverpool City Region had the fastest economic growth in England at 3.5% a year and well above average productivity growth. Our innovative growth businesses were central to this. To keep improving on our performance it is clear that these businesses will require varied sources of funding and high quality advice to help them access it."

Steve Rotheram,
Liverpool City Region Mayor

"This work from the North West Business Leadership Team shows the vital role which innovation finance must play. From digital connectivity and decarbonising infrastructure, to manufacturing supply chains and skills training, our response to the pandemic will shape the growth and resilience of our region for years to come."

Andy Burnham,
Greater Manchester City Region Mayor

EXECUTIVE SUMMARY AND RECOMMENDATIONS

Do innovative businesses across the North West have access to a sufficient pool of capital to commercialise their ideas and scale up their activities. That, in a nutshell, is the exam question that this research seeks to address.

In the world before Covid-19 this mattered. The UK as a whole needed to up its game on innovation and every region in the UK needed to make a positive contribution to that aim. The record in the North West before the pandemic, on business start-up and scale-up, on innovation investment, was on a par with the national average. However, this conceals some variation within the region.

As we look to economic recovery in the aftermath of the pandemic it matters more. Community and industry impacts have been uneven; the job of regionally levelling up faces new challenges and a focus on minimising scarring on the economy is front of mind for policy makers.

Supporting innovative activity, in businesses, research organisations and universities across the North West, will be vital in underpinning sustainable economic renewal and job creation. The flow of finance to these businesses is just one building block of many that will need to be in place – regionally and nationally – to see the economy emerge from what is likely to be a severe, but hopefully, short-lived recession.

PRE-COVID SUPPLY AND DEMAND DYNAMICS

Much progress has been made across the UK since the financial crisis in increasing the supply of non-bank finance to growing businesses. Private sector investment in early stage and equity funds has been on the rise over much of the past decade. The establishment of new institutions in the wake of the financial crisis, such as the British Business Bank, have contributed to underpinning this recovery in the supply and diversity of finance to innovative businesses.

The government's on-going commitment to agencies such as Innovate UK and support through the tax system have added further to the supply of funds. Furthermore, a greater focus on business growth and innovation across the Combined Authorities in the region are also making their presence felt on the funding landscape.

In what has been a long-standing area of weakness in the UK, advances were being made and this was recognised by many of the businesses and stakeholders we spoke to as part of this research. Some potholes on the funding runway remain, however. Early stage and seed-finance in the North West was still regarded as less well-developed than in London and the South East and also relative to the emergence of investable opportunities in the region. In many cases proximity matters for early stage investment in businesses, which speaks to a more regionally tailored solution.

However, what was also clear was that finance alone would 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 than can connect the two become more important. The research finds that these ecosystems of sector clusters, support organisations and funders are fragmented across the region. Pockets of good practice, notably in 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.

THE 'NEW NORMAL'

We do not yet know what the economic legacy of the Covid-19 pandemic will be. It is likely that this crisis will cast a particularly long shadow over some industry sectors. Investors will be taking stock, supporting their existing portfolio of businesses before looking at new opportunities. There could be demographic challenges if the labour market impact falls particularly heavily on younger workers, for example. It could accelerate a shift in how towns and cities look and operate. More positively, there may be new opportunities from the technology changes we have had to embrace to do the day job remotely and keep in touch with customers. This could also spur change in technology and med-tech focused sectors and also the way in which we can support and connect businesses.

That said, the underlying exam question remains relevant. The actions that were required to improve the funding landscape for innovative businesses before the crisis will still need to be addressed as we emerge from it, even if the priority we attach to them may have shifted.

RECOMMENDATIONS

Our research outlines nine key measures that could contribute to a deeper and more dynamic finance ecosystem in the North West. These are summarised below. If policy makers have the bandwidth and resources to do just two or three of these, we would recommend prioritising a focus on improving investment readiness amongst high-growth potential businesses, really zeroing in on the regional specialisms that can be promoted to investors across and outside the region, and devoting additional resources to provide further cornerstone funding for angel networks, which provide a vital early step on the funding runway.

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.

INNOVATION AND BUSINESS GROWTH - RECENT TRENDS IN THE NORTH WEST ECONOMY

Before getting into the substance of the research, it is worth looking at the region's starting point and record on innovation and business growth. This section pulls together some of the latest indicators to provide a baseline of business activity.

The focus on business start-up, and importantly, scaling up are important metrics in gauging the dynamism of an economy and its potential to generate sustainable, high quality jobs and improvements in living standards. Alongside efforts to develop and commercialise new products and services in response to emerging market opportunities and technological change, this process of creative destructive allows economies to continually reinvent themselves and build greater resilience.

These ambitions have shaped policy at every level of government in terms of business advice, fiscal support and specific finance and innovation funding. Nevertheless, outcomes have lacked uniformity around the UK – in part due to historical sector structures, capacity issues at the local level and – at times – an inconsistency of approach by successive governments. In this section we take a brief snapshot of the current state of play across the North West.

In short, what it reveals is a region currently punching its weight in a national context on business start-ups, growth and pulling in innovation investment. While the aggregate picture is largely a positive one, there are some notable variations within the region.

These trends should, however, be seen in the context of long running efforts to improve the UK's national performance on business innovation and R&D. Successive governments have sought to make the UK 'the best place in the world to start and scale a business' and more recently have made a commitment to raise R&D spending as a share of GDP to approach the OECD average. Both of these aims have taken on a new significance in light of the economic impact of the Covid-19 pandemic.

START-UP, SCALING UP AND GROWTH

The authoritative LEP growth dashboard[1] produced annually by the Enterprise Research Centre provides a detailed round-up of business growth indicators for the 38 English LEPs. Some highlights on the recent start-up record, the proportion of firms growing to over £1m turnover and the share of businesses meeting the definition of 'high-growth' – that is increasing turnover by more than 10% in three consecutive years are illustrated for each of the five North West LEPs, together with the best and worst performing LEP on each metric.

[1] https://www.enterpriseresearch.ac.uk/wp-content/uploads/2019/09/UK-Local-Growth-Dashboard-2019-FINAL.pdf

SURVIVING FIRMS GROWING FROM <£500k TO £m+ (2015-2018)

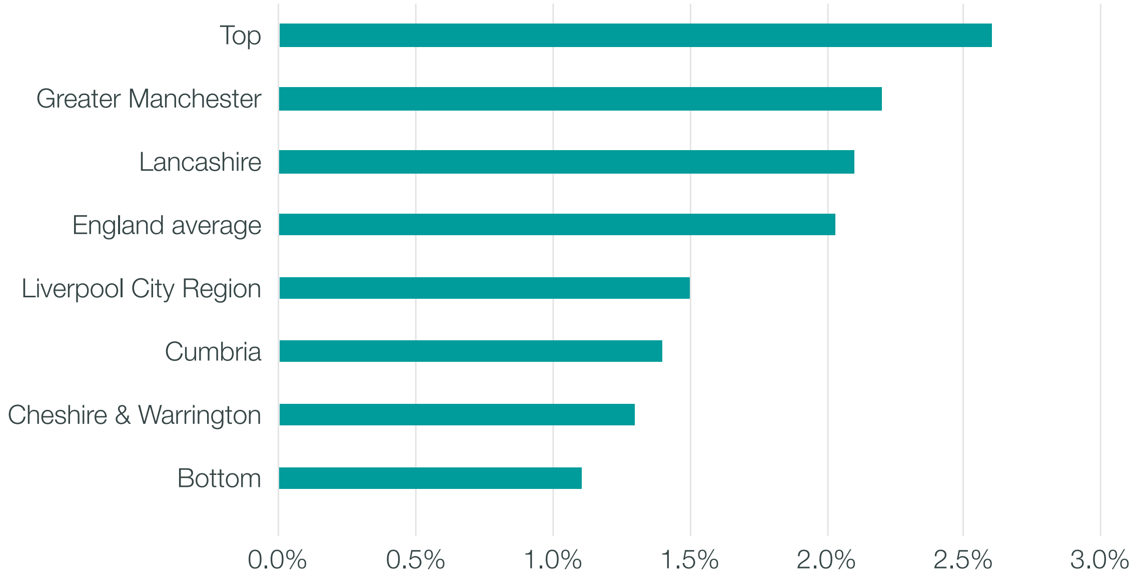


Table 1

HIGH-GROWTH FIRMS (10% DEFINITION)

