

<b>Item No.</b> 13.	<b>Classification:</b> Open	<b>Date:</b> 18 June 2019	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Southwark Pioneers Fund: Establishment	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		Councillor Stephanie Cryan, Jobs, Business and Innovation	

### **FOREWORD – Councillor Stephanie Cryan, Cabinet Member for Jobs, Business and Innovation**

Southwark has a long history of innovation be it in industry, creative arts, life sciences and beyond and we have a diverse range of cutting edge institutions, from world leading universities and hospitals to a growing number of start up businesses. We also have a small but growing network of innovation and enterprise support providers. We have highly creative and skilled residents brimming with ideas and knowledge but who often struggle to attract the right level of advice and financial support. The introduction of the Pioneers Fund aims to release this potential and to bring together the support and finance that our residents need to grow a new wave of innovative social and commercial enterprises. The aim of the Fund is to support people in turning their ideas into successful ventures.

The main objectives of the Pioneers Fund will be to increase the creation and survival of social and commercial enterprises, widen the diversity of residents who own and lead enterprises in Southwark, create good quality employment for Southwark residents and to generate wider social value across the Borough. The financial support provided will come in the form of grants, loans and equity investment with the aim of creating a sustainable source of funding for the future. The Fund seeks to add value to, and not to duplicate, provision that is currently available to Southwark based entrepreneurs. In developing the Pioneers Fund we have drawn on the considerable experience and expertise from key stakeholders across the Borough alongside an analysis of local need and a commissioned technical analysis.

The delivery of the Fund will be undertaken in stages and a progress report will be brought to cabinet in 12 months time. We will also be undertaking work on a detailed delivery plan for funding in future years.

I would like to thank Councillor Peter Babudu who in his role as Deputy Cabinet Member for Innovation has brought people and ideas together working collaboratively and comprehensively to ensure that our Southwark Pioneers can thrive and prosper.

### **RECOMMENDATIONS**

#### **Recommendations for the Cabinet**

That cabinet:

1. Agree to the establishment of the Southwark Pioneers Fund (the Fund) to invest in Southwark's entrepreneurs of the future.

2. Agree the allocation of £2 million to the Fund from the London Devolution Reserve.
3. Agree that the next steps for the Fund will include development of a more detailed delivery plan setting out additional information on how the Fund will be delivered and including key outputs and milestones.
4. Instruct that a progress report is brought back to cabinet on the implementation and delivery of the Fund in 12 months.

### **Recommendation for the Leader of the Council**

That the leader of the council:

5. Delegate future decisions on individual elements of delivery of the Fund to the cabinet member for jobs, business and innovation in consultation with the strategic director of finance and governance and the head of the chief executive's office.

### **BACKGROUND INFORMATION**

6. Southwark's economy has many strengths, including an increasing number of jobs and world class institutions and enterprises. However, national weaknesses in innovation, investment and trade have created national challenges regarding low productivity, reflected locally.
7. To address this decline in productivity, we need increased investment in growing the parts of our economy that can generate both the good jobs of the future, and social and environmental progress. Supporting our local economy to grow is an essential part of the solution.
8. Enterprises and entrepreneurs in Southwark face major challenges in starting, scaling up and becoming sustainable. This is evidenced through research, consultation and needs analysis on a regional and national scale, mirrored also at a local level through work commissioned by the council (details of which are set out in paragraphs 15 to 21 below).
9. The council is therefore developing a Southwark Pioneers Fund (hereafter called the Fund), as pledged in the Council Plan, to support the council's commitment to inclusive and sustainable growth.
10. The Fund will generate inclusive growth by supporting the creation and scale-up of commercial and social enterprises (including revenue-raising charities) that will:
  - Widen the diversity of people who own and lead enterprises in Southwark
  - Create good quality employment for Southwark residents
  - Generate other social and environmental value for the people of Southwark.
11. In addition the Fund will:
  - Generate a financial return so that a proportion of the Fund can be reinvested
  - Attract wider investment (from beyond the Fund) into Southwark enterprises
  - Complement, connect and enhance wider enterprise support available to people and enterprises starting up and scaling up in Southwark (such as Start Ups in London Libraries and the South London Innovation Corridor,

see paragraphs 28 to 32.)

