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**Title:** North East Fund – UKSPF Supplementary Funding  
**Report of:** Mark Stamper, Head of Economic Delivery  
**Portfolio:** Finance and Investment

### **Report Summary**

The purpose of this report is to attain approval for the supplementary funding to North East Fund Ltd from UKSPF budget under the delegation provided to the Chief Executive in May 2024, when the North East Combined Authority (North East CA) Cabinet agreed that ‘the formal decisions which the former North East Combined Authority and the former North of Tyne Combined Authority made be treated as decisions of the Authority.’ (Cabinet meeting 7 May 2024, Minute no C6/5/24 (4)).

This follows the agreement in September 2022, of the former North of Tyne Combined Authority (NTCA) Cabinet to delegate responsibility to the Chief Executive in consultation with the Director of Finance and relevant Cabinet Members to approve the commissioning approach and subsequent grant agreements and/or contracts associated with the Shared Prosperity Fund (Minute no 34 Resolution 5).

The recommended approval is for an initial £3m from the UKSPF programme budget with the flexibility to increase this to £9m as the UKSPF programme budget allows, and follows endorsement from North East CA Finance and Investment Board on 13 January 2025. The investment will be used by North East Fund in their agreed target activities to provide Access to Finance to SMEs up to the 31<sup>st</sup> March 2025. This will achieve a range of outputs aligned to the UKSPF programme and the key priority to improve access to finance.

The investment of UKSPF monies in the current North East Fund represents good value for money and strategic fit in its own right. It also facilitates the more efficient and effective financing of the NEF Successor Fund, approved by North East CA Cabinet on 17 September 2024 - by freeing up regional legacy funds and reducing the CA borrowing requirement to enable the successor fund.

### **Recommendations**

The Chief Executive is recommended to:

- i. Award £3m of UKSPF funding from the 2022-25 programme budget to The North East Fund Limited in respect of the proposals set out in the report; and
- ii. Authorise that this funding award may be increased to up to £9m in total, in line with the business case and recommendations of Finance and Investment Board and subject to programme budget capacity at financial year end being confirmed by the Chief Finance Officer.

### **A. Summary of Investment Proposal (Context)**

The North East Fund Ltd is requesting an initial £3,000,000 UKSPF funding from the 2022-25 period. North East Technical Officers Group (TOG) and North East Finance and Investment Board in December 2024 and January 2025 respectively endorsed the recommendations to proceed to final approval of an initial £3,000,000 UKSPF grant, using existing delegations, with flexibility to allow for North East CA to release further funding of up to £9m, subject to budget availability, and on the basis that value for money remains proportionate to the increase in funding. The decision to increase the funding provided will be taken by the Chief Executive in consultation with the Director of Finance and Investment and will be subject to the UKSPF programme budget having capacity and the final outturn position on Q4 2024/25 claims.

This investment builds upon the successful delivery of the £150m North East Fund since 2018 and facilitates the more efficient and effective financing of the Successor Fund, approved by North East CA Cabinet on 17 September 2024.

Investment undertaken by the NEF up to 31<sup>st</sup> March 2025 is eligible activity in respect of UKSPF funding and represents good value for money for UKSPF funds.

## 1. Background

The project is aligned to the with UKSPF Programme through delivery of Access to Finance to Small and Medium sized Enterprises (SMEs) in the North East. Award of funds from the UKSPF Programme Budget is therefore being sought under the above-mentioned delegation agreed in September 2022. This is being implemented through more recent delegation in May 2024, of the North East CA Cabinet which agreed that 'the formal decisions which the former North East Combined Authority and the former North of Tyne Combined Authority made be treated as decisions of the Authority.' (Cabinet meeting 7 May 2024, Minute no C6/5/24 (4)).

The North East Fund Ltd makes available equity and debt investment products for SMEs across the North East CA area, through 5 targeted funds, and has deployed over £150m since 2018.

UKSPF prioritises activity that supports local business. Improving access to investment for SMEs is a key priority for the fund and an eligible activity for intervention E24.

The business case which has been considered identifies a base case award of £3m UKSPF towards NEF activities to 31<sup>st</sup> March 2025, with flexibility for this award to increase up to £9m should the balance of UKSPF at year end allow – the business case has demonstrated that value for money per outcome can scale proportionately with the amount of funds invested.

## 2. North East Fund - UKSPF Supplementary Funding

The North East Fund invests in North East SMEs who have a viable business plan but are unable to attract money elsewhere. Overall, a £150m investment fund is delivering finance to over 450 SMEs creating around 3,500 jobs. Investment is via a fund of funds model using a mix of investment types:

- £44.8m Innovation Fund (convertible loan/equity)
- £42.4m Venture (Early Stage) Fund (convertible loans /equity)
- £20.4m Growth Capital (mezzanine)
- £32.0m Development Capital (convertible loans/equity)
- £10.4m small loans

This proposal is part of a regional commitment to regional access to finance for local SMEs which will continue, via a successor fund until 2040.

£3m UK Shared Prosperity Funding ('UKSPF') invested in the current North East Fund will facilitate direct investment into local SMEs and will meet the specific investment needs of businesses in the area. Investment and outputs will be recorded to reflect the specific designations and eligibility of UKSPF in the region.