Table 2

Greater Manchester and Cheshire & Warrington stand out as hotspots in both metrics, outperforming the average across the 38 English LEPs. While in most cases the top spot is held by London and there is scope for some catch up, there is nevertheless a reasonably solid foundation from which progress can be achieved. Liverpool City region and Lancashire have been lagging, both compared with other North West LEP areas and the English average.

Similarly, analysis by UKRI (Table 1) shows that in overall expenditure the North West is also holding its own with the share of total and business R&D in the UK, at 9%, broadly in line with the regional share of UK GDP.

UKRI ANALYSIS: R&D ACTIVITY BY REGION 2017-18

REGION	GROSS EXPENDITURE ON R&D (GERD)	GROSS EXPENDITURE ON R&D (GERD)%	BUSINESS ENTERPRISE R&D (BERD)	BUSINESS ENTERPRISE R&D (BERD)%
	2017, £m	2017	2017, £m	2017
East Midlands	1,938	6%	1,521	6%
East of England	5,938	17%	4,677	20%
London	5,548	16%	2,796	12%
North East	707	2%	384	2%
North West	3,040	9%	2,174	9%
Northern Ireland	695	2%	512	2%
Scotland	2,529	7%	1,247	5%
South East	6,730	19%	4,860	21%
South West	2,334	7%	1,652	7%
Wales	744	2%	457	2%
West Midlands	2,965	9%	2,467	10%
Yorkshire and The Humber	1,641	5%	938	4%
United Kingdom	**34,809**	**100%**	**23,685**	**100%**

Table 3

HOW DO WE FINANCE INNOVATION?

Before digging into the regional picture of innovation finance, it is helpful to first reflect on what the financing journey of any business engaging in innovation activity looks like and to understand some of the factors that influence this journey.

Innovation, whether that's an entrepreneur developing a new technology platform in their spare room or a large corporate implementing new materials processing, is by its very nature an uncertain process. There is uncertainty around the total cost of bringing an operational product to market; uncertainty around the profile of future market demand and uncertainty around the extent to which a company or entrepreneur will maintain a market leading position before the competition catches up. There may, of course, be big financial – and other benefits, such as environmental or societal gains – from getting it right.

All of these factors contribute to narrowing down appropriate sources of finance for such activity.

For the small company or entrepreneur, personal resources and informal sources of finance are generally called upon first. As internal resources become depleted, external sources are required to plug the gap. The absence of clear revenue streams in the early stages makes traditional bank finance an inappropriate source of funds - both from the business and the bank perspective. Not least because this is not the specialism of mainstream lenders. On the entrepreneurs side they are likely to want more financial flexibility than afforded by standard loan products.

Therefore the risk reward dynamic means sources of equity finance are generally seen as the most appropriate. Business angels and networks of angels are regarded as a good source of early stage finance, with the average investment of a network in the UK coming in at around £180,000[2] per company.

As companies commercialise and scale up their activity, growth finance from venture capital providers can be the next port of call, for those willing to bring in outside investment. The funnel of SMEs moving on to require Venture Capital (VC) funding will fall as the amounts of financing required increase. So the information required on both sides for successful deal making also ramps up, with the business understanding finance terms and exit mechanisms and the investor requiring insights on the technology under development as well as the capabilities of the business owner or management team.

Businesses and investors may be in this VC relationship for the long haul, with successive funding rounds required to maximise the returns on the innovation activity. While these funding flows are often presented as a linear journey from seed capital through the private equity, this won't necessarily be the case for the individual firm. Nevertheless, many companies we spoke to during this research were considering their innovation life-cycle through the lens of this funding 'runway'.

Inevitably entrepreneurs and innovative SMEs have different funding needs from their larger counterparts. With the latter likely to have access to more significant internal resources, retained earnings within the business or across the group, will tend to be more widely utilised for innovation activity than external sources of finance.

[2] http://www.eban.org/wp-content/uploads/2019/05/EBAN-Statistics-Compendium-2017.pdf

THE ROLE OF PUBLIC POLICY

The private sector has a significant role to play in supporting successful innovation, but the benefits of these activities – in both small and large companies – can extend beyond the firm itself. Gains can be shared through supply chains or innovations can provide solutions to challenges in wider society. Additionally, it is recognised that successful innovators are an important source of job creation, productivity and the country's export position.

These are all economic outcomes governments' widely seek to encourage. That clear commitment is best demonstrated by the UK government's recent backing of an ambitious target of boosting the UK's research and development expenditure to 2.4% of GDP over the next decade.

Achieving this requires an active role in bridging some of the financing hurdles that innovative businesses come up against. In line with the differing finance requirements for innovative businesses and different points of their journey this support takes multiple forms from direct grants and competitions for specific innovation outcomes and an R&D tax credit to funding through the British Business Bank and tax incentives such as the Enterprise Investment Scheme for investors in young and scaling businesses.

In addition, government is increasingly taking a broader perspective of innovation, which can also include the adoption of new technologies that can be part of a business's innovation in process improvement. This has gained prominence in the discourse on innovation funding as the UK has struggled to secure sustained improvements in productivity combined with the new technology opportunities arising from the 'fourth industrial revolution.' Rather than seek to support different types of innovation with different products, there is a shift towards taking a more holistic view of the spectrum of needs for all innovators.

Funding innovation and innovative businesses, at all stages of their life cycle, requires a diverse portfolio of public and private sector solutions. While an individual company's journey through these financing options is not linear, any gaps that emerge can create a financing gulf which is difficult for firms to traverse and can lead to good ideas falling by the wayside or being turned into commercial success stories somewhere else. This underlines why governments, not just in the UK, have been grappling with the optimal mix of policy interventions to best support this important cohort of businesses to our economy.

FINANCE SUPPLY - WHERE ARE THE CONSTRAINTS?

We have established that innovative businesses across all sizes and sectors need a deep and varied mix of finance providers to support their journey from innovative idea to market development.

If we begin with the national picture, the UK has many of these components in place and while we often compare ourselves to the world-leading finance ecosystem in the US, comparisons with near neighbours in Europe reveal a more positive picture.

THE NATIONAL PICTURE

The British Business Bank provides a comprehensive annual assessment of the UK's finance landscape and its most recent reports[3] have shown progress towards establishing a more dynamic financing landscape for businesses since the 2008/09 financial crisis.

Starting with more traditional forms of bank finance, while not the most important spur to growth for innovative businesses, retail banks and new lenders, such as peer-to-peer lending platforms do provide complementary funds for companies as they grow and invest in people, premises and new equipment. Data from the British Business Bank and UK Finance indicate that this money is relatively evenly distributed around the economy in line with business activity and regional GVA.