12. The Fund will enable entrepreneurs and enterprises in Southwark to flourish, and will stimulate follow-on benefits for the people of Southwark. Independent analysis commissioned by the council indicates this benefit equates to an indicative £4.6 million in economic benefits.
13. The purpose of the Fund will be to enable people who otherwise may not have had the opportunity to start-up, grow, own and benefit from small enterprises in Southwark. This will include taking up of job opportunities within growing enterprises. The Fund will provide access to finance and other support to socially-minded and driven enterprises and entrepreneurs who have real potential to make Southwark a fairer, more prosperous and more inclusive borough.
14. The Fund will therefore act as a key lever in achieving the council's wider Council Plan commitments, driving further social value and social improvement by encouraging diversity of business entrepreneurship, quality employment and improving business resilience across the borough.
15. Over the last year, to help develop the Fund, the council has undertaken a range of local research, analysis and consultation. The purpose being to understand better the needs and priorities of local small businesses, what was getting in the way of growth and where the council and other interested stakeholders could play a role in stimulating support and investment to enable inclusive growth among entrepreneurs and small businesses.
16. To this end, the council commissioned a needs analysis to inform the Fund's development, including group discussions and interviews with local enterprises and intermediaries.
17. This needs analysis found that Southwark has an emerging ecosystem of support for enterprises, and entrepreneurs. For example, Hatch, Makeshift, Community Southwark, Pempeople and Sustainable Workspaces all support local social entrepreneurs to start and grow. However, whilst this ecosystem has huge potential it also has significant gaps, can be hard to navigate and is largely dependent on short term funding that makes it innately fragile. There is a lack of coordination across these individual sites and support. In many cases, there are a lack of resources to provide subsidised spaces and more systematic business support.
18. The needs analysis also found that there is a clear need for further support around the creation and development of local networks, enterprise support, access to finance (in particular, improving access to grant and repayable finance) and affordable workspace.
19. In addition to the needs analysis, the council carried out consultation on the possible shape of the Fund in March/April 2019. This indicated that there is a market demand for access to finance, including grants, loans and equity/equity-like investment, as well as the wider suite of support the Fund will offer. The most-needed types of support identified by respondents included help with accessing finance, and tailored one-to-one support. The majority view was that the Fund's support would be used to pursue growth opportunities. Second to this was increased employment, with more than half of respondents wanting to see

this as a clear outcome of the Fund's success.

20. To ensure the Fund's development was underpinned by robust financial and social value analysis, the council commissioned a technical analysis report in April 2019. This found that in Southwark, 89% of new enterprises are still in operation after one year of operation. This reduces to a figure of 40% after five years of operation.
21. The findings from the technical analysis also suggest that targeted investment and support in the form proposed by the Fund is likely to improve enterprise survival rates, with a key reason for enterprise failure being a lack of credit and insufficient management capability or expertise.
22. Taking account of the research, consultation and needs analysis this report now seeks cabinet agreement to set up and establish the Fund, with particular focus on the first year of fund delivery. Further work will also be undertaken on the detailed delivery plan for future years with a report on progress to be brought back to cabinet twelve months from now. On the basis of agreement by cabinet, individual decisions on future Fund direction and detailed delivery will be taken by the cabinet member for jobs, business and innovation. This will include decisions on grant award and broader governance structures, as appropriate.

## **KEY ISSUES FOR CONSIDERATION**

### **Meeting local needs and delivering social value**

23. The Fund aims to provide a range benefits to the wider community of Southwark beyond generating a financial return of the Fund's capital. The council can drive increased social value and social return by evaluating enterprises' social value objectives through the application process, and by embedding social return within funding agreements. Key social value measures such as the diversity of business entrepreneurship, the creation of quality jobs and increasing the skills and capabilities of Southwark residents can be used to track the social value generated through the Fund.
24. One of the primary elements in shaping the Fund has been ensuring that it meets local needs and addresses challenges faced by those from underrepresented backgrounds. This has been achieved in the following ways:
  - Through commissioning a local needs analysis (please refer to Appendix 1 Southwark Pioneers Fund: Research into the needs of local SMEs, social enterprises and start-ups, Young Foundation, January 2019). The report found that the focus of the Fund should be on smaller rather than medium-sized enterprises and that they have particular needs across the suite of support the Fund intends to provide in Southwark (including access to finance, business support, networks and workspace).
  - Establishing an advisory group to seek advice and guidance from highly experienced and knowledgeable stakeholders from across the borough (and nationally) throughout the development of the Fund. Please refer to paragraphs 52 – 55 below where the advisory group's role and contributions are outlined. The work of the advisory group has been supported by an internal working group that has provided additional legal and financial guidance.

- Engaging on an individual level with a wide range of stakeholders across the borough for in-kind advice (such as Sustainable Workspaces, Hatch, Tree Shepherd and Peckham Levels as well as various enterprises and would-be entrepreneurs directly) to hear their views on more specific aspects of the Fund's offer.
- Consulting with a large number of small enterprises and entrepreneurs via a survey on our Consultation Hub. A summary of the survey findings is attached as Appendix 2 (Consultation hub survey analysis, March-April 2019). The consultation found that there is a clear local need and demand for the types of support that the Fund aims to provide (across business support, networks, affordable workspace and access to finance).
- Commissioning a technical analysis of the possible financial and social return able to be generated through the Fund. A report is attached as Appendix 3 (Southwark Pioneers Fund Technical Analysis report, Ernst & Young, April 2019), and referred to throughout this cabinet report.
- Research regarding challenges faced by small enterprises and entrepreneurs in this area, especially by those from underrepresented backgrounds. Micro-enterprises seeking external finance face a particular set of issues, more so than challenges experienced by SMEs in general. The challenges faced by micro-enterprises and start-ups are disproportionately felt by those from underrepresented groups. These groups include people from BAME backgrounds, women, and people with disabilities. Please refer to the equality analysis report accompanying this cabinet report (at Appendix 5) for further information regarding difficulties faced by these groups in starting up and scaling up their businesses.