The proposal provides strategic benefit and delivers against UKSPF outputs and outcomes as set out in para 2.1 below, including supporting businesses, generating additional new jobs and new enterprise support. The North East Fund also enables wider strategic outcomes for the region, including:

- Increasing the overall funding available to SMEs to start and grow.
- Addresses market failures and gaps
- Achieve regional benefits in addition to the direct investment and job creation, including pound for pound leveraged private investment to the region.
- Incorporate mechanisms which assist SMEs to understand the finance available to them through clear referral programmes and, where possible, through the provision of advice and support.
- Create a sustainable long-term access to finance solution by generating legacy monies which support the establishment of a long-term successor fund.

## 2.1 Outputs and Outcomes

The table below addresses UKSPF outputs that would be achieved based upon £3m investment. Any additional investment would be based on a proportionate increase in outputs and outcomes – maintaining overall value for money, which exceeds the requirements agreed with Government in the North of Tyne area UKSPF Delivery Plan.

<b>Outputs and Outcomes (£3m UKSPF)</b>	
Number of Enterprises Receiving Non-Financial Support	25
Jobs Created as a result of support	249
No. of enterprises adopting new or improved products or services	5
No. of enterprises created as a result of support	5
No of enterprises receiving support	73
No of enterprises receiving financial support other than grants	73
No. of enterprises receiving non-financial support (3-12 hours)	24
No. of enterprises receiving non-financial support (12 hours +)	4
No. of enterprises supported to introduce new to the firm products	5
Direct Jobs Created	249

Value for money assessed as a part of the appraisal of the business case is good when compared to the requirements of the UKSPF Investment Plan agreed with Government, with costs of £12,049 per job, £41,000 Per Enterprise Support and £600,000 per enterprise created. The project has the additional benefit of creating legacy funds for re-investment, through which further outputs/outcomes will be created in the NEF Successor Fund.

## 2.2 Timetable for Implementation

Headline milestones include:

<b>Project milestone</b>	<b>Delivery date</b>
NEF Investments in scope from start of UKSPF Programme Period	01.04.2022
Final Investment Date	31.03.2025

## 2.3 Appraisal

A green book business case has been developed by the applicant and appraised by the Combined Authority with overall green RAG assessment.

<b>Overall RAG assessment</b>		
<b>Risk Rating</b>	The Strategic Case	GREEN
	The Economic Case	GREEN
	The Commercial Case	GREEN
	The Financial Case	GREEN
	The Management Case	GREEN
	<b>Overall Rating</b>	<b>GREEN</b>
<b>Overall RAG assessment</b>		

## 2.5 Recommended Conditions of Funding

The award of funding would be **subject to the following proposed funding conditions:**

No.	Condition
1	To confirm the VAT position of the Fund prior to contract

### B. Potential Impact on North East Combined Authority Objectives

All funded activity will contribute to progressing the Mayor and Cabinet's priorities.

### C. Key risks

A project risk register has been provided as part of the business case, and has been assessed. This will continue to be monitored in line with the Single Assurance Framework. The primary risk associated with this project relates to ensuring that the necessary agreement is in place to ensure the transaction / claim of UKSPF can be undertaken to maximum value to minimise any risk of repayment of UKSPF. To mitigate this, necessary administrative process at Year End 24/25 are being implemented to facilitate maximum payment.

### D. Financial and other resources implications

The financial profile for the project is included below:

FUNDING						
	24/25	25/26	26/27	27/28	28/29	Total
UKSPF Grant	£3,000,000*	£0	£0	£0	£0	£3,000,000*
	£0	£0	£0	£0	£0	£0
<b>UKSPF Grant – Total</b>	<b>£3,000,000*</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£3,000,000*</b>
Match Funding (ERDF) (EIB) (Regional Legacy)	£8.3m £10.03m £0.05m	£0	£0	£0	£0	£8.3m £10.03m £0.05m
<b>Project Total</b>	<b>£21.38</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£21.38</b>

Match funding is in kind provided by ERDF and EIB co-investment to deals with private sector.

\*Business Case award is for an initial £3,000,000 UKSPF grant for investment undertaken in the former North of Tyne CA area. Options are presented within the Business Case for the investment of up to £9m into the NEF, should flexibility of funding and finance from UKSPF be made available.

### E. Legal implications

The applicant has provided external legal advice on a compliant subsidy control position and the comments of the Monitoring Officer have also been included in the report.

**F. Equalities implications**

The North East CA follows the Public Sector Equality duty and this report has due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010.

**G. Consultation and engagement**

Ongoing engagement and consultation has taken place with members of the Regional Access to Finance Group, including representative from constituent local authorities.

**H. Appendices**

None

**I. Background papers**

None

**J. Contact officers**

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**K. Glossary**

North East CA – North East Combined Authority  
UKSPF – UK Shared Prosperity Fund

**L. Consultee**

Cabinet Member:	Director/Head of Service:	Director of Finance and Investment:	Monitoring Officer:
Yes	Yes	Yes	Yes