Of more interest to our research is the development of alternative sources of finance, particularly equity finance. Again, British Business Bank data shows steady growth in the value of equity finance and number of deals completed from seed finance to growth capital in the years following the last recession. A sizeable proportion – over two-fifths – of equity finance is finding its way to companies in technology based sectors. Similarly, alternative finance providers, such as the Business Growth Fund – born out of the financial crisis – have been providing increasing volume of patient capital to innovative and growth firms across the UK. With its regional network it has been active in the North West, supporting firms seeking between £1m and £5m in long-term capital.

[3] https://www.british-business-bank.co.uk/research/small-business-finance-markets-report-2019/

NUMBER AND VALUE OF EQUITY DEALS BY STAGE

Source: British Business Bank analysis of Beauhurst

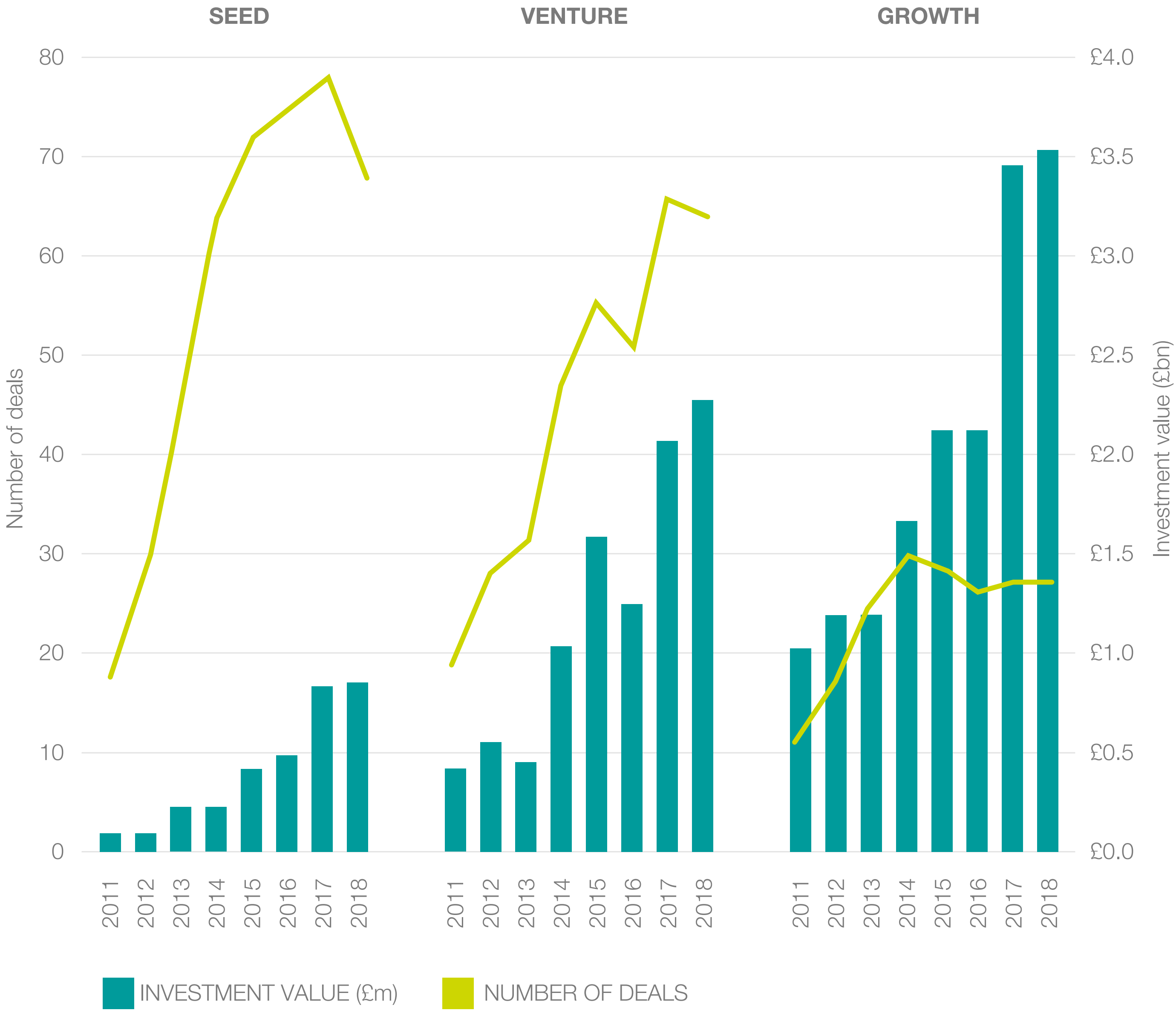


Table 4

Turning specifically to angel networks, the European Business Angel Network, provides a picture of angel investing activity across Europe. Here the UK stands out as a leader in the European market, with double digit growth in investment levels in the most recent figures available (2017[4]). While in broad value terms the UK sits head and shoulders above European partners on the value of angel network investment, in relation to the size of the economy, we slip down the rankings, overtaken by Scandanvian and Baltic countries, suggesting there may be further scope to further scale up these networks.

[4] http://www.eban.org/wp-content/uploads/2019/05/EBAN-Statistics-Compendium-2017.pdf

Notably, it isn't just the private sector that has rolled its sleeves up in this market, government policy has become increasingly active in diversifying the pool of alternative finances. The government's innovation agency, Innovate UK is well-established, offering a suite of support products for innovative businesses that now extends to grants, loans, regional angel networks, and investment accelerators amounting to around £1.2 billion in finance support in the UK 2019.

A further significant intervention was the creation of the British Business Bank, which has the explicit remit of 'increasing the supply of finance available to smaller businesses where markets don't work well, and creating a more diverse finance market for smaller businesses, with a greater choice of options and providers'. This has evolved to include new regional funds, for example the Northern Powerhouse Investment Fund and the Midlands Engine Investment Fund, which aim to boost to flow of finance to businesses in regions outside London and the South East.

In addition, support through programmes such as the Enterprise investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS), which are region and sector agnostic, were widely regarded to be important aspects of the UK tax system which incentivise new equity investment into the market – a picture confirmed across the businesses and investors we interviewed as part of this project.

… BUT, LONDON?

While progress on address funding gaps has undoubtedly been made across the UK, the question of regional disparities remains and is at the heart of our research. The finance landscape has traditionally been dominated by the major finance centre of London and the British Business Bank data confirm that London and the South East remains the dominant player in the UK finance ecosystem. Historic policy decisions have led to London taking not just leading nationally, but internationally in financial services, building an important ecosystem of skills and expertise. However, it is also important to note that this also aligns with the higher density of business opportunities in the region and its leading global role is one that we should seek to retain.