### **Meeting broader local economic ambitions and policy implications regarding the Fund's establishment**

25. As outlined above, the Fund is a Council Plan commitment, and is aligned with our broader local economic ambitions to further enhance Southwark's inclusive growth.
26. The Organisation for Economic Co-operation and Development sets out that inclusive growth is economic growth that is distributed fairly across society and creates opportunities for all.<sup>1</sup> As detailed in our Economic Wellbeing Strategy, Southwark Council remains committed to making support into employment inclusive and focused on client groups with more complex barriers to work.
27. The Fund also aligns with our policies around social value (including the Fairer Future Procurement Strategy), and with our affordable workspace policy in our New Southwark Plan.

### **Aligning with and adding value to local business support**

28. A key underpinning principle of the Fund is that it seeks to add value to, and not duplicate provision that is currently available to Southwark-based entrepreneurs. The Fund is strongly aligned with the implementation of the Start Ups in London

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<sup>1</sup> <https://www.oecd.org/inclusive-growth/#introduction>

Libraries (SiLL) initiative in Southwark.

29. SiLL is a three-year project to support local entrepreneurs from all walks of life to get their business ideas off the ground, through the provision of a comprehensive programme of fully-funded two-day workshops and events, confidential business information sessions and tailored face-to-face advice.
30. Southwark is one of ten London boroughs selected to launch this coordinated network of fully-funded support for start-ups in public libraries, in partnership with the British Library's Business & IP Centre. SiLL is fully-funded by the European Regional Development Fund, the British Library, the ten participating London boroughs and supported by JP Morgan and Arts Council England.
31. SiLL is open to aspiring entrepreneurs (including those who have been registered with Companies House for up to 12 months). SiLL can therefore act as an active pipeline into the Fund (and vice-versa) for those who may not yet be ready for the Fund's support.
32. As the Fund is implemented, alignment and coordination with the South London Innovation Corridor (SLIC) programme will be ensured. SLIC is an £8 million cross-borough programme involving Lambeth, Lewisham, Southwark and Wandsworth Councils. Its purpose is to catalyse inclusive growth within the creative and digital industries. While SLIC's focus is narrower than the Fund's scope, there are synergies within the three core SLIC programme areas (workspace, business support and talent development).
33. The Fund will also be aligned with and add value to other local enterprise support and funding on offer to entrepreneurs and enterprises in Southwark. While Southwark's entrepreneurship ecosystem has significant potential, business support is scattered across a range of organisations and intermediaries. In many cases, there is a lack of resources to provide more systematic business support. The needs analysis report found that bringing together and leveraging existing business support activity and networks across the borough is key. The Fund aims to complement (not duplicate) and enhance wider enterprise support available to enterprises in Southwark.
34. Finance of the type the Fund aims to provide is in short supply in Southwark. The Fund will help to draw further support of this kind into Southwark. Examples of locally available social investment include grant funding (up to £10,000) and social investment (£25,000 - £150,000 for social enterprises) offered by Peabody; Start Up Loans (loan sizes of between £500 - £25,000 together with a business mentor, funded by the government, for entrepreneurs across the UK); grant funding (typically £5,000 – £10,000) and match trading grants (supporting enterprises' development by incentivising income from trading and matching growth in trade with a grant) offered by the School for Social Entrepreneurs.

**Primary aim of the Fund: Increasing inclusive growth**

35. The Fund seeks to increase inclusive growth by supporting the creation, survival and scale-up of commercial and social enterprises (including revenue-raising charities) that will:
  - Widen the diversity of people who own and lead enterprises in Southwark
  - Create good quality employment for Southwark residents
  - Generate other social value for the people of Southwark.

36. In addition the Fund aims to:
- Where possible, generate a financial return that can be reinvested
  - Attract wider investment (from beyond the Fund) into the enterprises supported
  - Complement, connect and enhance wider enterprise support available to people and enterprises starting up and scaling up in Southwark (such as SiLL and SLIC)
  - Support the sharing of knowledge and skills.
37. The establishment of the Fund is a first for the council, and as this involves opportunity as well as risk, we have taken important learning from elsewhere where similar types of initiatives have been delivered. Alongside discussions with other councils (such as Haringey Council, regarding their Tottenham Opportunity Investment Fund), this includes a review by the Young Foundation of a range of examples where local authorities have developed business support programmes and funds with a variety of funding models. In each case, there has been demonstrable social value achieved through these programmes and funds.

