Full Business Case
Business Growth Fund
November 2022

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CONTENTS

INTRODUCTION

Lack of access to funding for small to medium sized businesses has been consistently recognised as a key issue to be overcome in stimulating business growth across Cambridgeshire and Peterborough (C&P), both in the 2019 Cambridgeshire and Peterborough Local Industrial Strategy and now in the 2022 Economic Growth Strategy. This issue is most pressing for businesses outside of the Cambridge City area.

The Economic Growth Strategy also sets out high-growth potential and current key sectors for the region, that should be prioritised due to their ability to contribute and sustain high-quality local jobs. In particular, given the regional need for support to transition to Net Zero, businesses focusing on products and services that contribute to this agenda should also be prioritised.

In the context of this business need and the strategic priorities set out in the Economic Growth Strategy, the CPCA Board recommended a £10m of gainshare funding should be used to support local business growth, potentially through equity investment. At the same time, a mayoral priority was highlighted to also provide funding to third sector companies (socially focused firms that have a business or trading element, as opposed to charitable organisations), in the context of addressing the issues facing residents through encouraging the presence of more compassionate employers, socially responsible employment and tackling inequalities.

This full business case builds on the strategic outline business case approved in July 2022, and a project initiation document (PID) submitted to the CPCA Board in Spring 2022 which was scored and subsequently approved for budget in the Medium-Term Financial Plan (MTFP).

The PID scored very well compared to all other projects against the six keys in the Combined Authority Growth Ambition Statement with an average of 2.8 collated score, where the average for all projects was 2.4 with a minimum of 2 and a max of 3.1.

GVA	Climate Change	All other	Infrastructure	Knowledge	Health	Skills	Social	Finance
4	2	2	2	4	2	4	2	3

The project was ranked joint 9th out of over one hundred submissions.

This full business case further develops the structure, commercial, procurement and management models for the fund.

STRATEGIC CASE

INTRODUCTION

The purpose of this strategic case is to establish the case for intervention and alignment of the proposed intervention to regional policy objectives.

STRATEGIC PRIORITY

The 2022 Cambridgeshire and Peterborough Combined Authority (CPCA) Economic Growth Strategy is clear that accelerating business growth is key to achieving sustained economic renewal and success across Cambridgeshire and Peterborough (C&P). This and other CPCA strategies are also clear that economic growth alone is not the objective; reducing inequality and delivering improvements across all six forms of capital must be core to how and where economic growth is achieved. The purpose of investing in business growth is to support those wider objectives.

The Vision

Cambridgeshire and Peterborough is the place where unique business, natural and research assets tackle world problems whilst creating ***good jobs and healthy lives for all our residents in all our places****. We are globally leading and competitive, and also more equal and sustainable.*

The additional objectives set out in the strategy to achieve this vision are:

- Reduce inequalities
- Transition to a green, low-carbon economy
- Deliver good quality jobs in high performing businesses
- Support better quality skills
- Accelerate local placemaking and renewal

As such, the CPCA aims to see an increase in business growth in a way that balances encouraging growth in high-value sectors, whilst ensuring benefits are felt by the communities and places in the greatest need and prioritising and contributing to local energy transition.

Intervening to support business growth is also aligned with the Sustainable Growth Ambition Strategy's objectives:

- Accelerate business growth; through giving funding opportunities to businesses currently not able to access funding for growth.
- Good quality jobs in high-performing businesses; creating new, quality jobs through enabling faster growth in invested in businesses.
- Accelerate local place making and renewal; offering local 'Levelling-Up' by providing funding for businesses in all three sub-economies, not just in Cambridge.
- Reduce inequalities; creating more jobs and safeguarding existing roles in businesses placed on a more assured financial footing, including in social enterprises that typically offer more inclusive employment opportunities for disadvantaged individuals.
- Ensure transition to green, low-carbon economy; with a targeted funding pot intended to support growth in low carbon technology businesses.

Both of these strategic documents and the priorities and objectives stated within them, are clearly aligned to the current national agendas around encouraging economic growth, reducing inequality or 'Levelling Up' and transitioning to Net Zero.

CASE FOR CHANGE

Challenges facing businesses in C&P

As businesses of all kinds emerge from the combined impact of Brexit and the Covid-19 pandemic, they now face even more fundamental and complex challenges. Recent global events have driven up input costs, in particular with regards to energy and commodities, with inflation also driving up the cost of finance. C&Ps highest value and globally competitive sectors of IT, Life Sciences, Agri-Tech and Advanced Manufacturing are high-input cost businesses and so are feeling the impact of these challenges the most. This has been seen in the rates of turnover growth these sectors, which, outside of Cambridge, was significantly lower in 2021 than in the year previous.

Figure 1: Turnover growth of Knowledge Intensive businesses by district (2020 and 2021) [1].

Authority	Turnover Growth 2020	Turnover Growth 2021
Cambridge	2.1%	8.4%
East Cambridgeshire	15.1%	2.1%
Fenland	2.7%	3.8%
Huntingdonshire	5.8%	-3.3%
Peterborough	7.0%	0.7%
South Cambridgeshire	9.9%	-1.1%

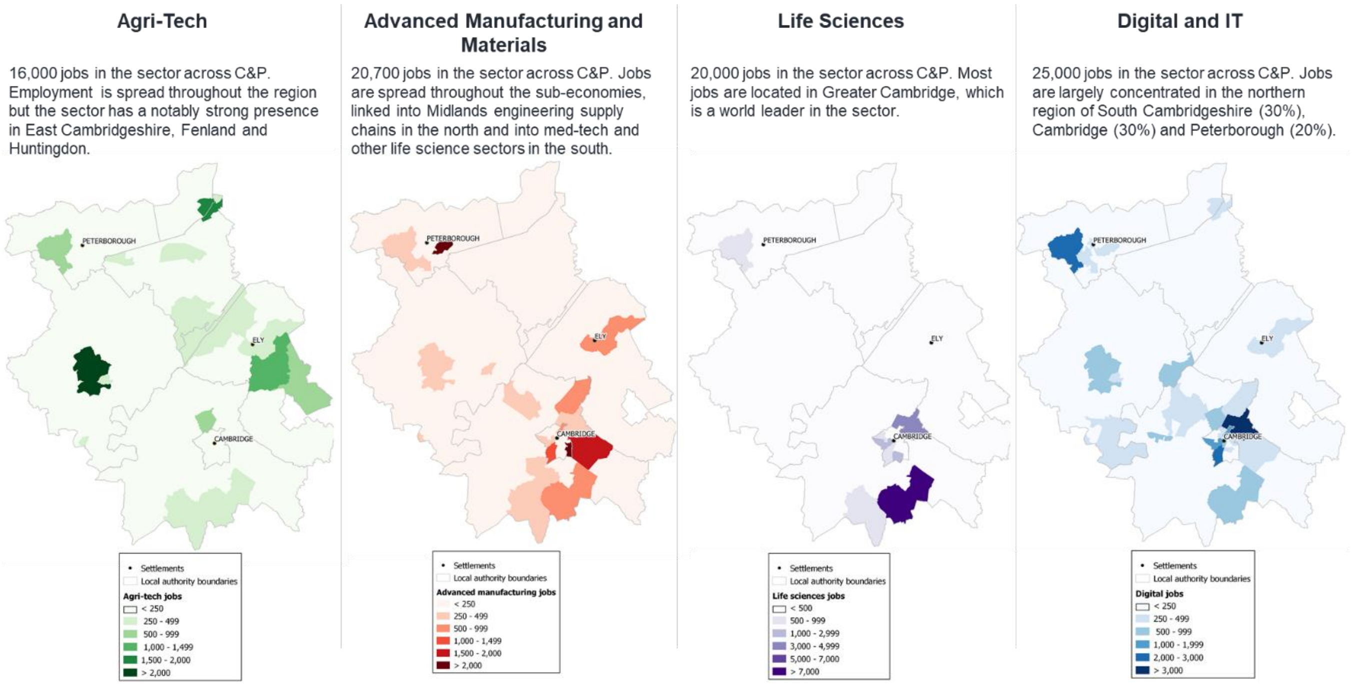
Between 2016 and 2021, turnover growth of knowledge intensive businesses was highest in Cambridge. Investment in businesses outside of Cambridge offers the opportunity to reduce the disparity in growth, unlocking economic and social benefit for the wider area.

Figure 2: Knowledge intensive business turnover growth (2016-21)

[1] Cambridge Ahead – Cluster Insight dashboard

At the same time, high employment but relatively lower paid sectors, including retail, leisure, logistics and care, are also facing pressures from contracting consumer spend, for some increasing costs and labour shortages. The latest Quarterly Economic Survey for the East of England highlights the significance of the labour market challenge, indicating that 80% of manufacturing and 64% of services companies have tried to recruit to positions in the last three months.

Figure 3: Employment in the priority sectors identified in the C&P Independent Economic Review[2]



Overall, the transition to zero carbon is a major priority for all sectors. C&P has an encouraging base of SME businesses focused on developing energy transition innovation and technologies. Examples of this include green engineering in Peterborough, Agri-Tech and water management in The Fens. These firms are key to driving green growth and energy transition locally which is a clear policy priority.

The continued advance towards net zero, although extending across all industries and across broad occupational types, is more acutely felt in those industries which already have a higher carbon footprint and are therefore experiencing rapid transformation as they transition to net zero. Accompanying this transition is growing demand for 'green jobs'. An estimated 10.6% of jobs in Great Britain require upskilling to become green jobs[3]. In Cambridge, this number is lower, at 7%, however there is a disparity with the rest of the C&P area which averages 12% of jobs requiring upskilling, highest in Fenland at 12.5% of jobs.

Furthermore, as the economy and our communities enter a new period of slow or flat growth and residents living standards are under increased pressure, there is a need to ensure that community and social enterprises of all forms (socially focused firms that have a business or trading element, as opposed to charitable organisations) can continue to offer new approaches, products and services that may increasingly fail to secure investment from traditional capital.

Data from the Charities Commission for England and Wales shows 2,300 charities classified as either Education and Training, Arts and Science, Environment and Conservation, or general charitable purposes, operating in C&P. Consultation suggests that some social enterprises and particularly smaller

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[2] *C&P Economic Strategy 2022*

[3] PCAN Just Jobs Tracker 2021

local community groups are unlikely to be registered to this database and so this number is likely to underplay the scale of charities and social enterprises operating in these sectors within C&P.

Current business support provision

The need for equity funding to support business growth has been highlighted across C&P since 2019, when this was noted as an action in the C&P Local Industrial Strategy and continues to be described as one of the top three challenges for businesses last surveyed by the Growth Works business support service in December 2021. Growth Works provide business growth services and funding across the region, currently through a £5.25m local growth fund designated for Equity investment which is due to conclude in 2023. In terms of reach, this fund has a deliberately tight focus on high-growth companies with a proven aptitude for growth and experience of previous support. This is highly consistent with one element of the CPCA economic growth strategy – to drive up the number of scaling businesses.

A European Investment Bank report into SME's access to finance from 2015[4] estimated that 24% of SMEs in the East of England we're 'looking for finance', with this proportion rising to 32% of small businesses (10-49 employees), and 36% of Medium sized businesses (50-249 employees). Medium sized businesses however had the least difficulty accessing finance, with only 30% of those seeking finance reporting difficulties, compared to 50% of micro businesses (0-10 employees), and 39% of small businesses.

At the same time, the ending of wider ERDF support, changing economic pressures and the growing need to support the transition to zero carbon in a much wider section of business and places, suggests that there is a gap in provision that is not being met by existing funding. In terms of private sector funding, the market is good at serving start up and later stage growth firms in and around Cambridge and in established firms more widely but is less effective in reaching smaller and different types or newer firms elsewhere.

Case for intervention

Overall, businesses that are key to sustainable and inclusive economic growth in C&P are facing new and compounding challenges, that risk negatively impacting their growth potential due to lack of funds for investment and inability to recruit staff. In order to sustain momentum and facilitate growth in the key priority and green sectors, there is a case for providing growth funding for those firms that cannot currently access this support.

Given the underpinning cost of living challenges and local place-making priorities set out in the Economic Growth Strategy, there is also a case for supporting businesses with a strong social purpose and inclusive governance and employment approaches, as well as requiring good local employment practices from the key sector businesses mentioned above. The impact of not intervening will be a continued lack of vital funding for businesses that could make an important economic, social and environmental contribution to the local and national economy.

Due to the mix of businesses and organisations being targeted through this intervention, there is a requirement to make available a variety of financial products from the overall £10m amount. Based on evidence from similar sized and scoped funds, this should include equity investment and loans of £100,000 - £500,000 to support business growth and smaller loans or grants of less than £75,000 to support third sector businesses and organisations.

The options appraisal carried out as part of the development of this full business case indicates the best option is two separate funds financed from the overall £10m pot. These funds will provide funding to the two distinct categories of businesses being targeted, as follows:

[4] Using Financial Instruments for SMEs in England in the 2014-2020 Programming Period – European Investment Bank, Regeneris Consulting

- **Fund 1 –** a growth fund aimed at providing equity or debt funding to high growth potential businesses that do not have access to funding from other sources. The first priority sector for Fund 1 will be green-tech businesses.

- **Fund 2** – a fund aimed at providing grants or loans to third sector businesses that do not have access to funding from other sources.

The appraisal of this option as the preferred way forward is set out in the economic case of this full business case.

Policy Alignment

The proposition is aligned with national, regional and local policy objectives to support productivity growth while capitalising on net zero opportunities, and has the potential to support the following policy objectives:

To increase productivity

As part of the Devolution Deal the CPCA has a target to double GVA by 2040 (against a 2015 baseline). The Cambridgeshire and Peterborough Local Industrial Strategy (LIS) (2019) also includes the ambition to create a globally competitive economy and labour market grounded in high-skilled and better-paid jobs, increased productivity, and stronger sustainable communities. The LIS further outlines four priority sectors for future growth - Agri-Tech, Life Sciences, Digital and Artificial Intelligence (AI), and Advanced Manufacturing and Materials.

Business growth and increased productivity is an ambition mirrored across the constituent Local Authorities' Local Plans and Growth strategies.

To achieve net zero

Reducing carbon emissions and transitioning to net zero is a key goal of regional and local climate change strategies. East Cambridgeshire for example declared a climate emergency in autumn 2019, a stance also held by other district councils. The CPCA have a Climate Change Commission with the aim of identifying challenges and opportunities related to achieving a target of eradicating emissions by 2050.

Supporting businesses to reduce carbon emissions through creation of new products or improving business operations is also directly aligned with the ambition set out in the Cambridgeshire & Peterborough Local Economic Recovery Strategy (LERS) to build back better and greener following the Covid-19 pandemic by accelerating high tech jobs and cluster growth, focussing on green, digital and net zero technologies.

At a national level, the 10 Point Plan for a Green Industrial Revolution (2020) sets out the government's ambitious plan to 'build back better', support 250,000 green jobs by 2030 and accelerate the path the net zero by 2050. This includes a £166.5m funding package into green technology to find solutions to decarbonise existing industries. The funding is expected to create an initial 60,000 new green jobs.

To reduce inequality and regional disparity by levelling up and adhering to the principals of inclusive growth

The Cambridgeshire and Peterborough Local Industrial Strategy (2019) highlights the fact that, at the local level, growth within the C&P area has not been evenly spread. There is an opportunity to increase the sustainability and broaden the base of economic growth through the targeted support outlined in this FBC.