EQUITY INVESTMENT ACROSS THE UK (%)

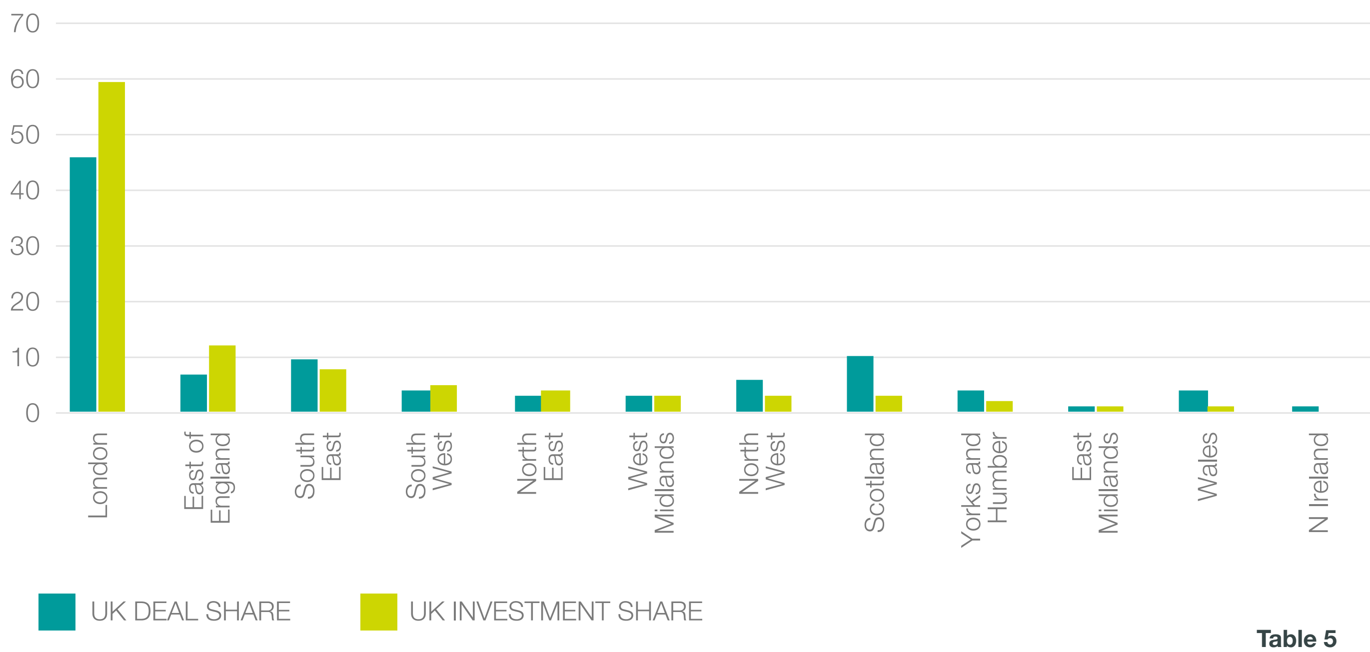


Table 5

The question posed is whether this South-East concentration of activity was seen as a significant disadvantage to businesses seeking funding in the North West. Successful finance seekers interviewed for this research didn't necessarily regard this as a problem. A number of firms seeing venture capital for expansion recognised the need, and indeed opportunity, to tap into London-based investors and some were content to look further afield at international propositions. The ability to tap into London-based finance opportunities clearly strays into the wider debate on infrastructure and connectivity of the North West.

British Business Bank data, again confirms this picture. When looking at the local authority statistics on companies securing equity finance in 2019 (the most recent figures available), Greater Manchester local authority appears in the top 10 – a league table otherwise dominated by London-based local authority districts.

THE NORTH WEST LANDSCAPE

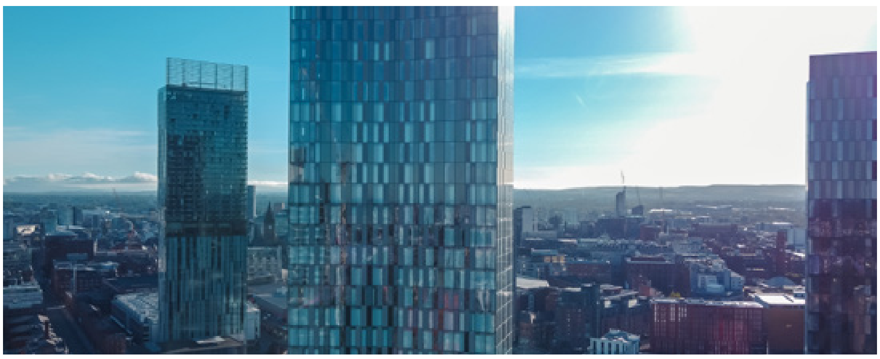
Many of the national institutions, such as retail banks and pan-UK organisations such as the Business Growth Fund, have a presence in the North West, reflecting the relative weight of business activity and contributing to the pool of funding required for difference stages in the business life cycle. In addition, the important university sector in major North West cities provides both a pipeline of basic research to spin out into commercial entities and support for innovative businesses to overcome technical issues and bring new ideas to market.

In addition, on the provision of alternative forms of finance, there has been the gradual development of fund managers and financial services outside of London. Figures from The CityUK point to the North West and Manchester, in particular, being part of this evolution. Whilst it is unrealistic, and perhaps even undesirable, to try and build a sector to rival London, more locally centred provision does bring competition and choice.

There does seem to be further scope for growth, with fund managers noting a sufficient supply of capital but more limited capacity in terms of skills and expertise to research, engage and complete deals. There isn't an obvious public policy response for this, but with more firms attracted to the region and the establishment of funds and advisory services now in place, this should provide the foundation for ongoing growth and development across the sector in Greater Manchester (subject to any of the impacts of COVID-19 on the regional economy). The challenge may be to ensure that the catchment areas for these services also grows beyond the city region to serve business opportunities in Liverpool and beyond.

There was one aspect of the North West landscape that repeatedly emerged as an opportunity for greater focus – early stage and angel finance. British Business Bank data points to the North West being particularly underweight when it comes to the number of deals done by business angels compared with other regions of the UK and indeed, the location of the investors themselves. The angel community has become more established in the North West and the British Business Bank survey indicates that the number of angels based in the region is on a par with other UK regions.

That does not appear to have translated into the number of local businesses receiving angel funding, a finding that was confirmed by interviews, with entrepreneurs describing difficulties attracting investment from local networks. Opportunities for this engagement seemed especially thin outside Manchester with a number of Liverpool based businesses indicating limited local engagement.



GC ANGELS

The Greater Manchester response to building capacity is GC Angels, delivered by GC Business Finance (GCBF). As the investment arm of the Growth Company (GC) in Greater Manchester, this FCA regulated Fund Manager supports both demand and supply in the market, as a professional service driven by experienced equity specialists. With over 400 associate angels, institutional capital partners and in-house co-funds, GC Angels supports SME's to raise early-stage, scale-up and growth risk capital ranging from £25k - £2m.

The service mobilises funds and private investors to address a crucial market gap for early-stage innovation funding that VC typically has no risk appetite for. In addition, as a professional investor with GMCA funds, GC Angels invests directly leveraging co-investment from private investors typically at ratios of 1:5, into prepared and pre-qualified investments across priority Greater Manchester sectors.

To date GC Angels has raised over £25.5m in to 30+ businesses since 2015 - with 30% of businesses raising follow-on capital. Beauhurst data 2019 saw GC Angels as the most active investor in this early stage gap in the Greater Manchester market.

The economic impact of the Greater Manchester pilot in the local and regional investment market highlights the unmet demand in the region at pre-seed and early seed stages of innovation investment. This segment of early stage funding is underserved by the current market offerings.

One further explanation that emerged from business interviews was a disconnect between the sectors in which innovative businesses are emerging in the region, such as digital, creative and med-tech, and the types of business activity that angels can bring their expertise to. Whether this is universally the case across the angel networks in the North West would merit further examination, but the perception that local angels may have a preference for investment prospects in sectors other than creative and digital could become entrenched and lead to negative consequences for finance demand in the region.

Angel networks, do however, need a critical mass of opportunities in which to invest. It may be unhelpful to carve the North West region into smaller geographic areas which make it more challenging for angel funds to build a portfolio of investable businesses and connect networks of sector expertise in the region.