### **Proposed Fund structure**

38. In line with the council's budget setting process for 2019-20, up to £2 million is sought as a total funding envelope. This is to be sourced from the London Devolution Reserve, over a three-year period up to 2022.
39. The needs analysis found that there is a need for more flexible finance that enterprises can use to meet needs as required. A flexible approach will be taken to the allocation of the Fund's financial (and other) support, pending specific need and demand. Individual sub-envelopes for the Fund's support are proposed as follows:

### **Grants**

- **Purpose and need:** To assist those enterprises and entrepreneurs who may be piloting, testing and experimenting with new/innovative solutions, and/or at an early stage in their growth journey. Consultation feedback indicates that the majority of respondents prefer grant finance, as this incurs no debt.
- **Eligible applicants could receive:** Outright grants of up to £5,000 or grants blended with a loan (with the potential to merge some of the Fund's grant allocation with the loans/blended loans allocation below, pending demand and need).
- **Delivery:** Outright grants will be internally managed and administered by the council. This reflects the council's expertise and experience in grant management and administration and will ensure efficiency in the deployment of resources to support Fund delivery.
- **Proposed governance:** Initial governance for outright grants will include an internal grants panel with an officer Chair. The internal grants panel will also seek expert advice from independent experts in business start-up and growth sectors (where appropriate). The internal grants panel will meet regularly (likely to be quarterly) relative to fund applications, and would evolve as the later stages of the Fund's support are implemented. Council officers on the panel will review all applications and undertake due diligence on them, ensuring

applications and enterprises meet the Fund criteria and undertaking an assessment of the likelihood that a grant will enable the enterprise to start or grow, requesting further information from the applicant where needed. Officers will submit recommendations to the lead Cabinet member for approval. The application process and form will be designed to ensure it is inclusive and does not present any unnecessary barriers to applicants.

### Loans and blended loans

- **Purpose and need:** For those enterprises that are ready for more significant financial investment, a hybrid form of finance will be more appropriate – a mix of grant and loan. Consultation feedback indicates that there is an appetite for a range of loan sizes to be offered through the Fund (with the most popular loan size being in the £50,000 – £60,000 range). There is likely therefore to be a mix of loans and blended loans, depending on need and demand. Blended loans will mean a combination of grant funding and repayable finance.
- **Eligible applicants could receive:** £50,000 – £100,000 (which will be negotiable depending on the nature of the application). Based on the technical analysis, in line with the attributes of social finance funds, it is likely that loans will be unsecured and the interest rate will be between 3.5 – 6.5%. Further detail on the loan terms will be provided in the progress report back to cabinet.
- **Delivery:** External fund management will be used to ensure the best expertise and financial support capacity can be efficiently deployed with regards to loan administration and management.
- **Proposed governance:** The council will establish a dedicated fund vehicle to host the loan and equity elements of Fund (in the form of company limited by shares or a limited liability partnership), this will be managed by a commissioned fund manager. This will allow a clear distinction of responsibilities between these elements of the Fund and the council, and reduce the likelihood of conflicts of interest or strategic duplication. Importantly, this does not require the council to cede its decision-making powers. In line with the development of a detailed delivery plan, a governance framework and investment mandate (setting out a strategy and risk parameters) will be worked up for the Fund for agreement by the lead cabinet member in liaison with the strategic director of finance and governance and monitoring officer.

### Business support, networks and access to affordable workspace

- **Purpose and need:** Research shows that business support programmes have a positive impact on business start-ups, and that a significant proportion of small businesses have an unmet need for formal business support.<sup>2</sup> The needs analysis report and consultation feedback found that business support in the form of free/subsidised/pro-bono support (including mentoring and one-to-one guidance) should be provided. As such, providing business support alongside finance is likely to significantly increase the

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<sup>2</sup> <https://www.fsb.org.uk/docs/default-source/Publications/reports/fsb-local-business-support-report-feb15.pdf?sfvrsn=1> page 10; <https://whatworksgrowth.org/policy-reviews/business-advice/>; <https://webarchive.nationalarchives.gov.uk/+/http://www.berr.gov.uk/files/file39768.pdf>



success rate of the businesses the council is investing in. This is a model that has been adopted by a wide range of investors.

- **Eligible applicants could receive:** Signposting to relevant support and guidance in the borough (including SiLL and SLIC); a tailored package of business support - including mentoring and one-to-one guidance, access to **networks** and priority access to affordable workspace in the borough.
- **Delivery:** The council will commission a provider to design and manage a one-to-one and cohort-based support package. The council will also partner with established providers and organisations to maximise resources and complement existing service provision (including through in-kind support).
- **Proposed governance:** To be determined pending the development of a detailed **delivery** plan and governance framework. However, it is likely that the council will set the criteria and parameters for the business support to be provided, and the business support provider will then decide how to best allocate support on offer in any given case.

### Equity and equity-like investments

- This element is under consideration as a second phase of the fund from 2020-21, with full proposals coming to cabinet within 12 months as part of the progress report.
- **Purpose and need:** Predominantly for larger, more established enterprises (for **companies** limited by shares). Enables the Fund to support enterprises with real growth potential, which could generate a return to the Fund (further down the track) if they perform well. Some interest in equity investment was indicated in both the needs analysis report and through consultation.
- **Eligible applicants could receive:** £50,000 - £150,000 (which will be negotiable **depending** on the nature of the application, subject to agreed qualifying criteria being met).
- **Delivery:** External fund management will be used to ensure the best expertise and financial support capacity can be efficiently deployed with regards to equity administration and management. Detail to be included in a report back to cabinet in 2020.
- **Proposed governance:** Detail to be included in a report back to cabinet in 2020.