Nationally, the government has published the Levelling Up White Paper later with a focus on supporting those at risk of being 'left behind', with skills and knowledge playing a pivotal role. Creating new high-quality jobs in knowledge intensive sectors will increase the accessibility of these roles to local residents.

Stakeholder engagement and support

Following the development of the CPCA Economic Growth Strategy, discussions were held at the Business Board about how to support business growth across C&P. Business Board discussed the concept of a CPCA funded business growth fund, with an aligned fund to support third sector businesses, the latter being a current mayoral priority. During the subsequent development of the PID, SOBC and this FBC, several stakeholders have been engaged, and are supportive of this venture. These are shown in the table below.

Stakeholder group	Engagement and response
Business Board members	Board discussions and informal engagement has indicated widespread support for equity investments to enable business growth.
Providers of similar funds	Informal research discussions with managers and providers of similar sized funds have indicated that the structure, aims and size of the equity fund could make the desired impact.
Political stakeholders	Mayoral priorities indicated earlier in the year and subsequent discussions indicate a key focus on supporting third sector businesses.

Key delivery and strategic partners are:

Stakeholder	Interest area
District and City Councils and LEPs	Strategic partners – role in promoting the funds across business base
Federation of small businesses	Strategic partners – role in promoting the funds across business members
Chambers of commerce	Strategic partners – role in promoting the funds across business members
Business groups / networks	Strategic partners – role in promoting the funds across business members
Sector and trade bodies	Strategic partners – role in promoting the funds across business members
Universities	Strategic partners – role in promoting the funds across business base
UEA consulting	Potential partner – currently delivering Low Carbon Fund 2. Co-investment option as part of Fund 1 for green growth businesses subject to budget and CPCA investment committee approvals.

Engagement with local high growth potential and third sector businesses will take place as part of the establishment of the fund, in the form of market testing.

CLIMATE CONSIDERATIONS

Investment in businesses that provide or are developing products, technologies and services to support transition to Net Zero will in turn make a positive impact on climate and environmental challenges.

SMART OBJECTIVES

The objectives for this intervention are:

- To provide a credible source of growth funding (£100,000 – £500,000) over the next ten years for 20-40 small to medium businesses that cannot otherwise access it, in key sectors including IT, Life Sciences, Agri-Tech and Advanced Manufacturing as well as the emerging green-tech sector.

- To provide a credible source of smaller amounts of funding (up to £100,000) over the next ten years to support local third sector businesses providing new or continued community and social products and services.

- To increase growth of existing businesses from year 5 of the fund in key sectors including IT, Life Sciences, Agri-Tech and Advanced Manufacturing as well as the emerging green-tech sector.

- To increase the creation of new and sustainment of existing jobs and community offers in the next 10 years in areas in C&P which have the highest levels of deprivation and the lowest paying wage levels.

SPECIFIC DELIVERABLES/OUTPUTS

The deliverables below are categorised by those that relate to Fund 1 - equity or loans of £100,000 to £500,000 for business growth funding, and those that relate to Fund 2 - smaller grants or loans of £10,000 - £75,000 for third sector businesses. This further refines the fund structure developed at the SOBC stage. The overall capital funding pot will be focused 75% on Fund 1 and 25% on Fund 2. The below provides just a summary of the products with more detail is provided in the economic, commercial, financial, and management case.

Overall value and timeframe

Fund 1 - The fund will consist of c.£7.125m of gainshare funding available over a 3-year investment period, a timeframe based on best practice to allow for demand generation, investment, and return. Repayment terms will need to be discussed with the applicants, but we assumed 7 years for the loans to be repaid. For equity investment, we assumed a 7 year investment horizon. This means exit after 7 years after making a profit on the investment. The fund will aim to become evergreen after 10 years.

Fund 2 – The fund will consist of c.£2.375m of funding available over a 3-year funding period with similar assumption as Fund 1 for the loans investment and repayment frame.

Administration to cover the 2 fund streams has been set at £500k for the term of scheme.

After the project 10-year duration (3 years investment plus 7 year repayment/ exit period) the fund will have been returned to CPCA for re-investment. The expectation is that funds will be reinvested in further rounds, subject to approval from the CPCA Board at a later date and based on the performance of the schemes. Financial projections have been made in the financial case.

Available products

Fund 1 - The fund will provide equity investments or loans of £100,000 to £500,000 to individual businesses. Research and local examples indicate this amount is the right amount to offer small to medium enterprises[5], to make a return within the timeframe. Amounts of £250,000 and over would require special approval. For the purpose of this business case various financial assumptions have been made to profile loans repayment, interest gained and equity returns (see financial case). For loans, interest rates would be set at the time of approval based on market rates and risk profile of the company.

Fund 2 - Smaller amounts of £10,000 - £75,000 for third sector businesses should be provided as grants or loans, with values of over £25,000 to be offered as loans only.

[5] EIB, 2015. Using Financial Instruments for SMEs in England in the 2014-2020 Programming Period. A study in support of the ex-ante assessment for the deployment of EU resources. Annex Two – Area Overviews, East of England.

Delivery model

Fund 1 – A specialist, dedicated third party fund manager will be procured to administer the fund on behalf of CPCA. This fund manager must have the right experience, systems and processes to manage risk and provide assurance, as well as specialist knowledge of the local high growth potential sectors. The contract with the third-party delivery partner will be managed and overseen by an appointed CPCA in-house fund manager.

Fund 2 – An in-house fund manager will be established to administer this fund, as grants and loans of this size and nature have been delivered by the combined authority and so there is likely to be existing expertise and experience. During the fund design phase, CPCA will explore options for joining the management efforts across the district councils who are delivering or planning to launch similar funds[6]. Co-investment opportunities will also be sought to promote collaboration and maximise the outputs across the region.

Detailed fund managers requirements, roles and responsibilities are set out in the management case of this FBC.

Governance and performance management

CPCA Board will oversee the performance of both funds against the agreed outputs and outcomes. This will require quarterly reporting against agreed KPIs and associated metrics by the third-party fund manager and the in-house fund manager, for review by the board.

An advisory panel or investment committee will also be set up to support the investment decision making for both funds. The panel will be resourced with those who have previous fund management or provider experience, to bring the right level of understanding and challenge.

Fund monitoring

Fund 1 - The public money that will make up this fund warrants a robust approach to describing and managing the expected performance and outcomes from each agreed financing package. This could include building on smart money principles increasingly seen in private funding, to target and monitor the contribution made to social outcomes such as local job creation. As above, performance monitoring information should be provided to the advisory board for review and action on a quarterly basis.

Fund 2 - For third sector businesses, a similarly robust approach to describing and managing the expected outcomes from each grant awarded will be required, to monitor the social impact of the work the grants enable. Performance monitoring information should be provided to the advisory board for review and action on a quarterly basis.

Investment policy (fund 1)

As an intervention fund drawn from public money, there is a need for a clear investment policy. The key components of this policy at this stage are:

- **Market gap –** The fund will target businesses specifically where there is a market gap in growth funding i.e., businesses which cannot otherwise access the funding they require from alternative sources.
- **Sector focus –** The fund will also target high growth potential businesses in the emerging green-tech sector as the first priority, and then key C&P sectors of IT, Life Sciences, Agri-Tech and Advanced Manufacturing as the second priority. High growth potential in this case is defined as businesses with a track record of growth in employment and/or turnover, and a strong business

[6] Cambridge City Council is currently working together with Achievegood and It Takes A City CLT to look at how social impact investment, blended finance and partnership across a range of organisations from the public, private and third sectors can address local challenges including housing and homelessness, inequality, skills and sustainability. The team is currently exploring how to deliver a place-based impact fund to invest in impact-driven third sector organisations alongside aligned grants and other resources to achieve positive socio-economic impact within key communities in Greater Cambridge (reduce inequalities, increase educational opportunities and increase employment chances). This fund could represent good alignment with CPCA fund 2 and opportunities for combined delivery or co-investment approach will be explored.

model with potential for future scalability. Green-tech is defined for the purposes of this fund as businesses providing or creating services, products and innovation that support the transition to Net Zero.

- **Geographical focus –** The market gap requirement means that the investment policy will have a spatial focus, due to the large proportion of current growth funding being available to businesses based in or near the Cambridge area. The Economic Growth Strategy further suggests the need for focus outside of Cambridge to encourage inclusive growth in areas that are less prosperous in the region.
- **Stage of funding** – The fund will predominately offer Seed A funding, as opposed to start-up or stage 2 funding. Insight indicates there is the largest market gap for this stage of funding, and that this stage of funding aligns with the estimated funding amounts of up to £500,000. However, there is a case for start-up stage funding up to this value to be provided through the funding, where this is shown to be required by businesses that fall within then targeted sectors.

Go-to-market approach

A demand generation approach is required to successfully identify and support businesses in the target sectors and geographies, given that many businesses may be in their emerging stages of development. Examples from elsewhere suggest this could include place-based hubs, for example in Peterborough, where fund teams actively engage with the market to raise awareness and identify and target need.

Investor match and co-investment approach

An investor matching approach will be ideally taken for fund 1 equity investments and loans, matching funding for businesses already appraised for investment by another funder to increase growth-enabling funding and improve efficiency. To comply with subsidy control regulations, evidence of a commercial match will be required for equity investments (i.e. evidence that private monies are being invested on same or equivalent terms) and loans must be priced using a reference matrix, to estimate risk. This will ensure that businesses share the risk and are incentivised to invest. Match can include co-investment from other funds and angel investors. For the market gap addressed by this fund, it is expected that the match will mainly come from angel investors as there are only a small number of specialist venture capitalist firms which provide funding this early. Moreover, it is not possible to get commercial banks to match this funding. This will more likely come later once credit record established and profitable.

PROJECT OUTCOMES / IMPACTS

Key project outcomes and metrics are summarised below. These have been informed by the Theory of Change and assessed as part of the Economic case later in this document.

Key outcomes

- Increase in business growth in key sectors, particularly outside of Cambridge where access to funding is more limited
- Creation of jobs in green tech
- Advancement of businesses towards net zero

Key Metrics

- Number of jobs created or retained in high growth potential businesses in CPCA priority sectors including green-tech - Estimated 500 jobs
- Number of jobs created or retained in third sector social enterprises - Estimated 85 jobs
- Number of indirect and induced jobs created in business supply chains and wider economy – Estimated 185 jobs
- Reduction in GHG (tonnes of CO_2 equivalent) – Estimated 9,000 tonnes p.a.
- Turnover growth of businesses in priority sectors
- Financial returns – estimated £9.8m based on financial model

Other linked metrics

- New products created and/or brought to market

- Number of engagements with, and strengthened relationships between, public sector, third and voluntary sector organisations

DESIGNS
Not applicable.

CONSTRAINTS
The fund is constrained by the overall available £10m from gainshare funding, placing an upper limit on loans or investment that can be made through the fund and therefore the stage of investment targeted.

DEPENDENCIES
The success of the fund is dependent on continued support and prioritisation by the CPCA Board, given the potential financial and reputational risks highlighted in the management case.

ECONOMIC CASE

INTRODUCTION

The Economic Case below has been conducted in line with HMT Green Book guidance and:

- identifies a **long-list and shortlist of options** based on factors identified in the Strategic Case
- assesses these options against the critical success factors
- sets out the **costs associated with the shortlisted options** (including private leveraged match)
- describes the approach taken to **identify and quantify the potential benefits** of the shortlisted options
- based on the above, sets out the **benefit cost ratio** (BCR) of the shortlisted options.

APPROACH TO ECONOMIC CASE

Based on the challenges and opportunities set out in the strategic case, a fund targeting high growth potential SMEs (fund 1) as well as third sector businesses (fund 2) has been identified as a proposed solution to address the funding gap facing business in key sector operating across the CPCA area, particularly outside of Cambridge. The objectives of the fund will be to:

- Support the scale up of high growth potential businesses in green-tech and other CPCA priority sectors by addressing the current financing gap (particularly of loans and equity investment in the £100-500k range outside of Cambridge, as discussed in the Strategic Case)
- Support CPCA's transition to net-zero by supporting businesses to create products or develop new business practices which reduce their carbon emissions
- Create and safeguard jobs in the Third Sector, enabling wider social benefits
- Increase productivity in the CPCA by enabling businesses to invest in new technologies and products that they otherwise would not be able to.

CRITICAL SUCCESS FACTORS

The potential options for delivery of the fund must address the rationale for intervention and meet intended objectives and outcomes as stated in the Strategic Case, as well as aligning with local and regional strategies. They must also represent value for money, be deliverable, affordable and commercially viable.

The following critical success factors (CSFs) are used to assess each delivery option:

Strategic fit: How well the option meets needs and service requirements, and the CPCA's spend objectives. The options must address the net zero agenda, sustainable growth and recovery goals, and deliver growth in the green, knowledge intensive, and third sectors.

Value for money: Options must be additional and complementary to wider activity, have the potential to offer public value and represent good use of CPCA investment.

Supplier capacity and capability: Options must be deliverable by potential suppliers. For example, options are likely to be limited if there is a lack of experts to deliver tailored business advice.

Affordability: Options must be aligned with resourcing constraints and be commercially viable e.g., demonstrate robust cashflow projections and match funding availability.

Deliverability: Options must be deliverable within the parameters of the 3-year initial investment timeframe, and there must be sufficient organisational capacity and capability to support this.

OPTIONS ASSESSMENT

A detailed options appraisal was carried out in the preparation of this Full Business Case. A summary of the long-listed options considered are shown in the table below.

Option	Description	Shortlisted?
Do nothing	No action taken beyond existing Growth Works business advice and support provision	**Yes.** Although this option doesn't directly address the funding gaps identified in the strategic case, business advice and support is ongoing through Growth Works (up to end of December 2023) and other regional bodies and there is no specific requirement for the CPCA to provide and additional intervention.
Do minimum	£10m used to expand and extend Growth Works business advice provision	**Yes**. Although this option doesn't directly address the funding gaps identified in the strategic case, business advice could be used to help businesses identify other funding options as well as to offer 1-to-1 advice on scale up, which would address the critical success factors.
Intermediate option 1	£10m distributed as business grants	**No**. Finance gaps for high growth potential scale up identified in the strategic case require equity investment and loans of the scale that grants would not cover. Additionally, there are already existing business grant schemes operating in the area (although not always accessible by third sector organisations).
Intermediate option 2	£10m equity investment fund	**No**. Although this option would address some of the funding gaps identified in the strategic case, third sector businesses and some small businesses are unlikely to require or permissible for equity investment and so this option does not meet the strategic requirements for all prioritised sectors
Intermediate option 3	Mixed equity, loan, grant funding with single delivery vehicle for all funding streams.	**No**. This is a credible option however delivery of all funding streams under one vehicle is a less commercially viable option than in-house delivery of small loans & grants with external management of equity and loan investments.
Intermediate option 4 (Preferred option)	Mixed equity, loan, grant funding with sperate delivery of equity/loans for high growth potential scale up, and loans/grants for third sector	**Yes**. This option meets all the critical success factors and constitutes the preferred option.

Do maximum	This option is a variant of the preferred way forward which includes additional resourcing for an 'investment readiness' function.	**Yes**. This option also meets all the critical success factors and could help reduce the potential default rate of loans/help screen investment options. However, impact on costings are to be further considered in the Financial and Management Cases.