It is important to reiterate the importance of this source of early stage finance. Angels bring finance and business experience and acumen to innovation firms. The experience of angel investing for the entrepreneur can equip them with important skills as they seek following up financing further down the runway. Additionally, we have also noted a trend in the UK towards large equity deals from VC funds, for example, which is increasing competition for investors looking to provide funds at the seed and start-up phase of business development.

The conclusion on the supply of finance for innovative businesses is that there does not appear to be a shortage of capital per se. Innovation businesses that are scaling up acknowledge that the market for equity finance that they can tap into is a national one, and in some cases international. Policy interventions to address regional disparities do appear to be flowing through, as exemplified by the emergence of a more vibrant financial service sector in Manchester – one that has the potential to further develop as it grows its capacity and invests in skills. However, in all parts of the region, there are some potholes at the start of the finance runway for innovative firms looking for early stage finance. Angel investors are active in the region, but there is something of a misalignment with the sectors and networks of innovative businesses.

SHIFTING DEMAND DYNAMICS?

If talented people and companies with great ideas together with a sufficient pool of capital were all that was needed to get new innovations and business growth off the ground, then at least some of the battle on financing innovation would be easy to win.

Interviews throughout this project were in strong agreement that there are necessary demand-side components of a dynamic innovation financing landscape. Innovators and particularly new and scaling businesses also need to have awareness of, appetite for and preparedness to bring investors into their businesses.

Awareness: Entrepreneurs and leaders of innovative businesses need an understanding of what types of finance solution are appropriate for their business circumstances, who and where the providers of financing options are located and an ability to make an assessment of the advantages and disadvantages for their business over the short and longer-term.

Appetite: As discussed, non-bank finance brings a range of expectations about returns, investor involvement and exit mechanisms. Businesses need to enter these arrangements understanding that there are obligations on both sides of the financing deal. This can apply to publicly supported finance options, as well as the portfolio of private sector solutions.

Preparedness: Securing funding for activity with uncertain outcomes can be a competitive process. Investors will undertake due diligence across a range of areas within each potential investment opportunity. This is resource intensive on the part of investors and business leaders need to present themselves as a compelling proposition.

None of these dynamics are unique to the North West business landscape, or indeed the UK more widely. There is an extensive literature base that has sought to inform debate, internationally, on the 'investment readiness' of small firms – and it is almost exclusively small firms – as they seek finance to develop their businesses. With several academic studies highlighting the necessity for SMEs to become more investment ready in order to take advantage of the supply of capital, with a focus on both businesses being more market and management ready and technology ready with respect to the applied financial strategy.

While there is broad agreement on the importance of these business capabilities, there was a much wider spectrum of views on where the strengths and weaknesses of businesses in the region sit with respect to these 'investment readiness' attributes.

SUPPORT AND CONNECTIONS: REGIONAL VS LOCAL

Our study sought to engage with both successful seekers of finance and those that have taken some wrong turns and were still hoping to secure the finance their business required. There were no consistent and obvious characteristics, in terms of their business, that defined those successful seekers compared with their 'as yet unsuccessful' counterparts.

For some businesses that had secured equity finance their networks had pointed the way, for others an immersive support programme with a business incubator had helped make the necessary connections, and for others it was more a case of persistence and accident rather than design that they found the right funding partner. However, all had set out with a clear funding destination in mind; an awareness that equity of finance was most suitable for their business.

Depending on the stage of funding and the level of sector/technology specialism, provision may be found in the same city, or in the same region or it may be that a national (London-based) provider is the best fit. There isn't a menu of options that firms can access to find the right funding solution, but recent developments, such as the British Business Bank's finance platform[5], are helping narrow the field.

However, currently, businesses we interviewed noted that strong personal networks were plugging the gap in getting the right referrals. Building a one-size fits all platform to meet the needs of businesses on a broad spectrum of investment readiness and with highly specific finance needs is particularly challenging. Not least in managing trade-offs in providing a comprehensive and relevant menu of finance options with the need to make the business journey as streamlined as possible.

From the other side of the table, funding providers noted the importance of appropriate referrals, often from business support organisations. Intermediaries that can join the dots of raising awareness of finance options and sign-posting investment ready businesses to fund managers were regarded as playing an important role in catalysing demand for finance. Discussion revealed that these referral routes were, however, inconsistent across the region.

Part of the solution to the awareness challenge for businesses is the creation of a network of contacts and information that minimise time spent going through wrong doors. The frustration from businesses sent down rabbit holes and pitching to disinterested investors was palpable. Those seeking to support businesses on their finance journey face a tricky balancing act in delivering locally, but thinking regionally and nationally when needed. There are some good examples of private sector leadership in trying to bridge regional differences, for example TheCity UK's regional network, but government support needs to ensure there are the right structures and incentives to enhance collaboration across regions.

ROUTES TO GOVERNMENT SUPPORT

There was a similar story with government grant and loan support for innovation through bodies, such as Innovate UK. We know that changes in political priorities can impact on the products and objectives of organisations like Innovate UK. Its guiding principles are to support excellence in business innovation, support collaboration partnerships and drive investment in UK R&D – these don't change, but the way in which it supports business evolves over time. Positive engagement with Innovate UK throughout this research and examples of positive engagement with individual businesses speak to the ongoing importance of the agency in supporting innovative businesses. That said, past negative experiences and bureaucratic processes can cast a long shadow. Innovate UK, which have a growing portfolio of products targeting innovative firms, must be part of the networks described above. In the current crisis, this will be a vital weapon in the UK's policy armoury as the economy moves from crisis to recovery.

Image: Upside Energy Ltd, © Brad Wakefield.

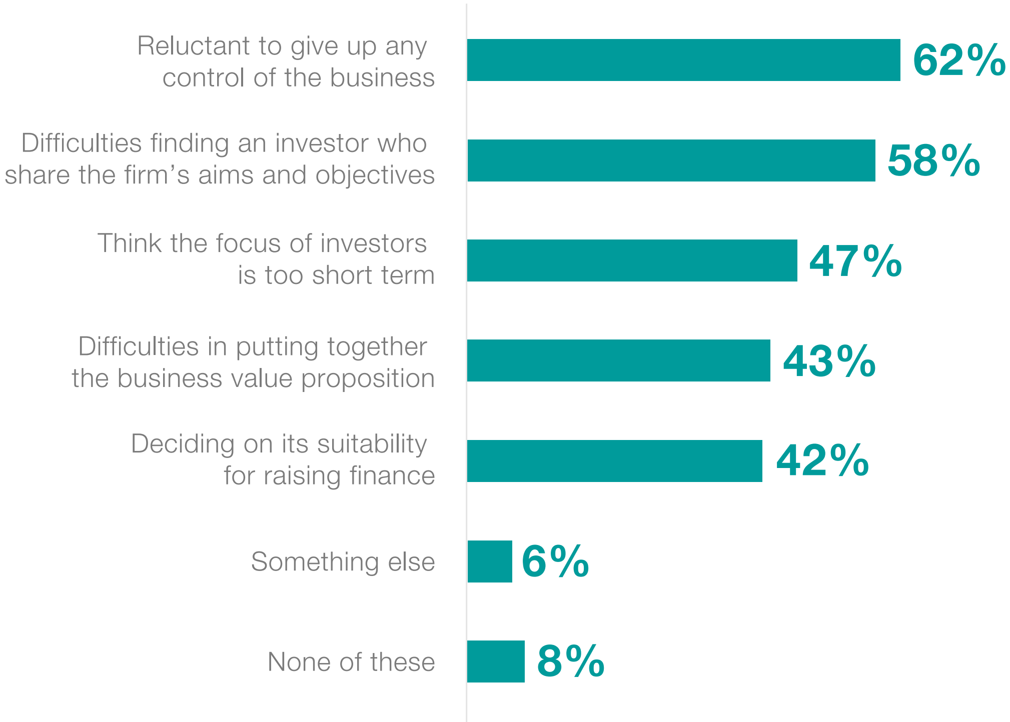
[5] https://www.british-business-bank.co.uk/finance-hub/

