

SOUTHWARK PIONEERS FUND

RESEARCH INTO THE NEEDS OF LOCAL SMES, SOCIAL ENTERPRISES & START-UPS



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1. EXECUTIVE SUMMARY

BACKGROUND

Southwark is a borough booming with start-ups and a growing social enterprise sector. Southwark Council has bold ambitions to further grow entrepreneurship and the SME and social enterprise sectors in the borough, and the supporting ecosystem around them. As part of this, the Council is preparing to establish the Southwark Pioneers Fund, as pledged in the Council Plan, in support of its vision of a fairer future for all. The Southwark Pioneers Fund will support small and medium commercial and social ventures and start-ups (SMEs) which are contributing to tackling social and environmental challenges, including low pay, quality of work, and inequalities - helping to make Southwark a more prosperous and environmentally sustainable borough.

To ensure that the Southwark Pioneers Fund is developed in a way which is truly responsive to the needs of SMEs, social enterprises and start-ups, Southwark Council commissioned research commissioned to explore their needs and priorities, and consider the implications for the Fund development.

Over a short three week period in October 2018, researchers from The Young Foundation engaged 35 local start-ups, SMEs, social enterprises and intermediaries through group discussions and interviews. In line with the ambitions of the Fund, participants were drawn from organisations with fewer than 50 employees and from a range of sectors.

Overview of key findings

What does being a locally responsible business mean to start-ups, SMEs and social enterprises based in the borough?

SMEs and social enterprises have a largely shared understanding and vision of what it means to be a responsible local business:

- **Engaging with the local community**, in a way which is respectful and open, with special consideration given to their needs and preferences at times of development or change. Equally important is the desire to work with those in the community who most need support and actively contribute or create social value in the local area.
- **Being a responsible employer - offering good quality employment and well-paid jobs.** This covers the mix of jobs available, the quality of pay and benefits, and the provision of training.
- **Being conscious of the environment** - This is less commonly mentioned and typically only arises from those businesses whose activities have an obvious environmental connection.

Yet despite their ambitions, many SMEs and social enterprises identify challenges with achieving their goals of being a responsible business. The time and, to a slightly lesser extent, money required to deliver on social/ environmental goals can be difficult to justify – the priority is to keep the business operational and, ideally, profitable.

What is the current experience of start-ups, SMEs and social enterprises of being based in the borough and what are their support needs? What is the level of demand around this need? What non-financial support associated with a Fund would be most effective?

Most of the organisations we spoke with are happy being located in Southwark – many with long-standing ties to the area. The diverse and changing nature of the borough is attractive - with lots of things to do and places to eat, drink and socialise, along with good transport links and a thriving business sector. However, an influx of new businesses means that SMEs and social enterprises are feeling the pressure of an upwards trend in the cost of workspace.

In addition to a need for affordable workspace, businesses highlight a need for business support, improved networks, and financial support. The need for support decreases commensurately as an organisation grows (in staff numbers or turnover). Medium size businesses have typically reached the point where unless they are seeking a significant financial investment to support growth or expansion, their support needs are relatively limited. At the other end of the spectrum, start-ups and social enterprises are often struggling on a number of fronts to manage and grow their organisations and would benefit from support in several areas.

The table below summarises the key needs identified across the four support areas, the current environment in relation to each of the areas in Southwark and key recommendations addressing the key needs for the Council's consideration.

SUPPORT AREAS	KEY NEEDS IDENTIFIED BY BUSINESSES	SOUTHWARK'S CURRENT ENVIRONMENT AS TOLD BY BUSINESSES	RECOMMENDATIONS FOR THE COUNCIL
Affordable workspace	<p>Lack of affordable and suitable workspace</p> <p>Lack of mix-use office space (e.g. storage, shop front)</p>	<p>Southwark has a lot of office space and co-working spaces already.</p> <p>Southwark has good transport links.</p> <p>Businesses located in Southwark enjoy living and working in the borough - and they wish to remain.</p>	<p>Increase the availability of affordable workspace.</p> <p>Capitalise on the empty space within the borough, consider using 'pop-up' models.</p> <p>Ensure a range of workspaces are available.</p> <p>Consider rent subsidies or free workspace made available to start-ups.</p>
Business support	<p>Skills development, advice on specific issues.</p> <p>General mentoring and guidance.</p> <p>Lack of easily accessible information and guidance on business operation and funding opportunities.</p>	<p>Business growth programmes (accelerators, incubators) exist across the borough.</p> <p>Business support and advice scattered across a range of organisations (BIDs, intermediaries).</p>	<p>Explore routes to providing free/ subsidised/ pro-bono support (of all types) to the SME and social enterprise community, including mentoring and one-to-one guidance.</p> <p>Create a forum to show what support is available to SMEs, including a guide to Council and other funding sources</p> <p>Improve Council engagement with ventures and recognise that the Council is not always the most trusted broker.</p>
Finance	<p>Lack of understanding of different finance types – the applicability to their businesses, the advantages and disadvantages and resources available.</p>	<p>Current business rates in Southwark are perceived to be too high by SMEs and start-ups.</p>	<p>The mix of grant and loan would depend on the balance of priorities between stimulating more innovation in the borough and supporting the scaling of more established products, services and businesses.</p>

