

An Action Plan for Nottingham and
D2N2 to integrate the learning from the
Interreg Scale Up Project in supporting
local SMEs to thrive.

Interreg Europe Scale-Up Action Plan

Nottingham, UK

November 2021.





Nottingham, UK.

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Section 1 - General Information:

Project	Scale Up – Supporting concentration and robustness of SMEs within the renewed EU industrial policy
Partner Organisation	Nottingham City Council (Accountable Body for the D2N2 Growth Hub)
Other partner organizations involved	Nottingham Trent University D2N2 Local Enterprise Partnership
Country	UK
NUTS 2 Region	UKF1 – Derbyshire & Nottinghamshire
Contact Persons	<ul style="list-style-type: none">Chris Pook – D2N2 Growth Hub Manager Chris.pook@nottinghamcity.gov.ukSimon Haydn – Nottingham City Council Simon.haydn@nottinghamcity.gov.uk

Section 2 - Policy Context:

The policy instrument that we referred to in the application form was the *2014 to 2020 European Structural and Investment Funds Growth Programme*. Specifically, Priority Axis 3: *Enhancing the Competitiveness of Small and Medium Sized Enterprises*. However, following Brexit, the policy framework for economic development in the UK is changing significantly and we cannot yet predict what PA3 will be replaced with. Therefore, for the purpose of this action plan we have chosen to focus on another current policy instrument – **The UK Growing Places Fund** – which will remain operational during phase two of the Scale Up project and beyond.

The Growing Places Fund (GPF) was established by the UK Government in 2011. It provided £780m with a focus on delivering key infrastructure projects that would help to unlock wider economic growth, create jobs and build houses in England. The fund was established as a sustainable ‘revolving fund’, which can be reinvested to unlock further development and leverage private investment in the future. GPF is administered at the local level by Local Enterprise Partnerships and Local Authorities.

GPF funding is offered as loan financing on the basis of being a revolving fund. Projects are expected to repay their funding within a maximum of five years. Due to the structure of the fund, it has mainly been used for large-scale infrastructure projects such as construction or renovation of economic sites that host significant numbers of jobs and where private sector developers can utilise the loan finance.

Because of this focus on capital schemes, we have not previously used the GPF to provide direct business support to SMEs. We believe there is an opportunity to implement the actions included in this plan with the use of GPF funding by setting up an early stage equity scheme for growing SMEs where a repayment model can be set up. This would be a new type of project for the GPF to fund, therefore providing opportunity for us to impact this policy instrument through this action plan.

As mentioned above, there is not yet any clarity about what will replace ERDF in the UK after June 2023. However, the Government are developing the **UK Shared Prosperity Fund**, which is expected to offer similar opportunities for supporting local economic development. For the purpose of this action plan, we have assumed that funding calls associated with this fund will be launched during 2022.

Nottingham context:

Nottingham City is part of the D2N2 Local Enterprise Partnership area (Derby, Derbyshire, Nottingham & Nottinghamshire). The D2N2 Growth Hub is the key conduit for business support in the region, delivering diagnostic and brokerage services in close partnership with all local business support delivery providers.

Nottingham City has a **relatively low GVA for the UK** with a growth rate of 14% compared to 15.5% nationally. A key to improving GVA and providing more and higher quality jobs is growing the SME base. Supporting the growth of scale-ups is an essential element of this approach.

In the UK, we have the **Scale Up Institute** – a private sector, not-for-profit company focused on the aim of making the UK the best place in the world to scale up a business. The Institute produces annual Scale-Up Reports, collaborates with policy makers, corporate partners and educational establishments to implement research recommendations and make an impact on the scale-up ecosystem.

Nottingham and the wider East Midlands region have for a long time fallen well **below the national average in terms of the take up of equity finance by SMEs**. The take up of equity finance has been identified by the Scale Up Institute as a key factor in helping to achieve scale up growth. The slide below states that 5 in 10 of UK scale-ups are using or plan to use equity finance. We want to boost the number of local scale-ups pursuing equity finance because we anticipate this will help to boost the success rate of our local SME scale-ups and therefore boost the local economy.



Annual Scale Up Conference, UK, 2020.

Evidence from the British Business Bank's [Small Business Equity Tracker](#) for 2021 suggests that while the number of equity investments nationally has increased by 5% year-on-year, the East Midlands Region of the UK lies 11th out of the 12 regions in terms of the take up of equity finance options. Being located in the East Midlands, we want to boost the number of SMEs securing equity for sustainable growth in order to tackle this situation.

According to the Scale Up Institute, 4 in 10 scale-ups have insufficient capital to meet their growth ambitions. Again, we want to help support this proportion of SMEs who could be assisted to achieve their growth potential.

Our ambition to increase equity investments in our region goes hand-in-hand with an aspiration to ensure the number of scale-up companies in our area remains buoyant. Recent data from the UK Office of National Statistics (published 18th November 2021), suggests the total number of *High Growth Enterprises* in the D2N2 area decreased by -10.5% between 2015 and 2020. This is compared to a national average of -0.3%. For Nottingham City there was a 0.0% change during the same period. We want to work with our partners to boost these numbers in the coming years.