PUT OFF BY EQUITY

It is said that you can lead a horse to water. In some cases you can lead innovators to equity finance, but you need to overcome the aversion to borrowing first. The phenomenon of the contented non-borrower appears to have become more entrenched across the UK since the financial crisis of 2008/09. The long running SME Finance Monitor Survey[6], for example, has consistently pointed to SMEs preferring to grow in line with their own resources rather than seek external finance for growth. Potentially putting a cap on some companies' growth potential and impeding innovation efforts.

This is also true of attitudes to equity finance. Recent research from the British Business Bank shows that the main barrier to securing equity finance is that companies don't want it. And even outside of London and the South East this is a more often cited barrier than identifying appropriate provision.

BARRIERS TO EQUITY FINANCE



Base - all who applied for or have considered raising equality finance in 2018.

Table 6

It was certainly the case amongst businesses interviewed for the research that some would rather retain complete control of a smaller business than hold 75% equity in a much larger one. And in some cases, once it had become clear that equity finance really was the only game in town, the window of opportunity to engage with investors was closing rapidly – angel or VC investors don't want to be regarded as a lender of last resort.

[6] https://www.bva-bdrc.com/products/sme-finance-monitor/

Like many of the issues raised through this report, this particular cultural attitude to risk capital is a long-standing one. Previous government reviews, such as the one led by Tim Breedon[7] (just one example, there are many others), recommended the creation of a working group to, among other things 'examine demand for raising external finance through non-bank debt channels, for both working capital and investment, and the relative attractiveness of other finance products.' This is a nut that has proved difficult to crack.

However, prevailing economic conditions may provide a force for change. In contrast to the past decade of companies being content to grow within their own means, the cashflow crunch that has followed the Covid-19 induced economic lockdown appears to be triggering a change in borrowing attitudes as firms seek external finance for survival. The Bank of England's decision maker panel[8] indicated that nearly two-thirds of surveyed businesses expected to have a need for external finance to manage through the crisis, with most confident that their needs would be met. This could help shift attitudes to finance for recovery and growth beyond the crisis, but we'll return to the balance of opportunities and challenges later in the report.

FINANCE WITH BELLS AND WHISTLES

Bringing innovators and investors together demands a mutual understanding of the investment process to ensure the goals of firm and financier are aligned. And a key plank of this investment process is presenting a clear proposition that investors can interrogate to understand how finance will support commercialisation of the innovation and ultimately deliver returns. This also allows investors, particularly in the early stages of the business to understand how they can bring additional external expertise into the business; so in addition to money, angels and other investors can bring complementary management to the business.

It is a big job for entrepreneurs to manage these information asymmetries. Feedback from businesses and investors pointed to varying degrees of preparedness to do this effectively. The network of intensive business accelerators and incubators is less mature in the North West than in London, where there is a greater density of business start-ups making this type of support more viable.

Indeed, support was seen as more light-touch for start-ups with a focus on early diagnostic and investment readiness checklist, rather than hands on support with business plan development and pitching. There are some exceptions, for example the Mettle programme in Liverpool City region, which focuses on supporting businesses in the creative and digital sector. But this leaves some companies unsure of how and where to best spend their limited time acquiring the necessary skills to become investment ready. Similarly, forums to connect with investors and hone pitching skills were reported, by businesses, of being of variable quality with resulting in limited success and feedback on how to proceed.

The feedback was clear that there needs to be a coherent focus on investment readiness within the early stage market. Where appropriate Growth Hubs and Access to Finance Services (where they exist) need to ensure the role they play in supporting entrepreneurs provides robust support to enhance understanding of the mechanics of investment, for example in areas such as:

- Robust Business Planning
- Realistic financial modelling
- Development of slide decks to promote the business case
- Strong presentation skills
- Understanding the funding marketplace
- Technicalities of investment (valuations – term sheets)

What was clear from the research is that simply ramping up the supply of finance on its own will have limited benefits for innovative businesses looking for investment. There appears to be a regional opportunity to drive better awareness around finance options across new and scaling businesses, but critically this needs to be accompanied by more intensive engagement to prepare companies to present their business proposal and maximise firm-level benefits from the management and expertise that external investors can offer.

[7] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/32230/12-668-boosting-finance-options-for-business.pdf

[8] https://www.bankofengland.co.uk/decision-maker-panel/2020/may-2020

BRING SUPPLY AND DEMAND TOGETHER IN THE NORTH WEST

So far this report has shown that the North West landscape for innovative businesses has been evolving and pre-COVID-19 was making progress in addressing long-standing funding gaps for growing businesses.

Nevertheless, not all parts of the region have moved at the same pace and some of the building blocks of an optimal financing ecosystem have still to fall into place. Similarly, while it does not appear that businesses in the North West are outliers in terms of the appetite to innovate, it is not quite job done on equipping these firms with the awareness and skills to take maximum benefit from what funds are available in the market.

This section will seek to address the non-finance elements of an effective ecosystem that can effectively join up finance with innovative opportunities. Discussions with businesses and investors have helped to highlight two critical components of an effective support landscape – business support and referral and sector development and promotion.

SUPPORT AND REFERRAL

At the initial concept stage of the project, it was agreed that the business support landscape would not be in scope. However, it has been hard to avoid in practice. The important role that external organisations can play in equipping businesses with the tools and skills to secure finance has been made strongly throughout this research. The positive experiences of entrepreneurs that have undergone intensive support through business accelerators sits in contrast to those trying to navigate more disparate, one size fits all business support. The former have access to expertise to help get businesses investment ready and open doors to the right finance at the right time, whereas the latter feel like they are going it alone.

More mature innovation and business start-up ecosystems in London have pulled in significant private sector activity in this regard. Again density of opportunity plays an important role here. Networks of innovation activity and business start-ups make the establishment of accelerators and incubators – a cohort approach to business support – a viable and worthwhile undertaking for private sector actors and can be difficult to translate into smaller geographic areas with less well defined clusters of activity.

In Greater Manchester, some of this activity is starting to emerge. For example, Manchester Science Park and the Growth Company have played an important bridging role in connecting businesses with finance solutions. Feedback from fund managers in particular, noted the positive role played by the LEP in effective sign-posting – that is linking up suitable businesses with finance providers.

The situation in Liverpool appears much less well developed. Discussions with businesses and support groups struggled to identify clear referral routes for businesses to a choice of finance supply. The professional services firms that can act as useful intermediary were less active in Liverpool and seen as Manchester-centric. This seemed to provide quite a substantial road block for some businesses. Moreover, business contact on the support side seems focused on helping with business hurdles that could be regarded as low hanging fruit rather than growth or scale oriented. This challenge had been identified and grasped with, for example, a management programme at Edge Hill University. The fact a diagnosis has been made is positive, but progress will reasonably need to be measured in years rather than months.