OPTIONS SHORTLIST

The assessment of the long list of options produced the following shortlist:

Option 1 - Do Nothing: Growth Works existing provision

Option 2 - Do Minimum: £10m extension to business advice provision at Growth Works

Option 3 - (Preferred option): £10m mixed fund (equity, grants, and loans) delivered under two funding streams

Option 4 – Do Maximum: Option 3 plus an 'investment readiness' programme

Option 1 - Do Nothing: Growth Works existing provision

The do-nothing option would not require any expenditure and would be the easiest option to deliver given it is a continuation of current provision. It doesn't directly address the needs identified in the strategic case however has been taken forward to shortlist stage as there is no specific requirement on CPCA to provide an additional intervention beyond the baseline so the 'do nothing' approach is a viable option.

Under this option there is not benefit beyond the ability to redeploy the proposed £10m investment elsewhere.

The consequences of the do-nothing approach is set out below:

- Growth Works provision of advice and support is set to end in 2023
- Continued funding gap for capital investment in high growth potential businesses, particularly outside of Cambridge, missing out on large scale productivity benefits accrued through business scale up and investment in new opportunities. This scenario is likely to continue and be exacerbated by current global financial pressures which will put further pressure on the businesses books, reducing likelihood of scaleup investment without support.
- No opportunity to expand focus to include third sector business, missing out on addressing the funding gap for these businesses, potentially losing jobs and vital social benefits in the economy.
- In the long term this option will lead to a continued inequality between Cambridge and the rest of the CPCA as discussed in the strategic case.

Overall appraisal score against CSFs: **11**

Option 2 - Do Minimum: £10m extension to business advice provision at Growth Works

This option would involve providing advice to businesses in the target sectors, including key sectors, green-tech and the third sector, to support them to overcome challenges, seek investment or implement new ways of working to grow their businesses.

One key benefit of this approach is that CPCA currently commissions Growth Works to provide business advice as part of the package of measures aimed at encouraging business growth in the area. As such, there is an existing delivery model that could be used to provide further and increased growth advice to local businesses in the target sectors.

Additionally, ERDF evaluation of the unit cost of job creation through public investment[7] showed that lower intensity business support schemes, such as that suggested under this option, have a lower cost per job created than more intensive capital schemes. This would suggest that there is potential for more jobs to be created/safeguarded under this option than other options. However, the evaluation report also suggests that this type of project comes with a high level of displacement (businesses could seek advice elsewhere) and so the value for money is reduced.

Challenges of this option are set out below:

- Under this option there is no ability to leverage private investment to support further job creation and innovation which would lead to further growth.
- Feedback from businesses and other intelligence suggests that advice only will not be sufficient to overcome the significant barriers to growth facing businesses, such as high input costs and labour market challenges.
- The provision of business advice does not offer the potential for financial returns which could be reinvested to support further businesses, and therefore represents reduced value for money.
- Given the range of sectors that will be targeted, it could be challenging for any current provider to have in depth knowledge and expertise to advise the breadth of key sector companies, green-tech and third sector businesses.
- Provision of business advice with a growth focus may not meet the requirements of some third sector businesses looking for lower-level funding which may not be intended to support growth.
- Business advice would be more challenging to monitor in terms of wider impacts such as job creation.

Overall appraisal score against CSFs: **12**

Option 3 - (Preferred option): £10m mixed fund (equity, grants, and loans) delivered under two funding streams.

Based on the options appraisal scores, this option has been taken as the preferred option as it addresses all the critical success factors, particularly by offering the ability to target all the sectors and business types addressed in the Strategic Case.

Equity investment is likely to be sought by high growth potential firms in key sectors and from the green-tech sector, including those looking for Seed A funding to promote growth. As such, this option would meet the requirements of the strategic case for these key sectors.

Grant funding is likely to be sought by third sector businesses which, although not offering the same financial returns as equity and loans, still support job creation and safeguarding in the third sector as well as supporting a wide array of social returns through their work helping local communities.

By offering a **mix of funding options** this option therefore targets all sectors identified in the strategic case.

High value for money as offers the potential for financial returns over time to be reinvested in the fund, and so could continue to support businesses within the CPCA.

[7] England ERDF Programme 2014-20: Output Unit Costs and Definitions

Under this option the £10m (£9.5m capital, £0.5m revenue) will be split into two funding streams:

Fund 1 *(£7,125,000 capital for investment):* which will provide equity and loan investments to high growth potential businesses in green-tech and other priority sectors

- Managed by an external fund manager
- An indicative split of 70% equity and 30% loans has been set for this fund, subject to market testing performed at fund creation stage by the fund manager
- Loans or Equity investments between £100-500k
- Investments will match up to 50% of eligible project costs
- Returns will look to be reinvested in the fund as further funding rounds or follow up investments.

Fund 2 *(£2,375,000 capital for investment)*: which will provide loans and grants to support third sector businesses

- Managed internally by CPCA
- Indicative split of 70% grants and 30% loans subject to market testing performed at fund creation stage by the fund manager
- Loans or grants between £10-75k
- No requirement for a business to match the funding
- No returns from grants but returns from loans will again look to be fed back into the fund

It is proposed that the investments under both funds are made over an initial three year period. A full breakdown of indicative costs is set out in the Financial Case.

The equity and loans fund will be designed in detail once the external fund manager has been appointed.

Challenges of this option include:

- Delivery of this option is more complicated as there are multiple types of funding stream to manage using different skills and expertise. Fund management company fees may exceed the allocated revenue budget so a percentage of returns may have to be agreed upon at procurement stage to cover excess costs.
- There is a risk that this fund has too broad an offer, and so is not fully understood and taken up by the market.

A full risk register is included in the “Risk Management Strategy” section of the Management Case.

Overall appraisal score against CSFs: **15**

Option 4 - Do Maximum: Option 3 plus investment readiness programme

This option is functionally the same as option 3 except that it also includes provision of an ‘investment readiness programme’ which would deliver business training activities on subjects such as: investment processes, how to raise private sector funds, how to raise business financial credibility, etc. This type of programme has been successful in increasing applications and application successfulness to other investment fund implementations (such as UEA Low Carbon Fund 2) to support small businesses new to the investment process, which otherwise may not apply, or be unsuccessful.

This programme would require an additional 1 to 2 specialist business advisors to deliver the activities and so represents an additional cost beyond the current revenue funding availability. Within this FBC this ‘investment readiness programme’ is discussed as an optional additional resource to the preferred option, subject to further revenue resources becoming available and evidence of need following market testing at the fund creation stage.

Overall appraisal score against CSFs: **14**

Shortlist options appraisal scores against critical success factors (scored 0 to 3)

	Meets spending objectives	Strategic fit	Offers VfM	Supplier capacity and capability	Deliverability	Affordability	**Total**
Option 1 - Do nothing: Existing Growth Works provision	1	0	3	1	3	3	**11**
Option 2 - Do Minimum: Targeted business advice through extension to Growth Works provision	2	2	2	2	2	2	**12**
Option 3 - (Preferred option): £10m mixed fund delivered under two funding streams	3	3	3	2	2	2	**15**
Option 4 - Do Maximum: Extend Option 3 to include investment readiness programme	3	3	3	2	2	1	**14**

APPRAISAL SUMMARY TABLE

The Outcome Profile Tool has been used to further assess the business case. The use of the Appraisal Summary Table will be considered for the individual investments as the project progresses.

OUTCOME PROFILE TOOL

Sustainable Growth Outcomes	**Economic Growth**	**Climate and Nature**
Project outcomes	183 net new direct jobs in high growth potential businesses in CPCA priority sectors (including green-tech) 31 net new jobs created/safeguarded in the thrid sector 134 net indirect and induced jobs created in business supply chains and wider economy.	25,000 tonnes reduction in carbon emissions
Project outputs	Investment in green/knowledge intensive businesses Investment in third sector organisations	Reduction in GHG output of businesses Creation of new green products
Project measures	Employee jobs by district and by industrial code Employment in sector by district	Total Carbon Dioxide Emissions by district
Limitations	The project measures listed above can be considered alongside investment by investment monitoring data.	Data directly from businesses about emissions can be compared to the district data. The benefit assosciated with uptake of green products released to market is harder to measure and will need to be considered on a project by project basis.

LOGIC MODEL

Rationale	Activities	Inputs	Outputs	Outcomes
• Evidence of funding gaps in the £100k-500k range for high growth potential businesses • Challenge for Third sector enterprises to access funding • General disparity in funding between Cambridge and rest of the CPCA • Higher proportion of jobs outside Cambridge in need of up-skilling to address net zero / green targets	Fund 1: supporting high growth potential businesses, enabling them to: • Scale up • Reducing carbon output • Up-skilling of workforce to address green skill needs • Product creation to meet green targets Fund 2: supporting businesses in the third sector to achieve social and inclusive growth outcomes	• £10m Investment Fund • Private leveraged match funding under Fund 1 at 50% of project cost	• Number of businesses supported • Number of new direct jobs created • Number of jobs safeguarded • Number of induced and indirect jobs created • Number of workers taking part in training • Reduction in carbon emissions • strengthened relationships between public sector and third/voluntary sector	• Increased employment in CPCA priority sectors including green-tech. • Increase in GVA across CPCA • Increase in business scale up and turnover • Increased private investment • Progresses towards net zero

ECONOMIC ASSESSMENT

The assessment of economic benefits vs costs has been undertaken in line with the best practice principles set out in HM Treasury Green Book and DLUHC Appraisal Guidance.

Assumptions

- Allocation of £10m (£0.5m of which is set as revenue for management of the funds under Options 3 and 4)
- All benefits have been adjusted to reflect current prices based on the discount rate of 3.5% in line with standard HMT Green Book guidance
- An appraisal period of 10 years has been used, starting in 2023/24
- Under all options, spending is assumed to occur over the initial 3 years of the appraisal period with employment and emission related benefits accruing equally over years 3 to 10.
- Persistence of 3 years has been applied to employment related benefits.
- Assumed private leveraged match equal to investments made under Fund 1 (i.e. public investments will fund up to 50% of project costs)
- Estimated returns from loans and equity investments are considered in line with the financial model set out in the Financial Case.
- Additionality (deadweight, displacement, and leakage) have been considered and applied in line with BEIS additionality guidance.

ECONOMIC COSTS

The economic appraisal undertaken in this Economic Case is based on the £10m allocation set out in the SOBC.

Option 1 Costs - Do Nothing: Growth Works existing provision

Under this option there are no associated additional costs beyond the do-nothing scenario.

Option 2 Costs - Do Minimum: £10m extension to business advice provision at Growth Works

Under this option, £10m would be used by Growth Works to extend and expand their business advice provision, with a particular focus on CPCA priority sectors.

Option 3 Costs - (Preferred option): £10m mixed fund (equity, grants, and loans) delivered under two funding streams.

Full details of the capital and revenue costings of this option are provided in the Financial Case. A summary is shown below.

The fund cost has been set at £10m in line with affordability and value for money expectations, and based on consultations which, combined with research outlined in the Strategic Case, highlighted the scale of need in the proposed target sectors.

Given the nature of an investment fund and the set allocations involved, it is not likely that the costs will increase. However, for the purpose of demonstrating the robustness of the case for investment, a sensitivity analysis of costs and benefits is also considered in the benefit cost ratio section later in the Economic Case to highlight the resilience of the value for money of this project to changes in costs or expected benefits.

Summary fund costings

Under this option, the gross capital cost is £9.5m and the gross revenue cost is £0.5m for a total cost of £10m. This cost is based on the costing agreed at SOC stage.

Revenue costs include management costs for both fund 1 and fund 2. Options for management of the funds and preferred management way forward are described in the commercial case and include:

- In-house management
- Procuring a supplier from an existing Framework
- Using the existing procured contract with Growth Works
- Procuring a fund manager via a competitive tender process.

For the purpose of the economic case, we assumed a maximum fixed revenue budget of £0.5m for revenue costs (to include management fees and/or internal staff salaries/growth works services).

Capital costs are split into two funding streams:

- Fund 1 (£7,125,000 capital for investment): which will provide equity and loan investments to high growth potential businesses in green-tech and other priority sectors
- Fund 2 (£2,375,000 capital for investment): which will provide loans and grants to support third sector businesses

It is proposed that the investments are made over an initial three year period. A summary of the capital cost splits by fund and by year is set out below.

Fund 1: High growth potential businesses in green-tech and other priority sectors

	Total	FY 0 (2022 /2023)	FY 1 (2023 /2024)	FY 2 (2024 /2025)	FY 3 (2025 /2026)
Equity (70%)	**£4,987,500**	£0	£1,496,250	£1,745,625	£1,745,625
Loan (30%)	**£2,137,500**	£0	£641,250	£748,125	£748,125
TOTAL	**£7,125,000**	£0	£2,137,500	£2,493,750	£2,493,750

Fund 2: Supporting the third sector

Grant (70%)	**£1,662,500**	£0	£498,750	£581,875	£581,875
Loan (30%)	**£712,500**	£0	£213,750	£249,375	£249,375
TOTAL	**£2,375,000**	£0	£712,500	£831,250	£831,250

Returns from loans and equity investments based on the details and assumptions of the Financial Model set out in the Financial Case are as shown below:

	FY 1 (2023 /2024)	FY 2 (2024 /2025)	FY 3 (2025 /2026)	FY 4 (2026 /2027)	FY 5 (2027 /2028)	FY 6 (2028 /2029)	FY 7 (2029 /2030)	FY 8 (2030 /2031)	FY 9 (2031 /2032)	FY10 (2032 /2033)
Loans	£51,629	£186,194	£353,068	£463,973	£490,940	£490,940	£490,940	£387,683	£221,808	£53,935
Equity								£1,985,882	£2,316,862	£2,316,862
Total	£51,629	£186,194	£353,068	£463,973	£490,940	£490,940	£490,940	£2,373,565	£2,538,671	£2,370,797

Option 4 Costs - Do Maximum: Option 3 plus investment readiness programme

This option is functionally the same as option 3 with the same capital costing breakdown except that it would also include provision of an 'investment readiness programme' which would need to be an additional revenue cost subject to further revenue resources becoming available and evidence of need following market testing.
For the economic assessment, an estimated additional revenue cost of £250,000 has been applied to this option to cover for business advisors' salaries to deliver the investment readiness programme.

Comparison of costs (assuming the costs of option 1 are zero):

	Option 2 - Do minimum	Option 3 - Preferred Option	Option 4 – Do maximum
Capital costs			
Capital – Gross	£10m	£9.5m	£9.5m
Capital – Net (gross capital minus income from loans and equity)	£10m	£-0.31m	£-0.31m
Capital – PVC (Costs adjusted to present value using 3.5% discounting p.a.)	£9.3m	£1.37m	£1.37m
Revenue costs			
Revenue - Gross	-	£0.5m	£0.75m
Revenue – PVC (Costs adjusted to present value)	-	£0.45m	£0.66m
Total costs			
Total – Gross	**£10m**	**£10m**	**£10.25m**
Total – PVC	**£9.3m**	**£1.8m**	**£2.1m**

ECONOMIC BENEFITS (INCLUDING ASSESSMENT OF DEADWEIGHT, DISPLACEMENT, AND LEAKAGE)

The benefits included in this section are:

- Jobs created/safeguarded through business scale up of high growth potential businesses
- Private sector funding leveraged as match under Fund 1
- Reduction in carbon emissions through funding of green-tech related businesses and projects
- Business supported in the third sector safeguarding and creating jobs
- GVA growth in CPCA
- Indirect and induced jobs created in supply chains and wider economy as a result of business growth.