### Fund management

40. Across the whole programme, set up and operational costs of £350,000 over five years (as estimated by the technical analysis) will be absorbed into the funding envelope to ensure the £2 million budget is not exceeded. The council will endeavor to make sure that fund management costs will be minimised as far as reasonably possible. As the proposed approach may involve equity/equity-like investments, complex legal and regulatory structures as well as a higher range of Fund set up and operational costs will need to be factored in. For equity/equity-like investments, one-off costs could be 13% of the Fund's budget, with ongoing yearly costs of 10% of the Fund's budget.

41. There are a number of variables in how the Fund could be apportioned across the different types of financial support. The table below provides an illustration of potential numbers of enterprises who may receive support over the lifetime of the Fund (up to 2022):

	Type of funding		
	Business support	Grant	Loan & Equity
<b>Indicative pot</b>	£400,000	£400,000	£1,200,000*
<b>Funding per enterprise</b>	£2.5k- £7.5k	£5k	£50k +
<b>Indicative no. of enterprises supported</b>	100+	80+	10-20

\*including fund management costs

42. Business support in the form of a tailored package will depend on the stage of the enterprise and what their needs are (as well as the commissioning process for business support). Support will principally be provided to those applicants that also receive funding through the Fund, but also to those that need some support to be ready for financial support (supplementing via signposted services like SLIC and SILL). An indicative range could therefore be based on at least 20 enterprises receiving intensive guidance and support (through receiving business support while they are provided with blended loans/loans and receive equity investment). This leaves room for less intensive support to be provided to other enterprises at an earlier stage of their growth journey, meaning that up to a further 80 applicants (indicative figure only) could receive the tailored package (pending need and demand).
43. Many more applicants will also be signposted and referred through to other locally available support and there will be in-kind support provided. The Fund will also seek to create an active network of “Pioneers” who have received support from the Fund, with a particular focus on creating networks of enterprises at a similar stage in their growth journey who can help support each other (and future Pioneers) in their entrepreneurial journeys.
44. Eligibility and assessment criteria for the Fund will be further developed alongside the more detailed delivery plan for the Fund. Enterprises and entrepreneurs will be eligible to apply for access to the Fund’s business support and networks if they are based in Southwark, are registered, have fewer than 10 employees and are at an early stage in their business life cycle and/or they want to grow/scale. To be eligible for debt finance, there must be commitment from applicants to work towards the Good Work Standard. In the case of equity, a robust business case will underpin their commitment to scaling up their enterprise. Indicative eligibility and assessment criteria are set out at Appendix 4.

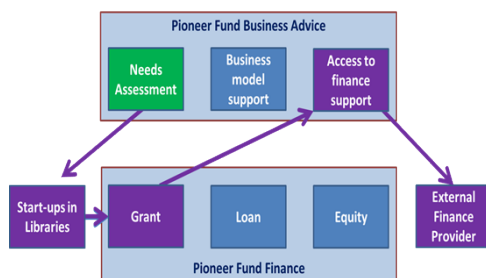
### **Applicant journey**

45. In terms of the ‘customer journey’, it is anticipated that applicants will first be checked for eligibility (against qualifying eligibility criteria). Eligible applicants will then receive a centralised needs assessment undertaken by the business support provider. On the basis of their needs assessment, eligible applicants will be able to apply for the right type and amount of the Fund’s support to meet their

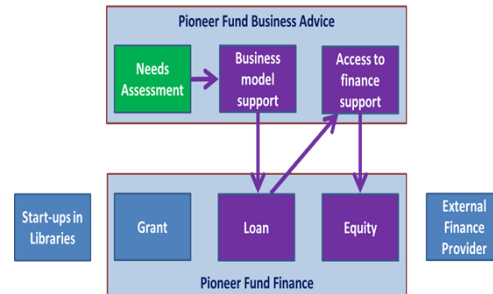
needs. Applicants will also be referred to existing local support, as appropriate, as well as other appropriate regionally and national available finance options. The applicant journey through the Fund will be worked up in further detail as the Fund's delivery plan is developed and agreed.