	Lack of awareness of funding streams and opportunities, and inability to navigate the funding system.		Grants are more favourable for piloting, testing and experimenting with new innovative solutions. Loans would be suitable for those who are more established and have more sustainable income streams.
Networks	Being part of a network to gain insights on funding and procurement opportunities.	Sector-based networks exist across Southwark. Networks and business support organisations exist at a more local level, such as in Peckham, Camberwell, the Old Kent Road or London Bridge areas.	Support the creation and development of business-led networks within the borough. Facilitate the creation of regular communications which signpost ventures to opportunities - these could extend beyond funding and business support opportunities to include local events and chances to engage with the community (both to give back and to help grow local business).

Targeting the Pioneers Fund to address these needs, focusing on business growth and innovation

- **Create a fund which has the flexibility** to support innovation (by definition more risky, earlier stage) and more advanced businesses that are ready to take their business to the next level, will be highly desirable.
- **Embed the fund within the existing eco-system of business support across the Borough.** The ground work has been done with the creation of the advisory board (and existing relationships), which could be strengthened through
- **Maximise and grow the impact of what exists already.** The research shows that there is a stated demand for more visibility and finger-tip access to advice, skills, mentoring, funding sources and resources for earlier stage businesses in Southwark and should feature alongside any manifestation of the fund. As many SME's identified customer acquisition and access to markets as a primary route to bringing finance into their businesses, this bringing together and leveraging of existing business support activity and networks across the borough, is key.

Considerations for the council to maximise on social value and return on investment

- **Work with a trusted organisation who can manage the fund, facilitate and leverage additional soft money into the fund to blend with loan finance.** This has the twin advantage of de-risking some of the SME concerns have about taking on loan finance and minimising the soft money that the Council contributes (and so increasing the proportion of repayable finance that comes back to the Council).
- **What constitutes return on investment for Southwark Council and does it seek to put a number on that?** – And how will the Council will differentiate between financial value returned to the fund, or cashable savings that might be accrued as a result of the growth of a particular enterprise or business? Taking a rigorous and long-term view of social impact against council priorities and modelling current/possible future savings to the council (as well as returns to the fund) will be desirable, and require some dedicated resource to support effectively.

- **The kinds of businesses generating social value that align with Council priorities.** All businesses will, to varying degrees, have the potential to align with the council priority of increasing employment. However, those businesses that seek to generate social value as part of their core mission, are likely to be social enterprises. This may limit the Council's ambition to include equity as part of the Pioneer's Fund.
- **How the fund is described and marketed.** Due consideration should be given to ensuring that the existence of the fund is marketed to as wide an audience across the borough, framed and described in a way that feels accessible, and for everyone. The Pioneers Fund should avoid the trap of attracting a narrow base of 'usual suspects' or those who are highly equipped and experienced in attracting other social finance from across London.

2. INTRODUCTION

BACKGROUND

Southwark is recognised as area booming area for start-ups, bolstered by the London Bridge regeneration and other infrastructure improvements. Estimates based on ONS data suggest that Southwark ranks 10th of all boroughs in London for total number of SMEs, and ranks 9th for the rate of new business start-ups. In addition, a 2015 study by Community Action Southwark estimated that there are around 800 non-dormant Companies Limited by Guarantee, 125 mutuals ("registered societies"), and 58 active Community Interest Companies (CICs) with addresses in Southwark.

There is a growing ecosystem of support for SMEs and social enterprises, with several incubators and support organisations in operation. There is high demand for flexible or shared workspace and as a result there is a growing offer, from large national 'chains' such as Instant Office through to social enterprise operators providing unique spaces such as Hotel Elephant and Cell Projects.

Southwark Council has bold ambitions to grow entrepreneurship and the SME and social enterprise sectors in the borough, and the supporting ecosystem around them. As part of this, the Council is preparing to establish the Southwark Pioneers Fund, as pledged in the Council Plan, in support of its vision of a fairer future for all. The Southwark Pioneers Fund will support small and medium commercial and social ventures and start-ups (SMEs) which are contributing to tackling social and environmental challenges, including low pay, quality of work, and inequalities - helping to make Southwark a more prosperous and environmentally sustainable borough.

The Council has identified the broad aims of the Southwark Pioneers Fund as being to:

- Support new entrepreneurs to start commercial and social ventures and support existing ventures to grow
- Support new sectors to grow and facilitate a diverse range of local entrepreneurial activity
- Create a sustainable / recyclable source of funding for investment and business support
- Support delivery of wider Council objectives

Alongside access to finance, there will be a programme of support to give funded ventures (and potentially others which are not yet investment-ready) the best opportunity for success. This could include support / advice, connections to affordable workspace, support for networks, business infrastructure improvements, and better engagement/ connections with the Council.