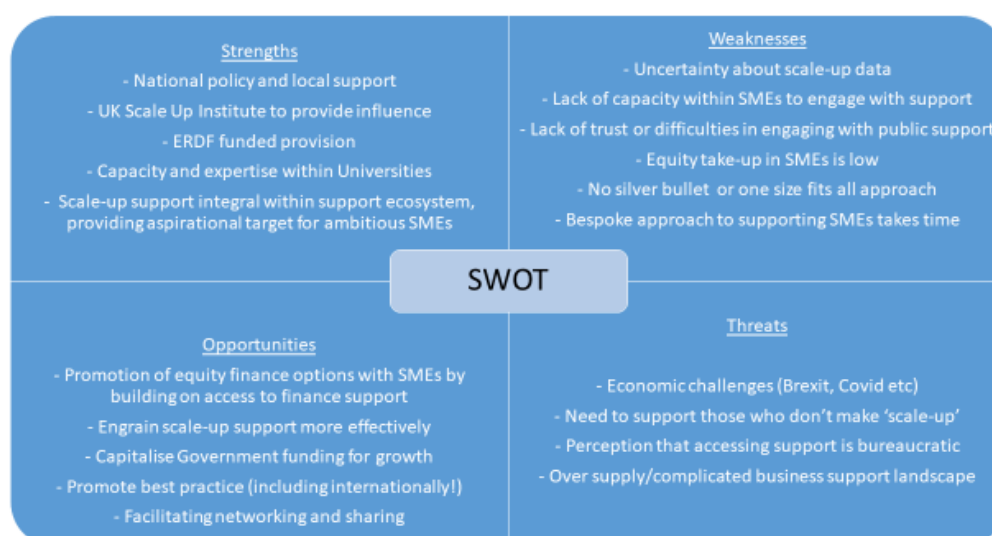
This action plan will help to achieve these ambitions by impacting the Growing Places Fund policy instrument to enable new projects to be supported in the region.

Section 3 – Background & Methodology in developing the Action Plan

This action plan has been developed as a result of the following processes which have evolved during the project.

Regional Context and SWOT analysis

During the first semester we produced a SWOT analysis about the scale-up ecosystem in Nottingham and the wider region. A headline summary is below.



Stakeholder Action Group:

Early in the project, we set up our stakeholder group selecting partners who had an interest in supporting scale-up businesses in Nottingham and the wider region. Stakeholders included:

Stakeholder	Area of interest / experience
Nottingham City Council / D2N2 Growth Hub	Leading business support projects, strategic alignment of support products, economic research context.
Nottingham Trent University	Lead business support including a focus on scale-ups and leadership & management within businesses. They also bring the perspective of providing graduate talent into SMEs.
East Midlands Chamber of Commerce	Lead business support projects, membership organisation with close links to many sectors of business community. A close eye on the views of business.
Innovate UK	Our local Innovate UK service includes a team supporting scale-up companies.
Enterprise Europe Network	Dedicated support for scale-up companies and providing collaboration opportunities for local SMEs across Europe.
Private sector businesses (x2)	Managing growth businesses and delivering coaching support to high growth companies.

All stakeholders have attended meetings of the group and some have assisted in selecting and analysing best practices and contributed to the formation of the action plan. As the action plan evolves, the stakeholder group will be used to monitor progress towards implementation of actions. Throughout the process the stakeholder group has and will provide new insight alongside challenging the findings and supporting implementation.

This engagement has been beneficial for the members involved so we want to formalise this forum within existing decision-making structures and strategic groups. This will give the Stakeholder Group greater value for the long-term and serve to bolster the development of scale up provision in D2N2.

Best practices, Study Visits and Peer Reviews

During the first and second semester all partners identified and presented their best practice examples. The exchange of experience was delivered via virtual study visits due to the Covid pandemic. During

this process, our project stakeholders were able to discuss and analyse all of the best practices across the partner regions. Through this process our stakeholder group was able to identify three best practices for further interrogation which was facilitated via Peer Review sessions with the chosen practice lead.

Best practices identified

Our stakeholders agreed to pursue the following three best practices as a result of the information exchange processes:

1. 'Subsidies for the Entry of Private Investors in New Companies' (Murcia, Spain)
2. Open Innovation Challenge (Lazio, Italy)
3. Incoova (Murcia, Spain)

The Subsidies project was of great interest as it aligns closely to our aspiration to support SMEs to become investment-ready and to promote the take up of equity finance within high growth businesses.

Incoova and Open Innovation Challenge were selected to broaden our approach to supporting innovation. Information gathered during the study visits clarified that we had some of the same provision in existence in our region but the peer review sessions were useful to discover further detail. We still believe we can learn a significant amount from these two best practices and will seek to pursue that during 2022. However, our action plan will focus on implementing learning from the Murcia project.