Feedback pointed to the potential for existing organisations – such as Growth Hubs – to act as the connectors between businesses and funders – this needs to happen in a cohesive, supportive way, with all of those involved in the funding ecosystem to market/advertise/sell their propositions through interconnected networks. That said, it is not simply a case of build it and they will come, there is a clear need to improve marketing strategies and communication across all support organisations.

SECTOR PROMOTION:

While these local connections and support are essential, earlier sections noted the national nature of the innovation finance market. While companies recognise the need to enter the London and South East orbit to secure some types of finance, this can also be two way traffic, with policy makers and business groups having a clear pitch about the sector specialisms in the region. Understanding sectoral strengths can provide a clear rallying point for businesses and other players in the innovation ecosystem, such as universities, to promote their capabilities to the investor community outside the immediate region.

If we look around the UK, we can see city regions becoming more active in drawing together a clear narrative about their emerging sector specialisms, for example the Fintech sector in Cardiff and Bristol and the Creative and digital sectors in Manchester. Discussions with the investor community in London point to these efforts gaining some traction, and aligns with the large share of equity investment that has been finding its way to technology based innovators in recent years.

Image: Nanoco Technologies Ltd, © Cass Productions

There is a significant opportunity for Liverpool to follow suit. With the life sciences and immersive tech expertise across the university sector, there is the basis of a compelling sector proposition that could raise the profile of related businesses in the city region. There are secondary benefits, in terms of galvanising stronger and more active networks that can follow from a more targeted sector approach. This can also pull in other actors, such as Innovate UK, offering a platform for broader ecosystem engagement. Finally, this contribution to network building can also help more effectively assess emerging support gaps and develop appropriate responses.

SUPPORT AND CONNECTIONS: REGIONAL VS LOCAL

Our study sought to engage with both successful seekers of finance and those that have taken some wrong turns and were still hoping to secure the finance their business required. There were no consistent and obvious characteristics, in terms of their business, that defined those successful seekers compared with their 'as yet unsuccessful' counterparts.

HEADING TOWARDS A NEW NORMAL

The elephant in this report is the current Covid-19 crisis. The majority of business engagement throughout this research was concluded before decisions on lockdown were enacted.

Inevitably, the economic consequences are likely to cast a shadow over the environment for the financing of innovative business. Nevertheless, the opportunities and challenges identified thus far are long-standing in their nature and will re-emerge once the immediate effects of the crisis have passed. That said, while there is much we cannot forecast about the consequences of this crisis, it is worth flagging some additional issues that are worthy of discussion both with policy makers and across the private sector as we think about the shape of the recovery in the months ahead.

FIRST UP, THERE ARE SOME MAJOR SHORT-TERM HURDLES THAT THE CRISIS WILL THROW UP, THAT WILL NEED TO BE ADDRESS TO SUPPORT BUSINESS RECOVERY AND RESILIENCE IN THE MONTHS AHEAD.

The outlook for innovation: History points to innovation taking a knock during recessions and following the financial crisis, for example, was slow to recover. During economic downturns focus often switches from new products and services to finding quicker payback from process improvements. The cashflow hit that many businesses will experience from this crisis period almost certainly will lead to a similarly weak outlook for innovation, despite some of the significant efforts from government to provide a broad package of support. The prospects for science and, particularly university, funding remains unclear, therefore maintaining a strengthening links between businesses and the research base through the recovery will be vital for the sustainability of both.

Unwinding business support: The government has stepped in to provide a substantial package of support to sustain viable business through the economic lockdown. This focused, firstly, on building on existing schemes to get policy support to businesses quickly and evolved to include additional resources for innovation and pre-revenue businesses. There will be a number of hurdles to overcome in unwinding this support. One area, pertinent to this research is how attitudes to external finance may have changed as many more businesses have sought external finance for survival. The potential for some of these loans to be converted to equity in already being discussed. If policy does move in this direction, the need for the wider education piece on finance options to move in tandem will become more urgent.

Pivot and plan for recovery: At this time we know a lot about what we don't know. There are big questions about future demand outlook, how will exports markets reopen, future fiscal policy. Businesses will require additional support to navigate these unknowns, manage cashflow, rebuild their markets and get back on a growth path. Supporting firms through this process, particularly those with an innovation track record before the crisis and firms that have pursued an ambitious strategy through the crisis will be critical, as these have the potential to be the region's future growth engines and job creators. So businesses will need to pivot from crisis to recovery as will the organisations that are a source of advice and business support.

Investor appetite: There are examples from the UK Business Angel Association that angel networks are stepping up to this role with some of their existing business portfolio. These networks can provide good case studies and a framework for future financing – demonstrating the benefits for money with management input, discussed earlier in the report. However, alongside this positive action, angels and other investors will inevitably be looking at future finance priorities. Might we see, for example, a greater emphasis on resilience within companies and their management teams, as part of the decision-making process? Opening dialogue with the investor community on how the crisis may lead to new approaches in their appraisal could be important for future would-be finance seekers.

ADDITIONALLY, THE PANDEMIC MAY HAVE PROMPTED, OR INDEED, ACCELERATED SOME BIGGER AND MORE FUNDAMENTAL SHIFTS IN THE ECONOMY.

Recovery+: Before the crisis sectors such as fintech, digital and creative were proving successful at pulling in investment for business development. Public innovation funding sources were balancing the need to incentivise innovation in areas that were aligned with wider societal challenges and letting the market determine innovation priorities. The need to transition to a net zero economy will come back into sharp focus as government policy gets back to a more 'business as usual' footing. We may see a more significant push in the recovery to support not just business growth, but a particular type of business growth that meets other objectives, such as environmental ones, or firms than can alleviate damage to the labour market. While some drift towards these bigger objectives through the recovery will put policy back on pre-crisis track, there are risks to overshooting and squeezing out resources that could be productively invested in non-priority sectors.

Demographics of the crisis: Research from, for example, the Resolution Foundation point to younger workers currently experiencing much of the pain in the labour market. With uncertainty about university applications, this segment of society could see some of the scarring effects of the crisis. This group, not traditionally the big driver of entrepreneurship, may think more about starting their own businesses. While many of these endeavours will not be anchored to a new or innovative product or service, there could be a new cohort of entrepreneurs, with different support requirements that contribute to reshaping local economies. In the aftermath of this crisis, this could present an important opportunity to think differently about how new ventures from younger entrepreneurs could be nurtured.

New ways of working: For those that can work from home, video calls (select your software of choice) have become a regular feature of most people's working days. This is prompting questions about the end of the office and, possibly more likely, much reduced business travel. On the one hand this might start to reshape towns and cities, creating new working environments and opening up opportunities for new businesses. On the other, as we have climbed the steep learning curve of this new technology, it could offer a route to better facilitate networks and training and support opportunities – overcoming some of the business density challenges that have held back the growth in business accelerators.

This is far from an exhaustive list on where future changes in the business and policy landscape may emerge. To be clear, nor are they forecasts. These may just present small shifts in the types of individuals that become engaged with the innovation process and highlight some possible opportunities for new ways of engaging with firms and the finance community.

CONCLUSIONS AND RECOMMENDATIONS

Throughout this research, the extent of the positive engagement with the project served to highlight a shared ambition to build a strong and dynamic North West economy, to capitalise on current strengths, learn from others and think creatively about supporting high-value, innovative businesses.

Firms that are trying to bring new ideas to commercial success feel anchored in the region and have a stake in the region's future success. There is much to be gained from harnessing this ambition, particularly as all firms face the challenge of economic recovery from coronavirus crisis.