Summary of benefits shown **after the application of additionality** (deadweight, displacement, leakage)
Note, it is assumed that option 4 – do maximum has the same benefits as option 3 – preferred option

Benefit Category	Description	Option 2 – Do minimum	Option 3 – Preferred option
Employment	Direct jobs created / safeguarded through business scale up and business support	**84**	**214** Fund 1: 183 Fund 2: 31
Employment	Indirect and induced jobs created in supply chain and wider economy	**52**	**134** Fund 1: 115 Fund 2: 19
Environmental	Reduction in Carbon emissions	-	25,283 tonnes (Fund 1)

These benefits directly relate to the strategic case as they relate to jobs created and safeguarded in the sectors identified as facing challenges with funding availability, and meeting net zero targets.

There are also monetary returns related to income from loans and equity investments, this has been taken into account in the 'Economic costs' section.

Benefit 1: Direct jobs created

The **additionality assumptions applied to direct jobs** created is shown below:

Direct jobs additionality assumptions (Option 2)		
Deadweight	47.2%	In line with BEIS additionality guide sub-regional averages for 'Business development & competitiveness' interventions.
Displacement	75%	ERDF programme evaluation highlighted high levels of displacement associated with lighter touch business support schemes. Given that other advice services operate in the area currently it would be expected that a high proportion of resulting benefit would be displaced.
Leakage	16.3%	Although businesses benefitting from advice would be within the CPCA, some resulting jobs may be filled by people living outside the CPCA so leakage has been applied in line with BEIS additionality guide sub-regional averages for 'Business development & competitiveness' interventions.

Direct jobs additionality assumptions (Option 3 & 4)		
Deadweight	47.2%	Robust appraisals of business case applications will take place to reduce deadweight but for the economic appraisal a conservative estimate of deadweight has been applied in line with BEIS Additionality guide sub-regional averages for 'Business development & competitiveness' interventions.

Displacement	19.5%	Given the identified lack of funding available in the proposed range it is appropriate to apply displacement in line with BEIS Additionality guide sub-regional averages for 'Business development & competitiveness' interventions.
Leakage	16.3%	Although businesses benefitting from the grants, loans, and equity investments would be within the CPCA, some resulting jobs may be filled by people living outside the CPCA so leakage has been applied in line with BEIS Additionality guide sub-regional averages for 'Business development & competitiveness' interventions.

The methodology applied to calculate and monetise **direct job-related benefits**, and the total NPV of the benefit for each option is shown below:

Rationale:	MHCLG appraisal guidance recognises the GVA impact that creation of a job has on the local economy.		
Method:	Gross unit cost of job creation estimates were sourced for each option from England ERDF programme evaluation[8]. For option 3 – preferred option, the gross cost of capital investment schemes was used and for Option 2 – Do minimum, the gross cost for advice-based business support schemes was used. Applying additionality as shown in the tables above resulted in 84 net direct jobs under option 2 and **214 net direct jobs under the preferred option** (of which 183 are attributable to Fund 1 and 31 are attributable to Fund 2). These jobs were then monetised based on the average output per job sourced from ONS regional labour market statistics for the East region.		
Persistency of benefit:	3 years		
Value:	Option 2 – Do minimum £13,398,126	Option 3 – Preferred option £34,203,007	Option 4 – Do maximum £34,203,007

Benefit 2: Indirect and Induced jobs

100% additionality was applied to indirect and induced employment as it was calculated based on the direct job numbers with discounts for deadweight, displacement, and leakage already applied.

The methodology applied to calculate and monetise **indirect and induced job-related benefits**, and the total NPV of the benefit for each option is shown below:

Rationale:	DHLUC Green Book guidance recognises the wider impacts that an increase in employment has on the economy, in particular the creation of indirect jobs in the supply chain and induced jobs in the wider economy.

[8] England ERDF Programme 2014-20: Output Unit Costs and Definitions

Method:	Type 1 (indirect) and Type 2 (induced) employment multipliers were sourced from the Scottish Supply, Use, and Input-Output tables (2018), taking an average across green-tech, research, and other professional services. This gave a Type 1 multiplier of 1.4 and Type 2 multiplier of 1.6. Applying this to the direct jobs identified above gives an additional 52 indirect and induced jobs under Option 2, and **134 indirect and induced jobs under Option 3 – preferred option** (of which 115 are attributable to Fund 1 and 19 are attributable to Fund 2). These jobs were then monetised based on the average output per job sourced from ONS regional labour market statistics for the East region.		
Persistency of benefit:	3 years		
Value:	Option 2 – Do minimum £8,380,023	Option 3 – Preferred option £21,392,693	Option 4 – Do maximum £21,392,693

Benefit 3: Reduction in carbon emissions.

The **additionality assumptions applied to carbon reductions** is shown below:

Direct jobs additionality assumptions (Option 2)		
Deadweight	47.2%	In line with BEIS additionality guide sub-regional averages for 'Business development & competitiveness' interventions.
Displacement	19.2%	In line with BEIS additionality guide sub-regional averages for 'Business development & competitiveness' interventions.
Leakage	16.3%	In line with BEIS additionality guide sub-regional averages for 'Business development & competitiveness' interventions.

The methodology applied to calculate and monetise **carbon reduction related benefits**, and the total NPV of the benefit for each option is shown below:

Rationale:	DHLUC Green Book guidance recognises impacts that a reduction in carbon emissions has on the environment.
Method:	Data from the project evaluation of the Low Carbon Investment Fund was used to calculate the amount of carbon reduction created per £ spent. This value was then applied to an indicative spend of 30% of Fund 1 of the preferred option going directly towards green-tech related projects seeking to reduce carbon emissions through development of new products/business practices and supporting transition to net zero. Applying the additionality assumptions shown above results in a **net reduction in carbon emissions of 25,283 tonnes under option 3 – preferred option.** This was monetised using the Green Book carbon price per tonne of £241. Given Option 2 – Do minimum has no direct investment in green-tech, no carbon reduction has been attributed to it.

Persistency of benefit:	1 year		
Value:	Option 2 – Do minimum £0	Option 3 – Preferred option £6,093,304	Option 4 – Do maximum £6,093,304

SUMMARY BENEFITS TABLE

A summary of the monetised value of the benefits of each option is shown in the table below. The final row shows total benefits in today's prices (Net Present Value – NPV).

Benefit	Option 2 Do minimum	Option 3 Preferred option	Option 4 Do maximum
Direct jobs	£13,398,126	£34,203,007	£34,203,007
Indirect and induced jobs	£8,380,023	£21,392,693	£21,392,693
Carbon reduction	£0	£6,093,304	£6,093,304
Total benefits	£21,778,150	£61,689,004	£61,689,004
Total benefits (PVB)	**£16,884,491**	**£47,990,592**	**£47,990,592**

BENEFIT COST RATIO

Analysis of the costs and benefits as described above, and in line with HMT Green Book and DHLUC guidance over a 10-year appraisal period, result in the BCRs shown in the table below.

Please note that since Option 1 – 'Do nothing' does not directly yield any additional benefits or incur any costs it is not included in this table.

	Option 2 - Do minimum	Option 3 - Preferred Option	Option 4 – Do maximum
NPV Benefits	£16,884,491	£47,990,592	£47,990,592
NPV Public Costs	£9,322,638	£1.8m	£2.01m
NPV Private Costs	-	£6.64m	£6.64m
Total NPV costs	£9,322,638	£8,474,017	£8,707,083
BCR	**1.81**	**5.66**	**5.51**

The preferred option delivers a Benefit Cost Ratio of **5.66**, the highest of all options considered. This represents a very high return on investment according to government guidance and benchmarks which defines the value for money (VfM) category as:

BCR	Value for Money
Less than 1.0	Poor
Between 1.0 and 1.5	Low
Between 1.5 and 2.0	Medium
Between 2.0 and 4.0	High
Greater than 4.0	Very High

Value for money must be considered alongside the 'do minimum' reference case which yields a BCR of 1.81 compared to 5.66 of the preferred option. This disparity is attributable to fewer net jobs created, lack of financial returns which offset the initial investment cost, and lack of carbon reduction associated with the ‘do minimum’ option.

The ‘do minimum’ approach would also result in an ongoing absence of funding opportunities for businesses in the green-tech, knowledge intensive, and third sector, particularly outside of Cambridge, and especially as some existing funding streams come to an end. The ‘do minimum’ option misses out on the opportunity to reduce inequality in access to finance across the CPCA, enhancing priority sectors through boosting employment opportunities as well as creating extensive social benefits.

Option 4 – Do maximum also yields a strong BCR of 5.51. This shows that if additional revenue funding for an ‘investment readiness’ programme was to be made available, the extension of option 3 to include the programme would still yield very high value for money. There is also the chance that, as described earlier, were the programme to increase yields from loans and equity investments, the BCR for this option would also increase.

SENSITIVITY ANALYSIS:

Sensitivity tests were carried out to test how sensitive the BCR of the preferred option is to cost increases or reduced benefits from the expected level of the project. Although, given the set costings, an increase in cost as shown in the tests below is unlikely, the sensitivity test are still useful to understand the robustness of the BCR.

Sensitivity test 1: Reduction of 25% of benefits

Sensitivity test 2: Increase of 25% of costs for both public and private sector

Sensitivity test 3: Reduction of 25% of benefits and increase of 25% of costs

The results of these tests are shown in the table below:

Sensitivity analysis	Core scenario	Sensitivity test 1	Sensitivity test 2	Sensitivity test 3
BCR	**5.66**	**4.25**	**4.53**	**3.40**

Switching analysis shows that given the cost remains at £10m, the benefits of the preferred option would need to reduce by 65% to yield a medium VFM (BCR less than 2).

The results of sensitivity analysis combined with the options appraisal show that, even allowing for significant downside risks, the preferred option outperforms other options. A strongly positive net present value and BCR is sustained for the project even if the benefits of the project were to be significantly reduced. Even under such a scenario there remains a strong economic case for completing investment in the project in line with the preferred option.

NON-QUANTIFIABLE BENEFITS

Overall, this project delivers significant economic and social value through job creation and safeguarding both in the green, and knowledge intensive sectors, but also in third sector social enterprises, as well as advancement of C&P towards net-zero.

Wider non-monetised benefits of this project include:

- Increased engagements with, and strengthened relationships between, public sector, third and voluntary sector organisations.
- New products brought to market by supported businesses

- Social return on investment through support of third sector organisations to enhance their community offer.
- Reduced inequality between Cambridge and wider C&P both of business' access to finance and people's access to high quality jobs.

COMMERCIAL CASE

INTRODUCTION

The objective of this commercial case is to set out the procurement options, preferred option and procurement strategy for the fund set out in this business case, in particular for Fund 1. The commercial model is described in the financial case of this document.

PROCUREMENT OPTIONS

Fund 1

The options that have been considered for Fund 1 are shown in the table below. Option 5 is recommended due to the specialist skills and experience required, however feedback from key stakeholders indicates that option 4, to utilise the existing contract with Growth Works could also be viable. A final decision should be taken once the tender or contract specification is finalised.

#	Option	Response
1	Do nothing	This option is not recommended as the needs highlighted in the strategic case of this business case would not be met.
2	Manage the fund in-house	An in-house delivery model was considered, but not recommended. This is due to the high level of specialist expertise and experience required.
3	Procure a supplier from an existing Framework	No existing framework agreement has been identified with a relevant supplier, and so this option is not recommended.
4	Use the existing procured contract with Growth Works	The current contract allows a maximum of £80m of additional contracted spend on activity with Growth Works. This option is not recommended as the future service provision has a broader focus on high growth and green tech companies than the current Growth Works offer.
5	Procure a fund manager via a competitive tender process	This option is recommended to provide the best outcome given and specialist and expert nature of the services required from the delivery partner.

Fund 2

It is recommended that Fund 2 is managed in house, due to existing capabilities. The delivery and related procurement options are shown in the table below.

#	Option	Response
1	Do nothing	This option is not recommended as the needs highlighted in the strategic case of this business case would not be met.
2	Manage the fund in-house	This option is recommended as there is likely to be existing capacity and capability to manage this fund in-house, based on similar grant programmes having been delivered in recent years.
3	Procure a fund manager via a competitive tender process	This option is not recommended due to the likely existence of the required skills and experience to deliver this fund in house, and the associated additional cost that this would incur.

PROCUREMENT STRATEGY

As above, it is recommended that CPCA will carry out a competitive process to identify and commission the right fund partner to manage Fund 1, in accordance with the requirements set out in this business case. This will follow the standard CPCA procurement process, using the key activities and timeline shown in the table below. No procurement process is necessary for Fund 2.

Procurement timeline – Fund 1		
Draft ITT	Nov-22	Nov-22
Invitation to tender	Dec-23	Dec-23
Tender period	Jan-23	Feb-23
Tender evaluation	Feb-23	Feb-23
Approval to proceed	Feb-23	Feb-23
Contract awarded / Appointment of fund partner	Mar-23	Mar-23

An anecdotal assessment of the market suggests there are some specialist suppliers currently operating in the local and regional market, with current or recent experience of managing similar funds. The intention is to ensure that suitable suppliers are identified, and the supplier appointed has the expertise and competence to deliver the requirements of the project. It is also necessary to ensure that the procurement process is undertaken in accordance with the proposed timeframe to meet political and board level expectations, and to make a positive impact on businesses experiencing barriers to growth. To this effect, the opportunity will be advertised via the CPCA procurement portal. Any existing suitable organisations identified will also be informed of the opportunity to tender to maximise the likelihood of a successful outcome.

High-level contract specification

At a high-level, the following requirements would be made of the fund manager. The fund manager be required to ensure full FCA compliance in managing the fund and be responsible for:

- Sourcing investment opportunities
- Support to businesses in developing viable business/investment propositions
- Evaluating applications
- Due diligence and business case preparation
- Investment appraisal
- Investment decision making and allocating funds
- Valuation services (as required)
- Portfolio and fund management
- Performance monitoring

Procurement of an appropriate fund partner would consider:

- Ability to mobilise and commence on-lending to SMEs quickly following appointment;
- Management team and key personnel, recent and relevant experience and successful track record in fund management, including SME Loan book;
- Loan origination strategies such as:
- Structure and location of the management, origination and portfolio management team;
- Track-record of ability to originate loans;
- Expected drawdown profile;
- Pipeline of near-term lending opportunities; and

- Approach to portfolio diversification and risk management.
- Proposals that evidence robust and tested systems and processes are in place for making and managing loans (e.g., documentation, back-office systems, monitoring and governance arrangements, management information reporting).
- Proposals demonstrating the following are in place:
    - Appropriate permission, registrations and authorisations;
    - Capacity to carry out due diligence and anti-money laundering checks to applicable legal and regulatory standards;
    - Systems, controls and procedures for identifying making investments and controlling risks; and
    - Reporting systems and compliance with GDPR.
- Information submitted on:
    - Expected gross and net annual return
    - Details of any expected costs and fees charged
    - Evidence that any proposed fees or costs are commensurate with market rates
    - How the fee structures clearly and appropriately align the interests of CPCA
    - Protection and recovery of the CPCA's investment in the event of default
- Additional benefits and added value in areas such as:
    - Social value outcomes
    - Thinking skills
    - Apprenticeships
    - Opportunities for care leavers
    - Getting targeted age groups back into work

Contract management

The fund manager will have a direct operational relationship with CPCA Economic Development team. On behalf of the fund advisory board, a dedicated fund manager from this team, who will also fund manage Fund 2, will oversee the operation of the contract, carry out monitoring of the agreed workplan, milestones and targets, administer quarterly performance reviews with the fund manager, provide relevant reports to the board, and ensure that recommendations of the board are implemented. The initial term of the contract will be for 3 years.