46. Examples of the applicant journey are illustrated in the below diagrams. This shows that the applicant can access or exit the Fund's support at any stage, and can access targeted elements of the Fund's support depending on their needs:

*Example 1:*



*Example 2:*



*Success measures for the Fund*

47. We will assess the Fund's success to the extent it supports inclusive growth by supporting the start-up and scaling of enterprises that widen the diversity of people who own and lead enterprises in Southwark; and create good quality employment for Southwark residents. Other social value gain for Southwark will be based on the below indicators.
48. An impact framework will be developed for the fund to measure progress in achieving the primary and secondary aims (set out in paragraphs 35 and 36). Potential success indicators (including those recommended in the technical analysis report) include:

**Primary aims**

1. Increase the creation, survival and scale-up of commercial and social enterprises (including revenue-raising charities):
  - New enterprises supported to establish
  - Increase in survival rate for supported enterprises above borough average
  - Improved turnover of supported enterprises.
2. Widen the diversity of people who own and lead enterprises in Southwark
  - At least 55% are female
  - At least 55% are BAME
  - At least 10% of recipients have disabilities
  - Survival rate of BAME-led enterprises
  - Survival rate of female-led enterprises
  - Survival rate of enterprises led by people who have disabilities.
3. Create good quality employment for Southwark residents
  - Number of jobs created for Southwark residents
  - Number of Living Wage jobs created

- Number of apprenticeships created
  - Number of paid internships created.
4. Generate wider social value for the people of Southwark
    - A wide range of social value measures potentially taken from the Social Value Portal covering outcomes like crime, health, supporting vulnerable people, working with the Community, climate impacts and air pollution etc.

### **Secondary aims**

5. Where possible, generate a financial return that can be reinvested
    - Financial return from loans and equity
    - Increased business rates.
  6. Attract wider investment (from beyond the Fund) into the enterprises supported
    - Inward investment secured (from outside the Fund) by supported enterprises following support from the Fund.
  7. Complement, connect and enhance wider enterprise support available to people and enterprises starting up and scaling up in Southwark (such as SiLL and SLIC)
    - Number of enterprises securing affordable workspace
    - Number of appropriate referrals to and from Start-ups in London Libraries
    - Number of appropriate referrals to and from SLIC
    - Number of appropriate referrals to and from partner agencies.
  8. Support the sharing of knowledge and skills
    - Voluntary hours donated to support Southwark enterprises
    - Volunteer mentors secured for Southwark enterprises.
49. When considering the additional benefits and social value to be delivered through spending public money, it is necessary for this spend to support the social, economic and environmental well-being of Southwark and its residents, aligned to the delivery of the council's Fairer Future commitments and values. The Fund will generate social value through supporting enterprises that have positive social and environmental impacts, producing goods or services or having an operating model that helps to address social and environmental challenges, for example helping to reduce carbon emissions, improve health, make housing more affordable or provide employment or training for disadvantaged people.
  50. Specific targets and measures for the Fund's success indicators will be developed in the course of commissioning the various elements of the Fund's support.
  51. It is also proposed that the fund generates a level of recyclability, dependent on the inherent challenges of providing finance to areas currently under-provided for. An indicative view (based on the independent technical analysis report) of the recyclability able to be generated through the Fund is that the Fund over five years could have a value of £763,528 (nearly 40% of the Fund's budget). This includes an indicative amount of £433,240 returned to the Fund through repayable loans and an indicative value of £330,288 for equity held in Year 5 (i.e. 2023/24). In addition, there will also be an estimated £400,000 generated through additional

business rates.

### **Partnership working to deliver the Fund**

52. The success of any fund like this is based on the strong and continued understanding of local need and intelligence. An ambitious and broad partnership has been built to support the start-up and growth of enterprises that will generate social and environmental benefits to our borough.
53. The Southwark Pioneers Fund Advisory Group (the Group) brings together key stakeholders from nearly 20 organisations committed to supporting social purpose innovation and enterprise in our borough. These key stakeholders include representatives from the private sector (such as Ernst & Young and British Land), the social sector (such as Peabody, Community Southwark, Hatch Enterprise, Pempeople, Makeshift and Community Opportunity), foundations (such as Guy's and St Thomas' Charity), academic institutions (such as LSBU) and beyond (including the School for Social Entrepreneurs, UnLtd, Health Innovation Network South London and Sustainable Workspaces).
54. The Group has met on a monthly basis from October 2018 through to April 2019. Discussion and workshops have included the Fund's scope and strategy, local needs, members' experiences in this area, and how the Group can collectively work to make the Fund a success.
55. We have worked through a process of seeking commitments of support from the Group, and have received a significant number of offers (ranging from potential co-investment, to referral support through to facilitation and support to run innovation workshops). Some indicative partnerships are more advanced, in that we have in-principle commitment to support for the Fund from a range of partners including Peabody, Make Shift, Ernst & Young, Blue Bermondsey, Hatch, Community Southwark, British Land and School for Social Entrepreneurs. Some of this support is in-kind, while some will be subject to formal commissioning processes in the course of procuring elements of the Fund's support. Broader stakeholder engagement will continue as the Fund is delivered.
56. Local people and other stakeholders will continue to have a voice in the development of the Fund as it progresses, through the continuation of strong relationships formed through the Group. The exact nature of this collaboration will be considered following cabinet's approval of the establishment of the Fund (and with appropriate separation from any agreed commissioning processes and procurement considerations).