The issues identified in this report are long-standing and will indeed be common across other regions of the UK. There are, however, opportunities for local actions to be taken to move the needle on improving the financing landscape for innovative businesses. Some will require partnership across the region and, at least in the immediate aftermath of this recession, engagement at a national level to effectively support the future engines of growth across the North West.

Businesses of all flavours will need to rebuild their balance sheets, look to new investment partners and many will need to rethink their business strategy in light of a new demand environment. It will be essential that we avoid investment and innovation being put on the back burner as this will have lasting implications for growth, employment and productivity across the region. While the adequate supply of capital to businesses in the region will be part of the recovery and growth story, the conclusions from our research indicate that cash alone will not deliver the change needed.

To that end, our recommendations follow a sequenced logic of securing the business base, capacity building for the future and boosting finance supply. These recommendation do not present a road map, these are designed to identify actions that could make a difference and to understand where policy change is required and where private sector actors need to step in to elicit change.

SECURING THE BUSINESS BASE

We are painfully aware of the significant hit that businesses will have taken in recent months as a result of the global coronavirus pandemic. At time of writing it was unclear how easily firms would bounce back once lockdown restrictions have been completely lifted, but there is already some evidence that sectors should as aerospace and automotive are facing a long road of uncertainty. These industries account for around 5% of the North West's GVA and have been a major contributor to R&D performance over the past decade.

Collaborative engagement with at risk sectors: Innovate UK funding has responded quickly to the risks to innovative activity from the crisis. Significant key industries and supply chains could experience a long hangover from the crisis. Given their vital contribution to the regional economy 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. This approach could also provide a valuable feedback loop, providing insights on long-term shifts in trends such as reshoring, enabling efficient co-design of support.

Business/investor engagement on new normal: Angel and other early stage investors are seeking to work closely with their portfolio of businesses to help them survive and pivot through this crisis. The UK Business Angel Association has, however, noted that some of these networks are unable to plug into the current suite of government support. The recently launched Future Fund from the British Business Bank to support equity-financed companies may require changes to its qualification criteria to underpin the viability of angel networks. Developing links with local networks should be a priority of local policy makers to understand the extent of strains and the possibility for regional flexibility of support through funds such as the Northern Powerhouse Investment Fund. In the coming months, it will also be appropriate to 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. This will be important in helping to shape the expectations of future finance seekers and those that will be looking to secure follow up rounds of finance.

Recovery advice & support: The immediate shock to the economy has passed, but fewer analysts are now expecting the recovery to be swift, acknowledging that sectoral impacts are likely to be varied. As research has identified variable experiences of firms seeking support across the region, there is a need for growth-focused business support to be right first time for businesses. LEPs need a clear strategy to deliver, sign-post or partner with private sector support bodies to ensure the recovery support is well matched with business that came into the crisis with a strong innovation focus. For those parts of the region that are still crystallising their long term approach to business support priorities, this may present a good opportunity to take stock of current innovation active businesses.

CAPACITY BUILDING

Digital delivery of accelerator programmes: With video conferencing a new way of life, the potential for digital delivery of start-up incubator and accelerator programmes should be tested. This should involve cross-region collaboration to build suitable, sector relevant cohorts of businesses. While in the long term the aim should be for private sector delivery of such programmes, the economic circumstances and experimental nature of the approach argues for public funding to get the ball rolling. It may be that support through existing programmes, such as Business Basics, could be an appropriate vehicle.

Investment readiness support: Linked to the accelerator recommendations, there is a pressing requirement to equip innovative business start-ups and scale-ups with better awareness and understanding of their financing options, helping them to zero in on what is most suitable for their circumstances and to understand the optimal timing to be making approaches to investors. This has been an acknowledged weakness in the finance ecosystem across the UK for some time. It is difficult to see when public sector policy makers will have the bandwidth to fully address this. Therefore, the private sector will need to take a lead. This could result in a product that is tailored to local/regional circumstances and provide a differentiator for businesses in the North West. There must also be a clear differentiator between improving management capability more general across SMEs and the investment readiness needs of highly innovative firms.

Regional sector promotion strategy: In line with future evolution of local industrial strategies and whatever the next iteration of those looks like, a 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. This speaks particularly to Liverpool, where a more focused sector narrative could also help to establish more effective business networks and partnerships with the research base.

FINANCE SUPPLY

The provision of funding for innovation will necessarily be a joint endeavour between the public and private sectors, given wider economic benefits and the need to address finance gaps and regional disparities. The latter will continue to persist post-crisis and could become more pronounced, which argues for continuing to make progress on co-investment funding models, particularly outside London.

Focus on finance supply: angel co-investment, seed capital fund: One of the finance supply weaknesses highlighted in this report is the volume of early stage and angel funding. Tackling this remains a priority, but one that is perhaps best addressed once the wider recovery has become firmly entrenched. This will ideally require cross-region working, for instance with the British Business Bank and the Northern Powerhouse Investment Fund to reboot and expand the regional angels programme – a £100m programme is being developed to increase the amount of early stage equity capital and raise the profile and professionalism of angel investment activity.

Pivot from recovery advice to referrals and ecosystem build: Hand in hand with addressing some of the finance shortfalls in the region and building on any new support arrangements implemented through the recovery, some of the foundations should be in place to build a more structured approach to a referrals pipeline of innovative business propositions to finance providers. The work currently being done by Manchester Growth Company should provide a framework that other regions can learn from.

It is vital that an effective referral and engagement system not just thinks locally, but regionally and nationally where necessary.

Investment and digital: One business priority that will return to the spotlight is the need for productivity improvements and harnessing process innovations associated with the fourth industrial revolution. Some positive work is already in train through, for example, the Made Smarter NW Adoption pilot in the North West.

This is an important pilot programme with a focus on productivity improvement through digital adoption. Scaling up and integrating this with the wider ecosystem will be important in sustaining investment, particularly in the dominant manufacturing sector, and to ensuring the sector captures benefits from the net zero transition and supply chain reconfiguration that is likely to be a consequence of the current crisis.

"Before the crisis struck, the Liverpool City Region had the fastest economic growth in England at 3.5% a year and well above average productivity growth. Our innovative growth businesses were central to this. To keep improving on our performance it is clear that these businesses will require varied sources of funding and high quality advice to help them access it. This report is a timely and useful contribution to the debate on how we develop a strong finance and support landscape for businesses as part of building back better."

Steve Rotheram,
Liverpool City Region Mayor

"We know how important it is that Greater Manchester's vibrant and innovative industries are able not only to recover but accelerate to meet the new challenges posed by the current climate. Throughout the crisis we've listened to the voices and experiences of business leaders, working to ensure local businesses can access the support and information they need.

"This work from the North West Business Leadership Team shows the vital role which innovation finance must play. From digital connectivity and decarbonising infrastructure, to manufacturing supply chains and skills training, our response to the pandemic will shape the growth and resilience of our region for years to come. We have an opportunity to build back in a way that's better, fairer, and more prosperous for everyone in the North West, and we cannot afford to miss it."

Andy Burnham,
Greater Manchester City Region Mayor

STEERING GROUP:

Richard Gregory OBE, Senior Advisor, Virgin Money UK PLC and Member of NWBLT (Group Chair)

Emma Degg, Chief Executive, North West Business Leadership Team

Neil Ashbridge, Chair, Liverpool Chamber of Commerce

Sam Booth, Chief Executive, Pro Manchester

Mark Bousfield, Director of Commercial Development and Investment, Liverpool City Region Combined Authority

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