Section 4 – Action Planning

Having reflected on the learning exchange process and undertaken engagement within our Stakeholder Group, the following area of action has been decided as a focal point. This will directly impact the policy instrument *Growing Places Fund* by delivering new projects via this funding instrument which have not been supported previously.

Headline Action: - Integrate elements of the 'Subsidies for Entry' project (Murcia, Spain) into our support for helping SMEs to secure equity investment.

Background:

Based on the peer reviews, we selected the 'Subsidies to Entry' (Murcia, Spain) project to be replicated in Nottingham and D2N2 to help us provide support for equity investments in to growing SMEs. During late 2021, we have used Government funding for Growth Hub activity (from the Department for Business, Energy & Industrial Strategy), to commence a pilot programme called 'Road to Raise'. This pilot will provide 1-2-1 support to help SMEs become more aware of equity opportunities and to pitch for genuine investments. Incorporating the methodology from Murcia's *Subsidies for Entry* project will allow us to take this pilot support to the next level where we will actively invest in SME growth using the **Growing Places Fund policy instrument**.

The Murcia project provides grant subsidies of up to 20,000euros to encourage private investment into scalable companies within their first five years to assist their growth. The aim of the project is to reduce the risk for the investor by providing a subsidy to promote investment into early stage growing companies.

As far as we know this kind of intervention (using public subsidy to encourage private investors) does not currently exist within the UK. From the peer review, it was clear that the investors have flexibility to choose which SME they invest in, and the beneficiary SME has the flexibility to decide what the equity cash investment will pay for within a constrained list of items (rent, staff costs, equipment, other capital assets).

We understand that in the Murcia model it is not mandatory for the investor to offer mentoring time as part of the investment they make to the SME. This is something we will encourage in order to add additional benefit to the SME.

Actions to be undertaken:

1. Produce a **funding bid** to the D2N2 Local Enterprise Partnership for a two-year 'Early-Stage Equity Investment Programme' for SMEs to leverage equity investments in potential scale up companies. The funding source is UK Growing Places Fund.
2. Assuming the above is successful then **implement the programme to support 50 growing SMEs** across the D2N2 area with a combination of grants, equity investment and mentoring support for sustainable growth. We will use the Murcia grant subsidy level (20,000euros) as the benchmark level of grant subsidy.
3. Integrate the Early-Stage Equity Investment Programme into our **pitch for UK Shared Prosperity Fund allocations** (post ERDF in the UK) when the UK Government release the funding calls (expected summer 2022). This will enable the equity programme to become sustainable for future years.
4. Following our 'Road to Raise' pilot scheme, which has a focus on awareness raising and supporting SMEs to become pitch-ready, we will undertake *ongoing* engagement with the investor community to **test and monitor the ongoing interest of investors regarding equity investments in the Nottingham/D2N2 SME community**. This will include:
 - a. Quarterly surveys to be circulated to investor contacts (in D2N2 and elsewhere in the UK) in order to understand their ongoing interest in engaging in equity deals in our region and any barriers they may have/perceive. This insight will be transferred to influence the local policy instrument for supporting SME growth.
 - b. Consult our 'D2N2 Intermediary Network' (predominantly finance professionals) on a quarterly basis to gain wider perspectives and insight about supply & demand for equity deals and use this insight to inform our approach in the longer-term and to influence any further changes to the policy instrument supporting SME growth.

Impact on policy instrument:

The Growing Places Fund will finance new activities that are heavily influenced by the learning coming from the SCALE UP project exchange of experience process.

Players involved:

The **D2N2 Growth Hub** and **Local Enterprise Partnership** are leading the current Investment Readiness Programme (Road to Raise) in the region so they will be key players and can ensure alignment with wider provision in the business support ecosystem. **Nottingham City Council** will act as accountable body for the project having successfully delivered a variety of previous grant schemes. Additionally, we will work with the **British Business Bank** who are an existing partner with an interest in providing access to finance for SMEs. They have close links to Government and have a wealth of research that would be relevant to support the implementation of this equity scheme.

Timeframes:

- First funding bid to D2N2 Local Enterprise Partnership (UK Growing Places Fund) by June 2022.
- Commence delivery of equity scheme by September 2022 for two years.
- Funding pitch to UK Shared Prosperity Fund (as part of wider Growth Hub bid) expected by October 2022. To commence delivery of a phase 2 scheme in July 2023.

Costs and funding sources:

The costs of delivering the first phase over a **one-year period** include:

Item	Cost	Funding Source
Project Management (staff)	£100,000	LEP – Growing Places Fund
Marketing and Promotion – events and attracting investors	£50,000	
Grant Subsidy pot	£250,000	
D2N2 Equity Investments (incl mentoring support)	£650,000	
TOTAL:	£1,000,000	

Section 5 - Signature

Date: 17th November 2021

Signature: 

Print Name: Chris Pook

Job Title: D2N2 Growth Hub Manager

Organisation: Nottingham City Council / D2N2 Growth Hub