### **Risk**

57. It is important to strike the right balance between managing risk and allowing the benefits of the Fund to flow quickly to where they can make the most impact.
58. As a council, there is a necessary consideration of our appetite to take calculated risks to lift our local economic outcomes, noting this is the first time Southwark Council has set up a Fund of this nature.
59. It is inherent in an innovation-focused fund to have a reasonable appetite for risk, especially given that the Fund aims to generate a level of recyclability through loans/blended loans. This approach contrasts with a primarily grant-focused fund

which delivers no recyclability. Together these factors should be balanced with the wider social value gain that is intended to flow from the activity directly and indirectly supported by the Fund.

60. Small enterprises that are most in need of affordable finance and support are inherently more fragile. If offering loans to these organisations, the council is likely to see a higher level of default (potentially 20%) and need to offer favourable repayment terms (payment holidays, repayments over 5 years or more etc.) and/or blended with soft/grant finance. These factors will influence the level of recyclability achieved through the Fund.
61. As with funds of this nature, the council should consider being prepared to accept that along with successes there will be some enterprises that do not deliver the anticipated social returns (and/or financial recyclability). Hand-in-hand with the opportunity to create jobs and deliver economic value to the people of Southwark, goes the risk that these benefits do not materialise to anticipated levels.
62. Mitigations the council will consider include engaging external capability to manage the Fund (in particular the loans, blended loans and equity/equity-like components), and close and effective robust monitoring and future planning with regards the Fund's portfolio.

### **Community impact statement**

63. The Fund will impact across the Southwark community, including the borough's social enterprise and start-up community. Extensive consultation and engagement has been carried out throughout the development of the Fund's strategy and policy (please refer to paragraph 24).
64. Assessment of the impact on protected characteristics in line with the Equality Duty will be developed as part of the delivery plan (and in discussion with the successful commissioned providers). The analysis will therefore be ongoing.
65. As set out in further detail in the Equality Analysis Report accompanying this Cabinet report, women, people from ethnic minority backgrounds, and people with disabilities are far less likely to own, grow and be employed by small enterprises.
66. The Fund will seek to increase the number of people in these underrepresented groups who are able to start-up, own, grow and be employed by these enterprises. The Fund will also encourage the creation of good quality jobs, skills and training opportunities, and contribution to community initiatives alongside other social value outcomes.
67. As the Fund is implemented, project monitoring will follow the council's equalities monitoring guidance to ensure it captures key information about the Fund's achievement of its primary aim of inclusive growth across intended target groups and protected characteristics.

### **Financial implications**

68. As per the budget setting process, the Fund has a total budget of up to £2 million. This budget will cover all costs incurred in delivering and administering the Southwark Pioneers Fund.

69. There will be a mix of commissioned delivery and in-house delivery (all contained within existing resources and budgets).
70. The proposed Fund is expected to operate over a three year period up to 2022 and has a total value of £2 million which will be funded from the London Devolution Reserve.
71. A flexible approach is proposed over the allocation of the £2 million Fund but initial proposals indicate the following apportionment across the Fund's support areas:

	<b>£000</b>
Grants	400
Loans and blended loans / Equity and equity-like investments	850
Business Support	400
Fund Management	350
Total	2,000

72. It is expected that the administration of the grant process will be managed within the council and the business support function of the Fund will be provided externally via a commissioning process.
73. The remaining areas of loans and equity investments are likely to be provided through an external fund management arrangement.
74. Set up and operational costs of £350,000 is estimated by Ernst and Young over the Fund period but this is expected to be contained within the £2 million Fund total as shown in table above.
75. The development of the delivery plan will detail the governance arrangements and the commissioning process for the outsourced elements of the Fund.
76. All internal staff and other costs will be contained within existing departmental revenue budgets.

### **Next steps**

77. Pending Cabinet approval, next steps will include development of a detailed delivery plan to outline how the Fund will be delivered and timescales for this, commissioning of outsourced elements of the Fund and a governance framework. Furthermore, a progress report on Fund delivery and any next stage implications arising, will be brought back to Cabinet in 12 months.
78. An initial launch is proposed for the Fund - the purpose being to establish and signal the different types of support that will be offered (and when). There will be a full announcement of the Fund's support once the first stage of support is ready for applicants.
79. Delivery will be undertaken in stages, beginning with the provision of grants and in-kind support and signposting, with loans and equity/equity-like investments becoming available from 2020 onwards when the Fund's pipeline and structures have been more firmly established.

*Key milestones – Initial outline delivery plan*

#	Key milestone	Timeframe (achieved in)
1.	Cabinet agreement to establish the Fund and funding envelope.	June 2019
2.	Initial launch of the Fund, including announcement regarding its establishment and an outline of support to be offered.	August 2019
3.	Development of a delivery plan for 2019/20, including an outline for future years.	September 2019
4.	Establishing fund governance, initially for year one delivery of grant-based and in-kind support, followed by future years' governance.	September 2019, and then January 2020
5.	Launch of Round 1 of grants support through the Fund.	Autumn 2019
6.	Development of a delivery plan for the future years of the fund.	January 2020
7.	Commissioning initial outsourced elements of the Fund (e.g. business support).	February 2020
8.	Full announcement of the Fund's support including detail about the suite of support on offer to applicants.	February 2020
9.	In-kind support and signposting available for applicants, as well as grants.	March 2020
10.	Progress report due to Cabinet.	June 2020

80. It is anticipated that delivery of the Fund will be based in the local community; centered on areas of strategic importance to the community and to the council and where we know we can maximise the Fund's impact as far as possible.
81. Delivery will be based on working in tandem with current provision of support in the community (not duplicating it or displacing it), including through established workspace providers and in partnerships under development with key stakeholders from across the borough (including Ernst & Young and Peabody).
82. This will likely mean a hub-based approach using established spaces for referral of promising local enterprises and delivery of in-kind support. Further detail will be expanded upon in the delivery plan.