Mobilisation Arrangements

Whilst the contract will be awarded in early to mid-March 2023, the contract start date is anticipated to be on or before 1 March 2023, factoring in discussions, pre-inception meetings and other such clarifications.

Existing policies

The following existing policies will be embedded into the procurement strategy.

Social Value

CPCA is committed to maximising the social value benefits available from its commissioning and procurement activities. All CPCA procurements shall always include forthwith as of the date of the current procurement policy version (November 2021) a criterion regarding social value requirements compliance. The third-party delivery partner is expected to ensure that its contract delivers positive impacts and outcomes by:

- Supporting local employment and maximising the employment generated for CPCA residents
- Supporting local businesses and local business growth
- Embedding and promoting good governance and working with the CPCA's other Strategic Partners

Additionally, and in line with the Authority's commitments for accreditation as a Living Wage Employer by the Living Wage Foundation, all CPCA procurements shall always include forthwith as of the date of the current procurement policy version (November 2021) a criterion regarding Real Living Wage[9] compliance and this criterion shall receive the maximum weighting permitted by current legislation, to the reasonable assessment of the procurement and legal teams.

Innovation

CPCA is committed to maximising the benefits available from its commissioning and procurement activities and will encourages delivery solutions which includes innovation as a means of providing added value services, including actions to promote a sustainable equity and loan fund beyond the funding period. The third-party delivery partner is expected to include details of innovation and financial sustainability methods as far as possible and demonstrate how it can be achieved.

Net Zero

Subject to all requirements in Chapter 16 (paragraph 25) of the CPCA Constitution and in the spirit of recent drive of the UK government for environmental protection as an increasingly important criterion for public procurements, all CPCA procurements shall always include forthwith as of the date of the procurement policy (November 2021) a criterion regarding Net Zero[10] compliance and this criterion shall receive the maximum weighting permitted by current legislation, to the reasonable assessment of the procurement and legal teams.

Equality Impact Assessment

An Equality Impact Assessment will be completed at the procurement stage to ensure that the third party complies with CPCA requirements on Public Sector Equality Duty under the Equality Act 2010. The third-party delivery partner will be assessed for compliance to meeting the CPCA range of measures including Equality and Diversity, this being part of the Due Diligence process that will be undertaken independently on every project prior to being confirmed with any funding approval. The contract will contain obligations to provide and maintain compliance to statutory requirements including but not limited to the following: Equality, Diversity and Equal Opportunities, Health and Safety, Whistleblowing and confidential reporting, anti-fraud, bribery and corruption, Information and data security. The delivery partner will be required to comply with the Equalities Act 2010 and will need to demonstrate a policy is in place for protected groups.

Equality Impact Assessments will be also required by anyone who seeks funds from the Combined Authority and will be a key consideration in the assessment of loans, equity and grant funding applications.

FUND APPLICATION AND IMPLEMENTATION PROCESS

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[9] Defined as the hourly rate payable by organisations to their employees and contractors as this is set by the Living Wage Foundation, which corresponds to the hourly rate working people need to afford a minimum 'decent' standard of living.

[10] Defined as the policy and all the practical measures taken by a potential bidder in a procurement by which this bidder ensures and achieves zero balance between the amount of greenhouse gas produced and the amount removed from the atmosphere in its operations.

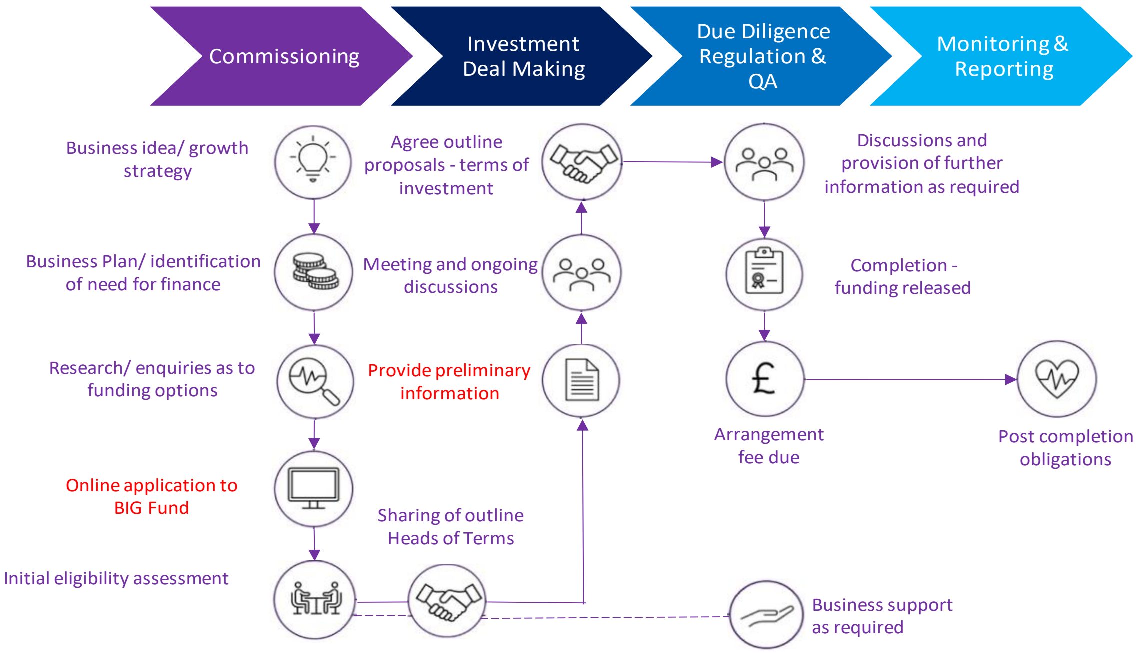
Fund Application Process

Fund 1

The current preferred model is that a dedicated third-party fund manager would manage the fund on behalf of CPCA (as the Accountable Body), ensuring FCA compliance as necessary.
For governance purposes, due diligence, investment challenge and regulation will be carried by the appointed fund manager's investment team, to ensure that eligibility criteria are meet and any additional financial standing checks, a business plan review and company due diligence checks as well as confirming again the availability of resources.

Detailed design of the fund itself, in terms of how it will be administered, will be done with the fund manager once appointed. At this stage, it is envisaged that the fund will be administered through a bidding process, led and managed by the fund partner. As shown in the diagram below, this will entail online submissions from prospective businesses, an evaluation of submissions against agreed criteria followed by discussions and analysis to validate the case for financing. This process will be enabled by a demand-generation approach, with geographical and/or sector specific hubs set up to engage with target businesses to drive demand in the areas with then greatest need.

Suggested fund application process



Details such as the criteria for selecting investments, requirements of prospective bids and candidate businesses will be defined with the fund manager and agreed with the advisory board or Business Board.

Fund 2

For Fund 2, a similar approach will be taken, with the dedicated in-house fund manager (to be recruited) managing the fund and reporting to an advisory board. An agreed set of criteria will be used to evaluate funding bids into the fund, and quarterly reports will be provided to the advisory board to monitor progress and agree any changes to the grant provision policy or approach. There will be a similar process of online submissions from prospective third sector businesses and an evaluation against the agreed criteria. As above, operational details such as the criteria, bid requirements and other items relating to the detailed design of the fund itself will be defined and led by the in-house team, once identified, and agreed with the advisory board, CA Board or Business Board.

Fund Assessment Process

Applications must:

- Meet applicant eligible criteria (business sector, size, location, etc.);
- Meet eligible costs (undertake capital spend in the CPCA region) and investment match requirements;
- demonstrate how to meet the outputs requirements (e.g. Create jobs and social outcomes in the CPCA region)

Detailed eligibility criteria and requirements will be designed with the appointed fund manager.

Fund Decision Making Process

- Due diligence approach based on standard commercial loan finance checks on maturity and detail of plan, liquidity and asset base, market analysis, management experience and resource, sensitivity etc
- Additional consideration of job quality, sector of investment and productivity
- Report & recommendation for support created in 6 weeks
- Sign off < £250,000 by advisory panel
- Sign off > £250,000 by advisory panel and business board
- All applications assessed, decision undertaken, and contract provided (where relevant) within xx weeks of completed application submission

Fund Award Contractual Arrangements

- Contractual offer letter provided for funding based on standard terms
- Contract based on capital, employment and social value outputs
- Contract sets out grounds for immediate repayment against standard clauses
- Appropriate legal guarantees required to ensure repayment in event of a default

Drawdown of fund and monitoring

- Managed by fund manager
- Funds paid in arrears as capital spend is undertaken in line with application – and social value activity is evidenced
- Funding claims show audited and certified statement on capital and jobs
- Applicants visited during project to understand progress and verify social value activity
- Final audited report required at the end of a monitoring period (3 years after project complete)

SUBSIDY CONTROL

As grants and loans will be advanced on below-market terms, there will be an element of Subsidy control. The aid received by the applicant is limited to the difference in the overall cost of the loan provided compared to the overall cost that would have been incurred if the finance had been provided in the market. This subsidy element received by successful applicants is expected to fall within the de minimis threshold and safeguards will be put in place to ensure that businesses certify their ability to receive de minimis funding within the thresholds. Legal advice will be provided by the CPCA legal team of necessary.

WIDER CONSIDERATIONS

None.

FINANCIAL CASE

INTRODUCTION

The purpose of the financial case is to assess the financial implications of the options as laid out within the strategic case and consider financial risk. This Financial case is based on the preferred option of a fund comprising of multiple products with different sector targets, based the appraisal set out in the strategic and economic cases

APPROACH TO FINANCIAL CASE

The financial case for this project is fairly simple in scope as the cost of the project is fixed at £10m as per the agreement by the CPCA board. Time devoted to management of the fund will fall within the management company fees therefore there is not an overrun risk associated with management costs.

Future renewal of the fund has been considered alongside the potential for the fund to become evergreen through the return of monetary returns associated with investments.

FUNDING BREAKDOWN

An agreement from CPCA business board has dedicated £10m of gainshare funding to meet the requirements and support business growth in C&P. As such, no other options have been considered as the main source of funding, although private sector match offers an opportunity to increase the overall funding made directly available to businesses.

Sources	Value	Uses
Combined Authority Gainshare Capital funds	£9,500,000	Equity Investments, loans and grants
Combined Authority Gainshare Revenue funds	£500,000	Operating and management costs
Private sector match (leveraged)	£7,125,000 expected (equal match for fund 1)	Equity Investments
Total sources	**£10m+**	**As above**

COSTS

The breakdown of costs over time for this project is shown below.

	Total	FY 1 (2022 /2023)	FY 2 (2023 /2024)	FY 3 (2024 /2025)	FY 4 (2025 /2026)
Revenue	**£500,000**	£54,167	£161,667	£161,667	£122,500
Capital	**£9,500,000**	£0	£2,850,000	£3,325,000	£3,325,000
Total	**£10,000,000**	**£54,167**	**£3,011,667**	**£3,486,667**	**£3,447,500**

Revenue costs breakdown

Revenue costs have been allocated as follow:

				Total	FY 1 (2022 /2023)	FY 2 (2023 /2024)	FY 3 (2024 /2025)	FY 4 (2025 /2026)
Fund 1 + 2	**Management**	Salaries incl.	Fund Manager (Internal, 0.5 FTE)	**£113,750**	£16,250	£32,500	£32,500	£32,500

		overheads						
Fund 1		Management Fees	Fund Management Company (External)	**£356,250**	£29,688	£118,750	£118,750	£89,063
Fund 1	**Procurement / legal costs**	Fees	Procurement advice and preparation of agreement/ contract	**£15,000**	£15,000	£0	£0	£0
Fund 1 + 2	**Investment Readiness Programme (Optional)**	Salaries	Business Advisors / Consultants	Optional - to be delivered initially by the fund manager partner				
Fund 2	**Marketing & Comms**	Salaries	Comms / Marketing Officer	In house existing resources				
		Promotion and events	Website, etc.					
Fund 2	**Other**	Fees	FCA fees, Auditors, etc. (incl. any internal debt management of outstanding Fund2 loans)	**£15,000**	£0	£5,000	£5,000	£5,000
			TOTAL	**£500,000**	**£60,938**	**£156,250**	**£156,250**	**£126,563**

- Fund Manager salary (Internal, 0.5 FTE) – to contract manage the grant scheme it has been assumed in post for 3.5 years.
- Fund Management Company fees (External) – to manage fund 1 delivery. Assumed management fees equal to 5% of fund 1 capital value; plus recommended 20% performance fee taken from exited equity investments (80% return on equity investment to be retained by CPCA). The business board might want to take a decision for the introduction of a hurdle rate (typically 8-10% return) that CPCA must receive before performance fees can be received by the third-party equity fund manager. Performance fees motivate the private equity firms to generate superior realised returns. These fees are intended to align the interests of the third-party fund management firm and CPCA.
- Procurement and legal fees - covering procurement and legal advice and preparation of agreement/ contract fees
- Business Advisors / Consultants salary (optional) – for the delivery of an Investment Readiness Programme. This cost has not be factored in, and will be subject to further revenue resources becoming available and evidence of need following market testing)
- Comms / Marketing Officer salary (Internal, existing resources) – marketing and comms activities for fund 2 delivered in house; marketing and comms activities for fund 2 to be delivered as part of the third-party fund manager partner's fees.
- FCA fees, Auditors, etc. – fees related to FCA registration, internal debt management of outstanding Fund 2 loans, etc. (debt management for fund 1 to be administered by the external fund partner)

Capital costs breakdown

Capital costs have been allocated as follow:

FUND 1: Support High Growth Businesses	75%	**£ 7,125,000**

FUND 2: Support Third Sector / Social Enterprises / CICs	25%	£	2,375,000
	TOTAL	£	9,500,000

Yearly breakdown:

		Total	FY 1 (2022 /2023)	FY 2 (2023 /2024)	FY 3 (2024 /2025)	FY 4 (2025 /2026)
				30%	*35%*	*35%*
Fund 1	**Equity (70%)**	**£4,987,500**	£0	£1,496,250	£1,745,625	£1,745,625
	Loan (30%)	**£2,137,500**	£0	£641,250	£748,125	£748,125
	TOTAL	**£7,125,000**	£0	£2,137,500	£2,493,750	£2,493,750
Fund 2	**Grant (70%)**	**£1,662,500**	£0	£498,750	£581,875	£581,875
	Loan (30%)	**£712,500**	£0	£213,750	£249,375	£249,375
	TOTAL	**£2,375,000**	£0	£712,500	£831,250	£831,250
	TOTAL	**£9,500,000**	£0	£2,850,000	£3,325,000	£3,325,000

FINANCIAL ASSUMPTIONS AND MODELLING

The equity and loans fund will be designed in detail once the external fund manager has been appointed. However, for the purpose of this business case, we made the following assumptions which will need to be revised and reassessed by the appointed third-party fund management firm:

- **Investment capital:** The schemes will provide equity[11] or loans with low-interest repayable finance to firms with investment projects in businesses which have high growth potential (Fund 1) and grants and loans with low-interest repayable finance for third sector organisations (Fund 2).

  Fund 1 will make £4,987,500 available in equity finance and £2,137,500 available in loan finance. Fund 2 will make £1,662,500 available in grant and £712,500 available in loan finance.

- **Investment period**:
  - The grant, loan and equity schemes will operate over three years, with (indicatively) 30% of the fund available awarded in Year 1, 35% available for Year 2 and 35% for Year 3. Assuming a reasonable lead-in time (as outlined above and in the management case) and active project development by the CPCA and its external delivery partner, this timescale should not be challenging.
  - Assuming the first grants, equity investments and loans are disbursed in Q2 23/24, we assume that the initial capital is all spent by Q4 25/26.
  - Once the loans are awarded, the loans are defrayed in (on average) two instalments, with two-thirds in Year 1 (66%) and one-third in Year 2 (33%). This should prevent funds from being provided excessively in advance of need and lower the risk for CPCA.

