

Date: 27 September 2019

Subject: Digital & Creative Fund

Report of: Sir Richard Leese, Portfolio Lead for Economy and Eamonn Boylan, Portfolio Lead Chief Executive for Investment

PURPOSE OF REPORT

This report seeks Greater Manchester Combined Authority approval to establish a Digital and Creative Fund. This Fund will be established from capital receipts derived from RGF/Growing Places investments.

RECOMMENDATIONS:

The GMCA is requested to:

- Approve the establishment of a Digital and Creative Fund utilising £5m of capital receipts derived from RGF/Growing Places investments.

CONTACT OFFICERS:

Laura Blakey: laura.blakey@greatermanchester-ca.gov.uk

Risk Management – see paragraph 4

Legal Considerations – see paragraph 5

BOLTON
BURY

MANCHESTER
OLDHAM

ROCHDALE
SALFORD

STOCKPORT
TAMESIDE

TRAFFORD
WIGAN

Financial Consequences – Revenue – see paragraph 6

Financial Consequences – Capital – see paragraph 7

BACKGROUND PAPERS:

TRACKING/PROCESS		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		Yes / No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?		
GM Transport Committee	Overview & Scrutiny Committee	

1. INTRODUCTION/BACKGROUND

The GMCA have approved a revised investment strategy for business recommending a sectoral approach to investment, concentrating on those key sectors that have been identified in the Local Industrial Strategy.

It has also previously been agreed that GM would consider creating a fund to both grow indigenous, regionally-based independent production companies and attract larger scale TV, Film and Drama content production companies to relocate to the city region. A Fund focused on this area would strongly support the Digital & Creative agenda for the region.

This approach to investment has proven to be successful in the establishment of the Life Sciences Fund. The Life Sciences Fund was established in September 2015 in partnership with Cheshire East, Cheshire West and Bruntwood. The Fund is based at Alderley Park and is externally managed by Catapult Ventures. The total fund size is £30.7m and this is expected to be fully committed within the next 12 months.

2. APPROACH

There have been some key learnings from the establishment and success of the Life Sciences Fund which are applicable here:

- the breadth of the focus of the fund needs to be pre-determined and reflect the market gap. The Life Sciences fund is broad in nature and does not seek to support a sector within a sector – this has worked well in supporting the wider ambitions of the Fund which have been to increase the presence of Life Sciences businesses in the region, with a ranging risk profile, in order to promote the wider Life Sciences ecosystem. The proposed Fund noted above has a much narrower focus – this focus should be independently tested and validated. It is therefore recommended that a focus group comprising sector experts, the Manchester Growth Company and the GMCA Core Investment Team be quickly convened in order to debate and agree the area of focus for a GMCA Digital & Creative Fund.
- fund managers who are sector specialists are critical. In areas where there are real sector specialisms, having a fund manager that truly understands the sector is important rather than a generalist fund manager. It is therefore recommended that once the focus of the Fund has been agreed, a sector specialist Fund Manager be procured.
- the larger the Fund the more impact it has and likely the commercial return will be higher. Whilst having a larger Fund allows more companies to be invested in and creates a bigger impact, it also allows the Fund to continue to support successful companies and therefore maximise their ultimate return. It is therefore recommended that the GMCA assign £5m to the Fund to be used as a cornerstone for other investors to participate, with the ambition of having a minimum fund size of £20m. In the event that a larger fund cannot be raised, a revised strategy for the investment of the £5m will be brought back to the GMCA.

3. INVESTMENT APPROACH

The agreed investment strategy requires that all investments are recycling in nature. Dependent upon the risk profile of the business, depends upon whether it is more appropriate to invest as equity or loans:

- Loan funding – loans are typically more appropriate where the business is established and is generating positive cash flow from its operations. The business plan would need to support that the business can repay the loan over the medium term, and can afford to pay the interest charges. Putting loan funding into businesses that are too early stage, despite this often being a Company's preference, can hamper their ability to raise funding in the future (as funders don't want to put money in to repay existing debt);
- Equity funding – equity is more suitable for earlier stage and higher risk businesses. If a business cannot demonstrate its ability to service or repay the debt (from current operations) then equity is usually more suitable. If equity is invested into the business and it is showing signs of success then there is an option to invest further funds as part of future fundraises in order to protect the level of equity held. This is one of the reasons for having a larger fund, to provide sufficient capacity for follow on.

Regardless of the structure of the investment, the ambition should be to utilise the public sector funds to maximise the private sector leverage on an investment by investment basis.

4. RISK MANAGEMENT

The Fund will be governed under the existing investment framework which includes several levels of review and ongoing monitoring of performance.

5. LEGAL CONSIDERATIONS

The legal agreement will be based upon the existing templates for the fund, amended for the specific requirements of the individual funding arrangements.

6. FINANCIAL CONSEQUENCES – REVENUE

There are no revenue implications.

7. FINANCIAL CONSEQUENCES – CAPITAL

The proposed Digital and Creative Fund would be established from recycled funds.