**Consultation**

83. In developing the Fund and preparing this Cabinet report we have consulted widely and in-depth as detailed in paragraph 24.

**Supplementary advice from other officers**

**Director of Law and Democracy**

84. The report sets out a number of proposals which it is intended will provide support to social enterprises and other businesses in Southwark including grants, loans, equities and in-kind provision. The general power of competence in section 1 of the Localism Act 2011 enables the council to do anything that



individuals generally may do and the proposals are all matters that would be covered by this power. In addition section 12 of the Local Government Act 2003 created an express power for councils to invest money for any purpose relevant to its functions or for the prudent management of its financial affairs and so can be used alongside the powers in the Localism Act where using money to invest in these enterprises.

85. The report indicates that a new legal entity, separate from the council, will host the loan and equity elements of the Fund (in the form of company limited by shares or a limited liability partnership) and Legal Services will continue to provide advice and assistance in working up these specific proposals. This will include clarification of whether any relevant authorisation is required with the Financial Conduct Authority. Specialist legal advice will also be needed on any tax implications of the creation of any such body.
86. State aid rules are relevant to this matter. The rules prevent public authorities from using public funding in a way which may have the effect of providing advantages to businesses which distort or have the potential to distort competition. State aid not granted in accordance with these rules is unlawful. Whilst these rules will not in themselves be a barrier to the proposals, the council will need to take care at each stage to ensure that they are taken into account and any necessary processes that are identified are pursued.
87. Under section 149 of the Equality Act 2010, in making this decision, the cabinet must comply with its public equality duty which requires it to have due regard to the need to (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
88. The equalities analysis appended to the report clarifies the likely impacts on individuals with protected characteristics arising from the establishment of this fund and relevant factors that will be taken into account as the application process is developed. They are referred to in the community impact statement above and are all relevant matters that the cabinet should give due regard to, in considering this report.
89. The establishment of this plan is an executive function which can be determined by the Cabinet in accordance with the Local Government Act 2000 and Parts 3B and 3C of the council's Constitution. This is a "key decision" in accordance with that Act.

#### **Strategic Director of Finance and Governance (FC19/002)**

90. This report is requesting cabinet to agree to the establishment of the Southwark Pioneers Fund (the Fund). Full details and background are contained within the main body of the report.
91. The strategic director of finance and governance notes that that total value of the proposed Fund is £2 million which will be funded from the London Devolution Reserve set up as part of the council's 2019-20 budget setting process.
92. The proposed allocation of the £2 million Fund is summarised in the financial

implications section and it is noted that fund management costs of £350,000 are expected to be contained within the overall £2 million Fund.

93. The strategic director of finance and governance notes that the development of the delivery plan will detail the governance and commissioning arrangements for the future operation of the Fund and this will be subject to agreement by the cabinet member for jobs, business and innovation, the strategic director of finance and governance and the monitoring officer.
94. The strategic director of finance and governance also notes that a further progress report will be submitted to cabinet in 12 months time to report and update on the implementation and delivery of the Fund.
95. It is noted that all staffing and other costs connected with this report will be contained within existing departmental revenue budgets.

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

## APPENDICES

No.	Title
Appendix 1	Southwark Pioneers Fund: Research into the needs of local SMEs, social enterprises and start-ups, Young Foundation, January 2019 (circulated separately)
Appendix 2	Consultation hub survey analysis, March-April 2019 (circulated separately)
Appendix 3	Southwark Pioneers Fund Technical Analysis report, Ernst & Young, April 2019 (circulated separately)
Appendix 4	Indicative eligibility and assessment criteria (circulated separately)
Appendix 5	Equality Analysis Report, May 2019 (circulated separately)

## AUDIT TRAIL

<b>Cabinet Member</b>	Councillor Stephanie Cryan, Jobs, Business and Innovation	
<b>Lead Officer</b>	Stephen Gaskell, Head of Chief Executive's Office	
<b>Report Author</b>	Rebecca Lampe, Senior Strategy Officer	
<b>Version</b>	Final	
<b>Dated</b>	5 June 2019	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments Included</b>
Director of Law and Democracy	Yes	Yes
Strategic Director of Finance and Governance	Yes	Yes
<b>Cabinet Member</b>	Yes	Yes
<b>Date final report sent to Constitutional Team</b>		6 June 2019