[11] Equity finance is also referred to as 'Entrepreneurial Finance' or 'Patient Capital' reflecting its use in funding new and innovative ventures. For equity investors, the returns rely on increases in company (and share) value as the firm develops, and the investee does not have the immediate servicing requirement (repayment schedules) associated with loan finance.

- **Repayment period:** We assumed all loans fund to be committed within 3 years, with loans defrayed over 4 years. Repayment terms will need to be discussed with the applicants, but we assumed 7 years for the loans to be repaid.
- **Exit period:** We assumed all equity fund to be invested within 3 years, with 7-year investment horizon. This means exit[12] after 7 years after making a profit on the investment.
- **Re-investment rounds:** After the project 10-year duration (3 years investment plus 7-year exit period) the revolving equity will have increased and been returned to CPCA for re-investment. The expectation is that funds will be reinvested in further rounds, subject to approval from the Business Board at a later date and based on the performance of the schemes. At this stage, we have only modelled the first funding round.
- **Follow-on investments**: It is recommended that from year 6, some of the initial returns from equity and loans repayment and interest earned, is used for follow-on investment, recognising that successful commercialisation can require further injections of capital to overpass the so-called 'valley of death' before full commercial returns to investment can be realised. Follow-on funding, to support the growth of the businesses in the current portfolio, will be subject to funds availability and investment committee decision. Detail returns forecasts will need to be developed by the external fund management partner during the fund design phase, after market testing has been undertaken and the portfolio of products been validated.
- **Private sector leverage and co-investment**: fund 1 loans and equity will be offered up to 50% of eligible project costs. The balance will need to be met by borrowers and investees from non-public sources. This will ensure that businesses share the risk and are incentivised to invest. Match can include co-investment from other funds and angel investors. Where possible, co-investment opportunities will be sought with the Low Carbon Innovation Fund (LCIF)[13] to support businesses aiming at reducing greenhouse gases.

  No private match will be requested from third sector businesses applying for fund 2.
- **Interest rate:** Loans will be offered on subsidised terms. It is proposed that interest will be charged at a flat rate of the Base Rate plus 2pp make the product compelling for applicants. The Base Rate (at September 2022) is 1.75%, so the proposed interest rate will be 3.75%. It is proposed that loans will be repaid over an average of two years following a six-month repayment holiday (which we assume is interest-free).
- **Default rate:** For a conservative estimate we have used an upper estimate of 9% default rate based on some other repayable finance schemes[14]. However, there should be scope to reduce this through good management and by building in business advisory support before and during the loan period, minimising the risk of default. This should be delivered by the third-party fund manager and can be further enhanced by CPCA, subject on further revenue resources becoming available, through the implementation of an investment readiness programme[15].

[12] The main type of exits from investments for UK Private Equity and Venture Capital fund is through trade sales, This involves selling the holding company of the group to a third-party trade purchaser. Most government equity funds in the UK look for exit within five to seven years. However, in those businesses involving several years R&D prior to trading, it may be up to ten years before the fund is able to exit.

[13]The Low Carbon Innovation Fund is a co-investment initiative aimed at SMEs operating in the East of England developing or deploying environmentally beneficial technologies. Currently as it second round, The Low Carbon Innovation Fund 2 (LCIF2) is seeking to invest £11m to help early and late stage ventures that make measurable reductions to Greenhouse Gas emissions. The fund is managed by Turquoise, with limited partner being a joint venture of Norfolk Country Council (NCC) and University of East Anglia (UEA). https://lcif.vc/

[14] Scottish Loan Fund, funded by Scottish Enterprise with co-financing from several commercial institutions and managed through a private sector fund manager reported a default rate of 9%

[15] Ref. management case

- **Loans repayments and equity returns:** Repayments are then modelled as being paid over 7 years but with a 6-month repayment holiday at the outset. Equity investments are expected to be exit after 7 years. It is intended that these will be reinvested in the Fund (although as the Fund offers a low rate of interest and exit period might take more than 7 years in certain circumstances, there is likely to be attrition over time). As specified above, for the equity fund, we assumed that 20% from exited equity investments will be retained as performance fees by the third-party fund management firm. This should motivate the private equity firms to generate superior realised returns.
- **Grants, Loans and equity size:** These have been assumed in the following ranges:

Fund 1		
Equity or loan size	low range	£100,000
	high range	£500,000
Number of businesses receiving support[16]	Min	14
	Max	71

Fund 2		
Grant or loan size	low range	£10,000
	high range	£75,000
Number of businesses receiving support	Min	32
	Max	238

FINANCIAL RETURN PROJECTIONS

Full financial projections provided in Appendix.

Grant

No financial return expected.

Loan repayments

Applying the above interest, default rate and repayment assumptions, we estimate total repayments of around £2,393,000 for fund 1 and £798,000 for fund 2, with the final repayments made in 32/32. This would provide a substantial sum to recycle, should the CPCA decide to do so.

Equity returns

An average annual growth rate of 7.5% has been assumed for the equity investments, with returns received in the 7th year after investment This is considered to be a conservative estimate with evidence from investment firm Cambridge Associates suggesting potential annual growth much higher (10-15%), particularly with robust pre-investment testing to establish a firms' high growth potential[17]?

FINANCIAL NPV and ROI

The financial present value of benefits (PVB) is £7,237,681 which, subtracted from the present value of cost (PVC) of the funds gives a **total NPV of £1.8m.** This total NPV accounts for the public spend minus the monies regained from loan repayments and equity investment returns, with annual discounting applied to give the value in today's prices.

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[16] Usually private sector equity practice is for investment managers to hold investments in no more than 15 to 20 companies in a given fund, to achieve diversification of risk but keep the number manageable.
[17] https://www.cambridgeassociates.com/insight/growth-equity-turns-out-its-all-about-the-growth/

The financial model shows, over the 10 years appraisal period, a financial ROI (PVB / PVC) of:

- Grants (fund 2): no return
- Loans (Fund 1 and 2): 1.01,
- Equity (fund 1): 1.04,
- Whole fund (inclusive of spend on grants which don't yield any return): 0.85

By the end of year 10, the total returns would equal £9.8m which could be reinvested. The value of this in today's prices (PVB) is £7.2m, which divided by the PVC of £8.5m the overall financial ROI of 0.85. If less conservative assumptions for equity return are made (e.g. 13.7% return generated on equity), a financial ROI equal to 1.13 can be achieved for the whole fund (inclusive of spend on grants which don't yield any return). In this scenario, by the end of year 10, the total returns would equal £9.5m in today's price, which means that the fund would be fully replenished to same initial amount available for re-investment.

FINANCIAL TABLES

Grant

FUND 2 (grant)	Total	FY 0 (2022 /2023)	FY 1 (2023 /2024)	FY 2 (2024 /2025)	FY 3 (2025 /2026)	FY 4 (2026 /2027)	FY 5 (2027 /2028)	FY 6 (2028 /2029)	FY 7 (2029 /2030)	FY 8 (2030 /2031)	FY 9 (2031 /2032)	FY10 (2032 /2033)
Total grant awarded	**£712,500**	£0	£498,750	£581,875	£581,875							

Loan

FUND 1 (loan)	Total	FY 0 (2022 /2023)	FY 1 (2023 /2024)	FY 2 (2024 /2025)	FY 3 (2025 /2026)	FY 4 (2026 /2027)	FY 5 (2027 /2028)	FY 6 (2028 /2029)	FY 7 (2029 /2030)	FY 8 (2030 /2031)	FY 9 (2031 /2032)	FY10 (2032 /2033)
Total loans awarded	**£2,137,500**	£0	£641,250	£748,125	£748,125							
Total loans defrayed	**£2,137,500**	£0	£427,500	£712,500	£748,125	£249,375						
Total repayments	**£2,393,333**		£38,721	£139,646	£264,801	£347,979	£368,205	£368,205	£368,205	£290,762	£166,356	£40,451
Cashflow	**£255,833**	£0	-£388,779	-£572,854	-£483,324	£98,604	£368,205	£368,205	£368,205	£290,762	£166,356	£40,451

NPV **£3,255**

FUND 2 (loan)	Total	FY 0 (2022 /2023)	FY 1 (2023 /2024)	FY 2 (2024 /2025)	FY 3 (2025 /2026)	FY 4 (2026 /2027)	FY 5 (2027 /2028)	FY 6 (2028 /2029)	FY 7 (2029 /2030)	FY 8 (2030 /2031)	FY 9 (2031 /2032)	FY10 (2032 /2033)
Total loans awarded	**£712,500**	£0	£213,750	£249,375	£249,375							
Total loans defrayed	**£712,500**	£0	£142,500	£237,500	£249,375	£83,125						
Total repayments	**£797,778**		£12,907	£46,549	£88,267	£115,993	£122,735	£122,735	£122,735	£96,921	£55,452	£13,484
Cashflow	**£85,278**	£0	-£129,593	-£190,951	-£161,108	£32,868	£122,735	£122,735	£122,735	£96,921	£55,452	£13,484

NPV **£9,765**

Equity

	Total	FY 0 (2022 /2023)	FY 1 (2023 /2024)	FY 2 (2024 /2025)	FY 3 (2025 /2026)	FY 4 (2026 /2027)	FY 5 (2027 /2028)	FY 6 (2028 /2029)	FY 7 (2029 /2030)	FY 8 (2030 /2031)	FY 9 (2031 /2032)	FY10 (2032 /2033)
Total equity invested	**£4,987,500**	£0	£1,496,250	£1,745,625	£1,745,625							
Returns	**£8,274,508**	£0	£0	£0	£0	£0	£0	£0	£0	£2,482,352	£2,896,078	£2,896,078
Return less management fees	**£6,619,606**	£0	£0	£0	£0	£0	£0	£0	£0	£1,985,882	£2,316,862	£2,316,862
Cashflow	**£1,632,106**	£0	-£1,496,250	-£1,745,625	-£1,745,625	£0	£0	£0	£0	£1,985,882	£2,316,862	£2,316,862

NPV **£194,064**

AFFORDABILITY ASSESSMENT

Providing growth funding for priority sector and third sector businesses has been recognised as a strategic and political priority of the CPCA for a significant period of time, and as such this project is supported at a senior level to continue over the desired lifecycle.

As stated above, a set amount of gainshare funding has been agreed to fund this project. The fund will look to become evergreen in the second half of its initial 10-year lifecycle, with the aim of replenishing the fund through returns for further business growth support. Performance against this objective will be monitored as part of regular performance reviews. Affordability of prospective businesses will be tested as part of the investment bidding process.

The delivery fund manager partner is required to deliver a robust, sustainable financial model that will deliver the service requirements over the term of the contract. The delivery partner should provide and deliver against profiles that are realistic, achievable and sustainable throughout the delivery period. It is expected that the financial modelling exercise will take into consideration any contributory factors such as:

- the maximum budget available
- maintenance of satisfactory funding levels in the CPCA bank account throughout the delivery
- profiled delivery costs, with a view to minimising these costs in order to ensure longevity and efficiency of the loan and equity fund
- profiled volume of quarterly lending / investing across the business types
- profiled income generated, demonstrating sustainability of the loan and equity fund delivery using financial forecasts including a narrative and assumptions made.
- bad debt and repayment levels
- the interest rates and equity return (80% which will be paid to and retained by CPCA in the fund bank account)
- any innovation that will enable the loan fund to meet or exceed the requirements of the service, add value, and ensure the financial sustainability of the service over the long-term

The delivery partner will be responsible for monitoring and maintaining agreed levels in the CPCA fund bank account in order to sustain the equity and loan fund delivery. This includes managing the cash flow in accordance with agreed profiles and advising on the timing of the transfer of funds in order to deliver an effective service. The aim is to sustain the fund as much as possible by seeking to make the fund as resilient as possible to loss (e.g. through the minimisation of write-offs) and covering delivery cover costs & losses. This objective may be achieved by the appointed delivery partner primarily through:

- include efficiency savings measures in the profiled delivery costs (this should be profile to include the performance fees paid to the appointed delivery partner from the profiled equity return, which is dependent on the profiled volume of investment made;
- maximising income from interest charged on loans by ensuring the required levels of lending are maintained
- introduction of arrangement fee on loans if required
- effective collection/recovery of the debts

Both funds will need to be effectively managed to ensure appropriate lending to relevant businesses and satisfactory collection of loan repayment, which enables funds to be recycled for further loans to be made. In addition, clients will need to be supported as necessary, both before and after they receive loans or equity investment, through the provision of a business mentoring service.

CHARGING MECHANISM / CLAIM/INVOICE PROCESS

Funds will be provided to the fund partner from CPCA to a dedicated company once the LP-GP structure has been put in place. The funding will then be issued on an investment-by-investment basis.

MANAGEMENT CASE

INTRODUCTION

The purpose of the management case is to set out a high-level strategy, framework and plans for successful project delivery through a controlled, well managed and visible set of activities to achieve the desired results and benefits.

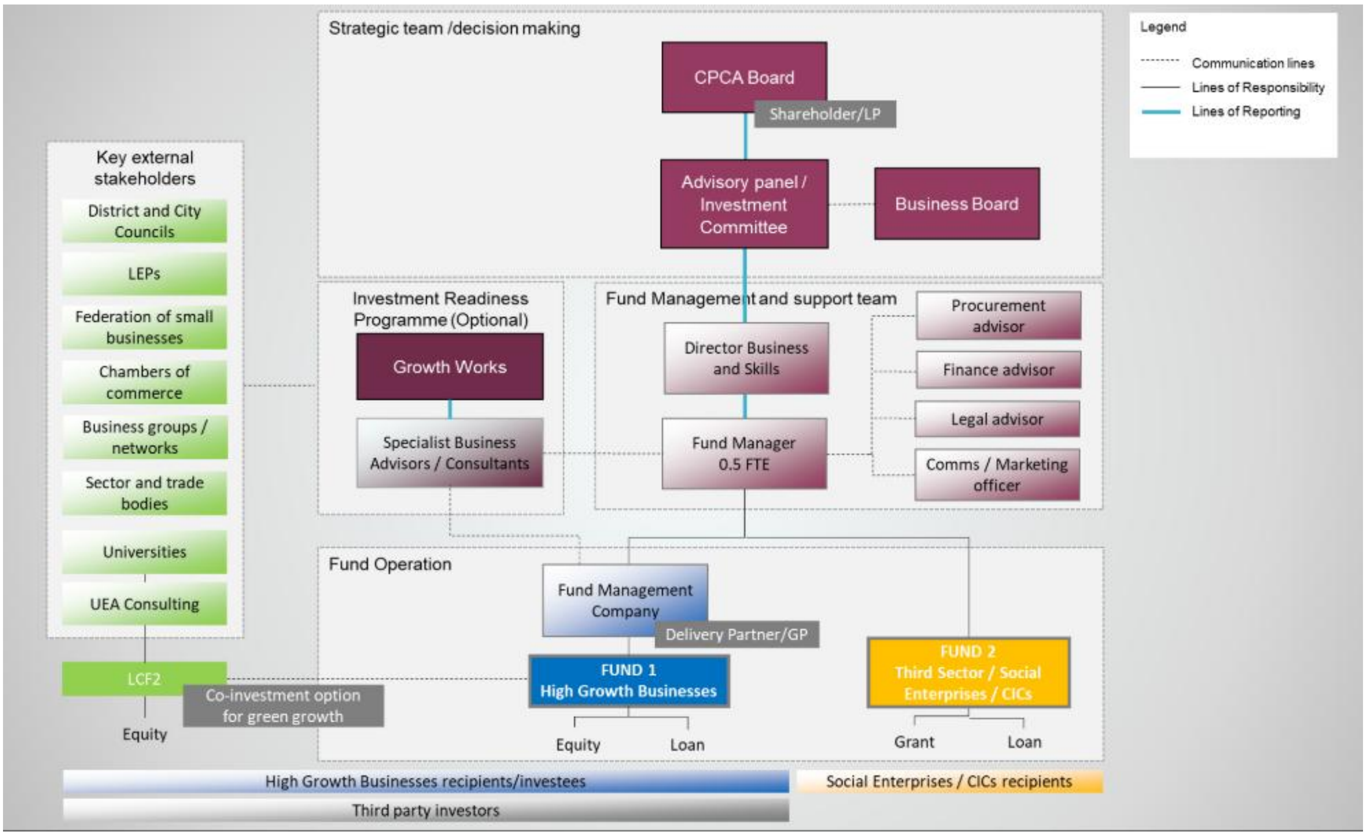
PROJECT TIMELINE

A summary of the key milestones is shown below.

Milestones	Start date	End Date
Business Case Development		
PID Development		Mar-22
SOBC development	Jun-22	Jul-22
FBC development	Aug-22	Oct-22
FBC approval		Oct-22
Governance and Management set up		
Establish formal project steering group / advisory panel	Oct-22	Nov-22
Staff Recruitment / Secondment appointment	Oct-22	Nov-22
Procurement (for FUND 1 only)		
Draft ITT	Nov-22	Nov-22
Invitation to tender	Dec-23	Dec-23
Tender period	Jan-23	Feb-23
Tender evaluation	Feb-23	Feb-23
Approval to proceed	Feb-23	Feb-23
Contract awarded / Appointment of fund partner	Mar-23	Mar-23
Mobilisation		
Market Testing / business survey to assess business requirements to guide the investment fund design	Mar-23	Mar-23
Fund Design	Apr-23	Apr-23
Fund Prospectus Draft	May-23	May-23
Fund Launch	May-23	
Marketing & Promotion Campaign	Apr -23	Jul-23
Funds Operation / Delivery		
Investments made (Round 1)	Jul-23	Mar-26
Investment funds returned	Apr-26	Mar-33
Further investment Round (s) / follow-up investments	Jul-29	Mar-33
Review / Monitoring and Evaluation		
Project Progress and Monitoring Reports	quarterly	
Evaluation	Apr-33	May-33

PROJECT GOVERNANCE AND MANAGEMENT STRUCTURE

CPCA has the project management structure, skills and track record in place to be able to successfully deliver this investment fund. The governance arrangements set out in the diagram below provide strategic leadership and ensure collective governance to inform the coordinated delivery, management and operation of the fund.



Key Project Roles and Responsibilities

Strategic team / decision making

The CPCA board will be responsible for strategic governance and oversight of the fund. The Board is chaired by the elected mayor of Cambridge and Peterborough and consists of the leaders of the seven constituent councils, the chair of the Business Board and co-opted members. Board meetings will occur once every two months. The Board will provide direction and be accountable for the delivery of the fund, being ultimately responsible for maintaining adequate governance and compliance, along with signing off the financial information/returns (compiled by the fund manager) to the external regulators, including Companies House and FCA.

The primary remit of the Board is to:

- Monitor progress on key milestones and that the fund is delivered within the agreed timescales and allocated budget;
- Monitor the performance of the fund management partner;
- Provide strategic direction to the project and ensure complementarity/Strategic Added Value is maximised with other ongoing investment programmes;
- Agree fund objectives and funding envelope, provide decision and approval of variations and scope change requests provided by the project management team;
- Ensure investment decisions adhere to Council decision-making requirements;

Monitor key Risk and Issues and provide mitigation guidance for risks and issues which exceed tolerances, and which would have a material impact on the delivery of the package;

The **Advisory Panel or Investment committee** will be established by the fund partner with delegated places held by CPCA appointees. These will include advisory experts from the third-party fund management firm, CPCA senior finance officers and representatives from the CPCA **Business Board** which include Private Sector and District members Representatives. The panel will have responsibility in assisting with the strategic direction of the fund and support investment decisions. Once completed, all investment or loan business cases will be presented to the advisory panel, Additional approval will be required by the CPCA Board for bids above £250,000.

Fund Management and Supporting team

The management and supporting team will include the following roles:

- **Director of Business and Skills** (existing role – Steve Clarke, Interim Associate Director Business: Responsible for providing oversight on overall project delivery and project compliance and reporting to the Business Board, providing strategic direction, financial risk and mitigation controls, providing procurement sign-off.

- **Fund Manager** (to be recruited) – responsible to co-ordinate the delivery of activities and outputs to time and budget. Key responsibilities are:
    - **For FUND 1** – Administering third party fund manager partner appointment and contract; overseeing the operation of the contract; carrying out the monitoring of the agreed work plan, milestones & performance targets on a day to day basis, which includes reviewing quarterly performance reports; Facilitating opportunities for joined-up and partnership working, by sign-posting the third party partner to other relevant services, including any complementary internal CA initiatives, or external projects; working collaboratively with the appointed delivery partner to support the marketing and promotion of the service.

    - **For FUND 2 –** Being responsible for the day-to-day operation and delivery of fund 2 (both grants and loans), including activities to promote the fund, applications appraisals, issuing grants and loans, setting up repayment systems for the loans, managing the collection of debt, monitoring and evaluation.

  Other responsibilities across the two funds include:

    - Establishing communication and management protocols with the CA's Business Board, Investment Committee and Fund Management partner, managing the integration and flow of information
    - Recording, managing and monitoring risks and reporting them to the director and business board
    - Providing regular performance updates to the CPCA Business Board.
    - Managing stakeholders' engagement;

- **Support team -** Specialist technical expertise (from existing internal resources) has also been allocated to the project to support the Project Manager and include senior officers from CPCA Procurement, Finance, Legal and Comms team:
    - *Finance officer*: The finance officer will be an existing member of the CA's finance team and will support the fund manager to oversee and manage the financial returns of the loans for fund 2 and debt management.
    - *Legal advisor:* The legal advisor will be an existing member of the CA's legal team and will ensure the project is compliant with all statutory and legal obligations and support the preparation of agreement/ contract arrangements with the fund management company.
    - *Procurement advisor:* The procurement advisor will be an existing member of the CA's commissioning and procurement team and will oversee the procurement of the external fund management company and ensure that it adheres to the CA's procurement procedures.

- *Comms officer:* The comms manager will support the fund manager with promotion and event activities to advertise the launch of fund 2. For fund 1 this activity will be delivered by the fund management company as part of the contract arrangements.

Input from the support team will be sought as required by the CA's fund Manager.

Investment Readiness Programme (Optional Resources)
Subject to additional revenue resources becoming available and been approved and demonstrated evidence of need, the project board will be called in to take investment decisions in regard to the implementation of an Investment Readiness Programme. Such programme has been successful in other investment fund implementations (such as UEA Low Carbon Fund 2) to support small start-ups new to the investment process. Such programme could sit under Growth Works and might require 1 or 2 specialist business advisors to deliver activities such as: businesses training on investment process, how to raise private sector fund, how to raise business financial credibility, etc. The need for this type of programme will be assessed after initial market testing has been undertaken and fund design delivered and can be re-assessed following the first year of delivery based on business requirements.

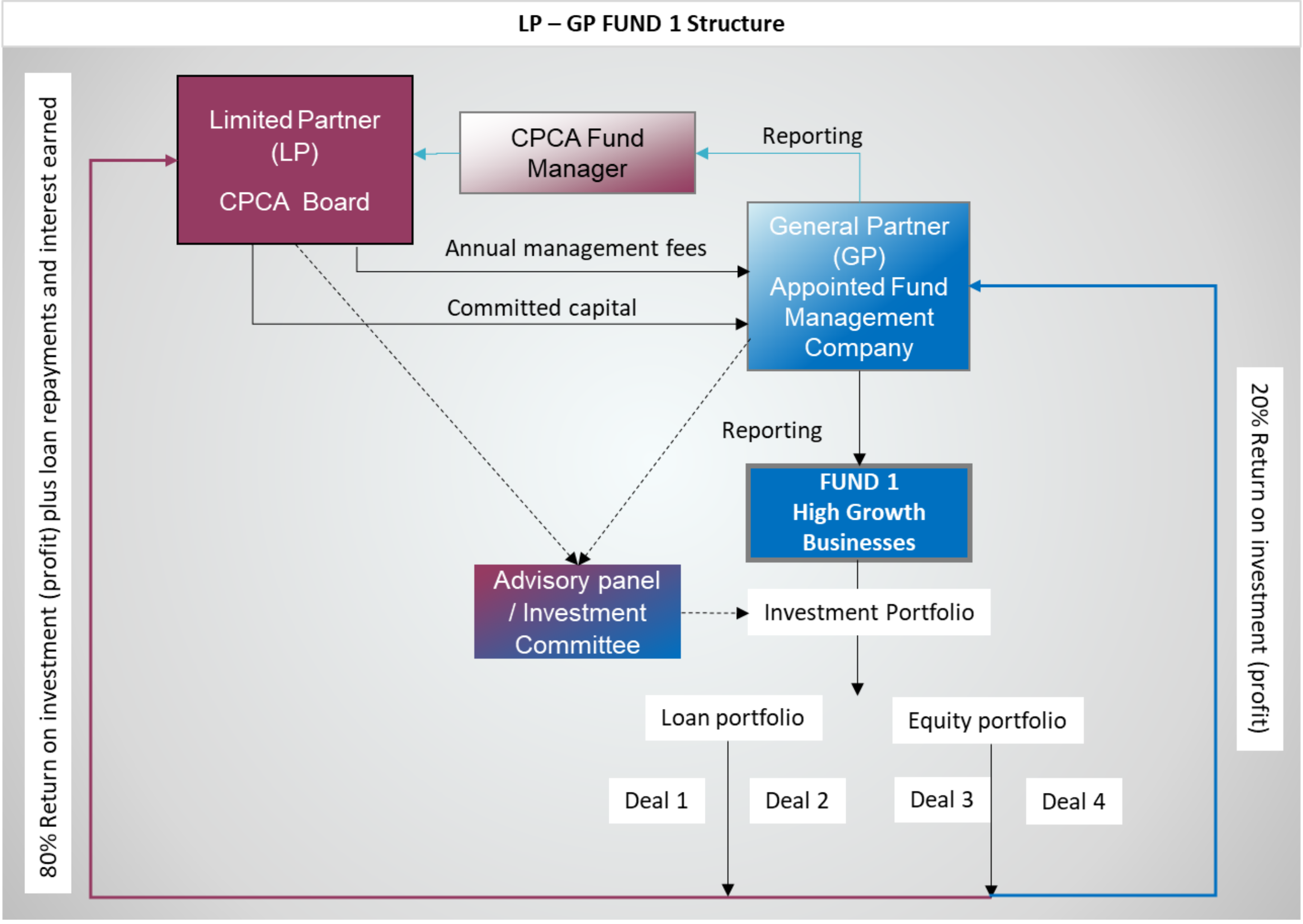
Fund Management organisations may also have processes that provide support to prospective investment clients for instance offering online sessions, guidance and supporting material for companies seeking investment. The possibility to include this service will be assessed during the procurement of the fund manager partner.

RACI Assessment

R = Responsible A = Accountable C = Consulted I = Informed **Activities** — **Organisational Role**	Business Board	Advisory Panel / Investment Committee	Project Director	Fund Manager	Fund Management Partner
Project initiation	C		A	R	
Business Case development	I		A	R	
Delivery of the project	C	C	A	R	R
Changes to cost and programme	I	I	A	R	C
Compliance and assurance of operational data	I	I	A	R	R
Assessment of applicant eligibility	C	R		C	A
Full due diligence of applications	C	R		C	A
Confirmation of investments	C	R	I	C	A
Technical assurance of the content and quality of data throughout the life of the project	I		A	R	R
Content and quality of information data on a day-to-day basis			A	I	R
Project closure	C	C	A	R	R

DELIVERY MODELS

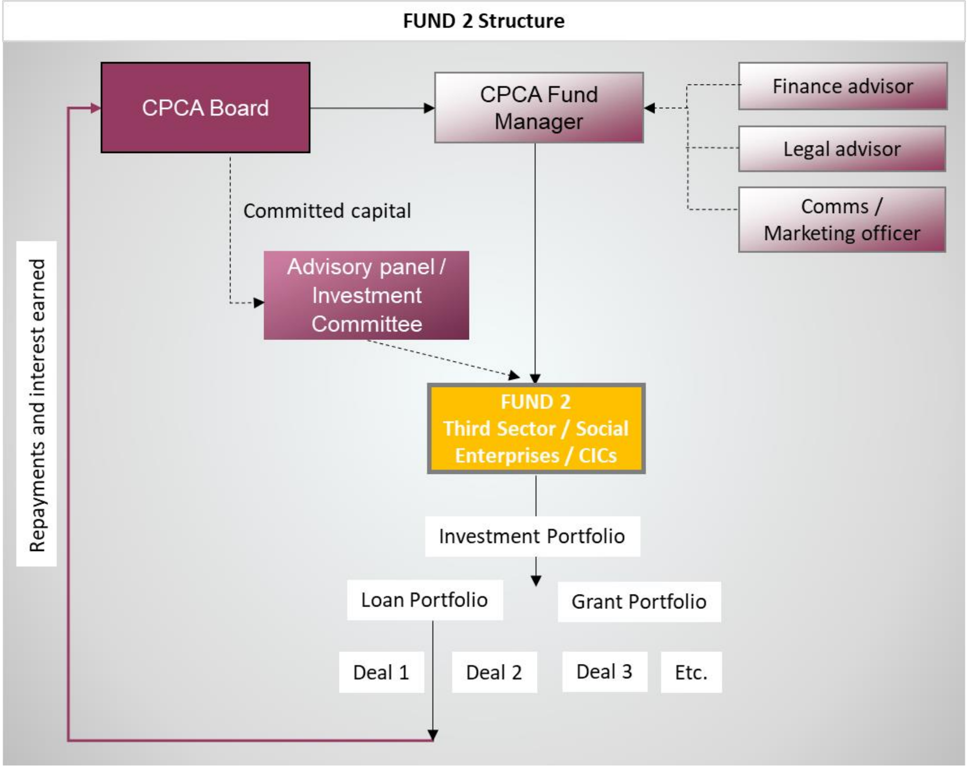
Fund 1
An external fund management partner will be procured to manage the implementation and delivery of the fund 1 (equity and loans) via a LP-GP structure:



The appointed delivery partner has the responsibility for making investment decisions according to rigorous commercial criteria and make a commercial return on investment on the equity fund. They will expect to incorporate the following areas in its delivery of the service:

- **Designing the fund** in partnership with CPCA: undertaking market testing to test the assumptions made in this business case and make recommendations on the fund operation and financial modelling;
- **Promoting the fund**: Providing outreach and promotional activities to reach the target audience and engaging with eligible high-growth businesses
- **Finance readiness**: Conducting an assessment of all applicants upon receipt of a completed application and supporting documentation. This is in order to evaluate their state of finance readiness, eligibility, viability and the likely level of support required at an early stage to manage expectations. When applicants are ineligible for this investment funds, or gaps are identified in the applicants' skill set/business planning, referrals should be made to appropriate intermediaries and business partners (preferably locally) or via Growth Works.
- **Issuing loans and equity investments** in accordance with the agreed profiles, in order to support the viability of the loan and equity fund; assessing and recommending loans and equity for approval from the investment committee.
- **Managing Loans/Good/Bad & Doubtful Debts:** managing and maximising the collection and recovery of debts to ensure that we maintain the longevity of the fund.
- **Partnership Development** to enhance existing relationships with the banks, accountants, capacity building organisations and other financial intermediaries located in the borough. In addition, maintaining or improving the relationships with local bodies, business support organisations/networks, including the CA and support their events, which in turn help in reaching our target audience, along with achieving broader project objectives. This could involve participation in regular partnership development activities.

Fund 2
CPCA internal fund manager will be responsible for the implementation and delivery of fund 2 (grants and loans) with similar tasks as Fund1. In this, he/she will be supported by the CA support team described above.



During the fund design phase, CPCA will explore options for joining the management efforts across the district councils who are delivering or planning to launch similar funds. Where this is not possible, co-investment opportunities will be sought to promote collaboration and maximise the outputs across the region[18].

RISK MANAGEMENT STRATEGY

CPCA will establish a risk management approach that addresses risk, through its governance processes for fund (including the reporting and monitoring via relevant governance functions and individual investment risk, through the fund partner.

A full risk register will be kept, monitored, updated and reported upon. Risks will be;

- **Identified –** The risk must be described, and possible consequences outlined;
- **Assessed** – Each risk must be ranked in terms of its estimated impact and immediacy;
- **Controlled** – Appropriate responses to risks must be identified, owners assigned, and responses must be monitored over time.

[18] For instance, Cambridge City Council is currently working together with Achievegood and It Takes A City CLT to look at how social impact investment, blended finance and partnership across a range of organisations from the public, private and third sectors can address local challenges including housing and homelessness, inequality, skills and sustainability. The team is currently exploring how to deliver a place-based impact fund to invest in impact-driven third sector organisations alongside aligned grants and other resources to achieve positive socio-economic impact within key communities in Greater Cambridge (reduce inequalities, increase educational opportunities and increase employment chances).

Initial risks and mitigations are listed below. These will be updated, expanded and ranked for potential severity and project impact at full business case stage.

Throughout the life of this project, the fund manager will be responsible to regularly update the risk register and report any major risk to the Director and Business Board.

the fund manager will periodically review the risk register to ensure that the project remains on track and that any new arising risks are understood and appropriately mitigated. Any changes to the risk register will be reported to Wirral Council as part of the project reporting.

Risk Register

Risk Type	Risk Description	Risk Level	Likelihood	Impact	Score	Mitigation	Risk Owner	Status
Procurement Risk	Poor third party fund manager quality or no tender responses	Low	1	3	3	a) The competitive tendering process will aim to have strong engagement with the wider UK CDFI sector or equivalent, particularly those who serve London CPCA region. b) Publicise to known referral networks c) Ensure the tendering process is inclusive and promotes the opportunity to a wide range of eligible organisations	CPCA	Open
Operational Risk	At corporate level; opportunity cost of funding the project greater than ROI	Low	1	3	3	Robust PID and business case development to demonstrate value for money.	CPCA	Open
Operational Risk	Duplication of criteria causing competition with existing financial instruments / lack of coordination with other support products	Low/Medium	2	3	6	Fund designed to fill gaps in current financial options available to SMEs. Close working with other financial instrument providers to ensure synergy rather than competition.	CPCA	Open
Operational Risk	Lack of awareness and visibility of investments causing low take up.	Low/Medium	2	3	6	High quality and comprehensive marketing strategy and plans put in place for both fund 1 (delivered by external delivery partner) and fund 2 (delivered by CPCA project management team with the support of comms team)	CPCA / External delivery partner	Open
Operational Risk	Failure to target firms effectively	Low/Medium	2	3	6	Details such as the criteria for selecting investments, requirements of prospective bids and candidate businesses will be defined with the fund manager and agreed with the advisory board or Business Board, following a soft market testing during the fund design phase. Marketing and promotional activities will be undertaken by the third-party fund manager and supported by CPCA comms teams and delivered through the early months preceding and following the fund launch.	CPCA / External delivery partner	Open
Delivery Risk	Poor performance from 3rd party delivery partner against agreed targets	Low	1	4	4	· At procurement phase, the external partner will be asked to demonstrate strong track record of delivery of similar CDFI activity. This will be specified within the bids' evaluation assessment including gross job outcomes and segmented debt management. We will include element of output related funding and a proportion of the external partner fees will be expected to come from returns. · The CPCA fund manager will be responsible to monitor External partner's delivery regularly against KPIs	CPCA Fund Manager / Procurement advisor	Open
Delivery Risk	Lack of CA capacity to project manage/ administer Fund resulting in fewer businesses being financed	Low	1	4	4	CA will only direct manage fund 2 which include small loans and grant to third sector. The CA has a strong track record of delivering such schemes and will appointed an experienced fund manager to deliver fund 2 and manage the application approval process, as well as oversee the contract for fund 1. CA will also set up an investment committee with the role or providing strategic advice on investment decisions.	CPCA Fund Manager / External delivery partner	Open

Delivery Risk	Timescale - ability to lend all capital committed within the timeframe	Low	1	4	4	Timescale and funding modelling undertaken during business case development will need to be tested and revised by the fund manager during the fund design phase and market testing to ensure / test ability to invest during the established time. third party fund manager to run robust marketing campaign supported by CPCA comms teams to ensure businesses are aware of the fund's schemes. CPCA Fund Manager to liaise with LAs, growth hubs, FSBs, CoC to promote the funds to businesses.	CPCA Fund Manager / External delivery partner	Open
Financial Risk	Inappropriate investments made / Applicants distort financials to receive funding where not eligible	Low/Medium	2	5	10	Due diligence and robust underwriting processes developed from outset by fund partner and CPCA built on best practice and regularly reviewed, re-visited and re-vised as necessary. An investment committee / advisory panel will be established together with the fund partner with delegated places held by CPCA appointees. The role of the panel will be to approve investment decisions.	CPCA / External delivery partner	Open
Financial Risk	Higher level of demand or bad debts/default rate than anticipated / fund not returned (or shortfall / delays)	Medium	3	5	15	Due diligence processes by fund partner and CPCA built on best practice and regularly reviewed and re-vised as necessary. Investments monitored thoroughly and remedial actions taken when/if needed. Fund will be designed with wastage calculation built in and differing equity return profiles accommodated (e.g., between private and third sector investments). The 3rd party delivery partner will provide quarterly report to the CPCA fund manager who will report to the business and skills director and escalate any risk to the business board; the fund manager will be responsible to arrange contingency for elements of the service to be delivered in-house (e.g debt collection/management)	CPCA / External delivery partner	Open
Financial Risk	Eligibility criteria / market test / data evidence not accurate resulting in fewer businesses applying and/or being financed. Fund being too restrictive or too complex	Low/Medium	2	4	8	Third party fund manager to undertake market testing before/during fund design phase to test businesses needs and inform fund design / eligibility criteria.	CPCA / External delivery partner	Open
Financial Risk	High level of risker loans drawn down by SMEs	Medium	3	4	12	The CPCA fund manager will work closely with the 3rd party delivery partner, inward investment team, Comms team and strategic partners such as district councils, FSB, CoC and business networks to ensure reach and targeted promotion of the fund. The investment committee will review application and make investment decisions based on evidence provided.	CPCA / External delivery partner	Open
Reputational Risk	Reputational and financial risk if the fund underperforms.	Low/Medium	2	4	8	Rigorous due diligence and selection of the fund partner to support the best investment decisions. Robust internal review and governance.	CPCA / External delivery partner	Open
Reputational Risk	Reputational damage to CPCA if the fund is managed inappropriately.	Low/Medium	2	4	8	Rigorous due diligence and selection of the fund partner. Robust internal review and governance. The CPCA fund manager will be responsible to update and monitor risks and escalate to the Business and skills director and business board for mitigation actions.	CPCA / Fund Manager	Open

PROJECT ASSURANCE AND MANAGEMENT ARRANGEMENTS

An appropriate assurance process will be agreed with CPCA and the selected fund partner as part the contractual agreement.

Procurement compliance

The CPCA fund manager is responsible for ensuring that the fund management partner procurement is in line with CPCA requirements for best value. He will be supported by CPCA's Procurement team.

The Fund Manager will be responsible to retain relevant documentation including:

- Copy of specification and invitation to quote for professional services and construction services;
- Copy of quotes received;
- Copy of purchase orders;
- Copy of decision justification and relevant correspondence.

Legal compliance

The Fund manager will consult with CPCA's legal team to ensure legal compliance of the contract agreement with the Fund Management partner.

Finance compliance

CPCA is its own Accountable Body for all funds received by Government including Gainshare funds and is the Accountable Body for the Business Board.

The CPCA fund Manager will be responsible for ensuring that the fund is delivered on time and according to budget.

The CPCA Finance officer will support the fund manager to oversee and manage the financial returns of the loans for fund 2 and debt management, provide any relevant information including financial /procedures and compliance support to:

- Ensure best practice standards are maintained
- Ensure full FCA approval for related activities and compliance is maintained by fund manager and the delivery partner, including ensuring other legal/regulatory requirements or standards required (e.g. Data Protection; ISO 9000 accreditation).

Managing Delivery

The Fund Manager will use robust project management system to ensure that the funds deliver according to time and budget.

The project manager will be responsible for the delivery and operation of fund 2 and for ensuring that the external partner delivers fund 1 as per contract arrangements. The fund manager will manage the risks for the project following best-practice guidelines: this will be an iterative process where risks are proactively monitored and managed throughout the delivery of the project using a five-stage process of identification, analysis, evaluation, action and monitoring. This is recorded in a working risk register (provided above), for which the appointed Fund Manager has day to day responsibility.

Any project level risks which implicate time delay and cost increase will be reported to the Business and Skills Director who, if necessary, will escalate to the CPCA Business Board officer for mitigating action decisions.

Change management

Project has the same change management process and tolerances set out in the 10-point guide and Risk Management Strategy. Change and risk will be managed by the fund partner to CPCA's requirements across the portfolio.

CONTRACTUAL ARRANGEMENTS

CPCA will agree a contract with the selected fund partner. A LP-GP fund structure will be put in place as described above.

DELIVERY TRACK RECORD

CPCA Capacity and Capability

CPCA has all the expertise to be able to run fund 2 in house, which includes grant and loan schemes delivery for third sector organisations. Example of proven delivery of similar schemes is reported below:

Name of Scheme	Delivery dates	Value	Description
Covid 19 - micro grants	2020	£500,000.00	Capital grant funding to support businesses during covid to adapt business delivery models
Covid 19 - capital grants	2020-21	£3,000,000.00	Capital grant funding to support investment in businesses to continue growth during the covid outbreak
Restart & Recovery	2020-21	£220,000.00	Specific capital investment in business post covid
Visitor Economy Grants	2020-21	£145,000.00	Specific capital investment in visitor economy post covid

External Fund Manager Capacity and Capability

The appointed fund manager partner will be an experienced fund management organisation and with proved track record of delivery similar schemes. The Fund manager partner will have to demonstrate capacity and capability to delivery against fund 1 objectives and requirements which include: managing the delivery of the fund to include equity and loan issue, managing debt collection and recovery, undertaking marketing, dealing with client enquiries and providing client advice, administering applications submission, chairing and participating at the investment committee meeting. The fund manager partner will also need to provide support to businesses, or signpost businesses, where required, to develop their business plans, ahead of investment, and any support required thereafter to encourage successful growth and returns.

STAKEHOLDER PLAN

This business case has been informed by stakeholder views from the Business Board and wider investment fund providers. Research with key stakeholders has validated the existence of the market gap being addressed and the stage of funding available, as shown in the strategic case, and has supported the case for exploring other fund partner options, such as existing business accelerators.

Going forward, effective operation of the fund will require communication within CPCA and engagement with outside stakeholders who may introduce or signpost potential investment opportunities, to ensure the objectives of the fund and the types of finance available, criteria for investment are clearly understood.

Internal stakeholders will include CPCA's members and relevant committees, and all Directorates.

As outlined in above, regular reporting to and communication with the business Board, in their advisory role, and to the Business Board members acting as delegates on the Investment Committee will be critical.

External stakeholders include businesses, representative business bodies, district and City councils and other public sector and quasi-public sector organisations including the Chamber, FSB, sector and trade bodies', relevant national organisations and Further and Higher Education.

A detailed marketing strategy, recognising FCA regulation, will be developed that sets out the nature of the fund, its focus and priority areas and the nature of the investment it is likely to make. This will promote the fund locally and be used to source investment opportunities.

A communication and engagement strategy will be developed to form part of the Marketing Strategy that will set out the types of communication and engagement required to support the CPCA EF to ensure the ongoing sourcing of opportunities remains effective.

The communication and engagement strategy will be complemented by a communications programme to raise awareness and build the reputation of the fund with its key stakeholders.

The marketing strategy will consider a launch event for the fund, advertisement, and the establishment of an online web presence to promote and support the sourcing of investment opportunities and support the investment application process.

The key aspects of the marketing, communication and engagement strategy that are required as part of the set-up of the fund and a key element in Year 1 will be as follows:

- Internal Website – CPCA's own web page dedicated to the Fund with links including case studies or example investments
- External fund standalone website, including case studies or example investments
- A brochure or prospectus providing an overview of the Fund, key investment criteria and instructions on how to apply;
- Portal for online applications; and
- Digital Outreach PR and marketing programme to launch the fund.

Key channels of information, including events, for the launch and in the ongoing marketing, communication and engagement of the fund planned are:

- PR and marketing outreach programme
- Trade and local government press;
- Digital outreach – LinkedIn, Newsletter and targeted marketing campaign;
- Inclusion within the Finance Finder tool on the GOV.UK website which provides information on grants and schemes provided by the public sector
- Inclusion within the British Business Bank Finance Hub – an independent information Hub to help investees understand and identify suitable available finance options;
- Meet the Provider events plus utilising other existing annual events (e.g., GrowthWorks activities and British Business Bank events).

MONITORING AND EVALUATION

The evaluation will be in accordance and aligned with CPCA Monitoring and Evaluation Framework. A logic model will be developed at inception. Monthly reporting is to be completed by the outsourced fund partner and reported upon to Director of the Business & Skills Directorate and the nominated Programme Manager, initially SRO LGF and Market Insight & Evaluation. Monitoring will be in accordance with the Analysis and Evaluation Manager for the Combined Authority.

Number of investments, investment value, geographic spread and, analysis by business type/sector/age/ownership will be considered.

Progress against all the key metrics will be evaluated through analysis of data supplied by the fund partner and other metrics, such as engagement, assessed through surveys.

CPCA staff, members and stakeholders involved with the project will be surveyed with a percentage of them interviewed, and anecdotal intelligence will be collected through interviews with the fund partner personnel (for case study and recommendation use). Businesses receiving investment will be surveyed and interviewed to establish impact, outputs and satisfaction levels.

Metrics evaluated will be:

- Jobs retained
- New jobs created
- Number of high-quality jobs created
- GVA per head in invested in companies and up-lift over CPCA average
- Total GVA up-lift
- Carbon reductions (tonnes of C02)
- New products introduced to invested in companies and new products to markets