The fund and the wider programme around it must therefore: add value to and complement what is already available locally (in terms of both investment and support); draw-in additional investors (both financial and in-kind expertise); engender community support and stimulate people and organisations to be innovative more widely across the borough; and encourage collaboration between ventures, the community and other local organisations and corporates.

RESEARCH OBJECTIVES

The Council wishes to make sure that the Southwark Pioneers Fund is developed in a way which is truly responsive to the needs of SMEs, social enterprises and start-ups, including revenue generating voluntary sector organisations in the borough. This research was commissioned to explore this issue and consider the implications for the Fund development, with a focus on the following specific questions:

- What does being a locally responsible business mean to start-ups, SMEs and social enterprises?
- What is the current experience of start-ups, SMEs and social enterprises of being based in the borough?

- What are the support needs of start-ups and SME ventures in the borough across the for-profit and not-for-profit sectors? What is the level of demand around this need?
- What non-financial support associated with the Fund would be most effective?
- How would the Southwark Pioneers Fund best be targeted to address these needs, focusing on business growth and innovation?
- What would be the key considerations for the council to maximise on social value and return on investment?

RESEARCH METHODOLOGY

The requirement was to deliver this research within a tight time-frame that allowed only a little over three weeks for fieldwork. Given the objectives of the Southwark Pioneers Fund we also focused on social enterprises in the micro and small categories (up to 50 employees). We therefore adopted a mixed-methods qualitative approach which comprised telephone interviews and a 2-hour evening workshop in the borough.

Participants were identified in a number of ways: internet searches, referrals from intermediaries, via social media, and through visits to workspaces. In total we spoke to:

- 16 SMEs (from start-up to 45 employees)
- 11 social enterprises (from start-up to 25 employees)
- 8 local intermediaries (business/ social enterprise support organisations)

SME and social enterprise participants represent ventures from a wide variety of sectors: professional services (such as architecture and estate agency); arts and entertainment (including fitness, arts and leisure services and cafes); health and beauty (such as a hair salon); education; administrative and support services (IT and consultancy); technology and digital; marketing and communications; and retail. They are operating from a range of premises including retail units, commercial office space, to shared workspaces, 'units' and studios. Participants were also drawn from across the borough including London Bridge, Peckham, Dulwich and Camberwell.

Interviews and the workshop were conducted between the 8th and 30th October 2018 by The Young Foundation's Research team, with support from the Ventures & Social Investment team.

It is important to note that a qualitative methodology was used for this research and a convenience sample drawn due to the timeframe, although every effort was made to reach a broad and diverse group of organisations. As a result there are limits to the extent to which the insights in this report can be taken as representative of the views of all start-ups, SMEs and social enterprises in the borough. In particular:

- It is not possible to draw hard conclusions about the proportion of SMEs or social enterprises who agree with a certain point of view or who have specific needs
- It is not possible to extrapolate out to estimate the scale of opportunity, for example how many ventures could the council expect to support and by how much would they grow as a result of the Fund. There are a number of reasons for this:
 - Current data on the 'universe' of start-ups, SMEs and social enterprises in the borough is patchy and better quality/ more detailed information would be required to do this kind of modelling;
 - While just over half of SMEs were able to identify how much investment they need, most cannot reasonably estimate what level what level of growth will result;
 - Ultimately growth is dependent on a wide range of factors which are beyond the influence of the Fund (e.g. impacts arising from Brexit).

3. KEY FINDINGS

Being a responsible local business

Most of the organisations we spoke to are extremely positive and happy about being based in Southwark. Many of smaller businesses and social enterprises feel a strong sense of attachment to Southwark, often because founders and managers have lived and/ or previously worked and studied in the area and chosen to stay or to locate there. Others have moved into the borough attracted by practical factors such as its geographic position (central to London and “*in the city but not really in the city*” (SME, *Administrative Sector, in Southwark since 1995*), prestigious office space such as The Shard, or the availability of affordable workspace for start-ups. The diverse and changing nature of the borough with lots of things to do and places to eat, drink and socialise are attractive, along with good transport links and a thriving business sector. It is generally seen as an attractive place to work and live.

Nonetheless, the rapid pace of change and influx of new businesses means that SMEs and social enterprises are feeling the pressure of an upwards trend in the cost of workspace. This is particularly the case for London Bridge and Borough which have been felt by many to be unaffordable for some time now, and the rise in rents is spreading out to previously more affordable areas like Camberwell and Peckham. Some also mention relatively weak links with the local Council, particularly in terms of business support.

SMEs and social enterprises have a largely shared understanding and vision of what it means to be a responsible local business. The focus of efforts varies from organisation to organisation, reflecting differences in the type of operation and capacity, but there are several consistent themes and priorities.

The most common theme relates to **a need to engage with the local community**. Relations with the local community must be respectful and open, with particular consideration given to their needs and preferences at times of development or change. Equally important is the desire to work with those in the community who most need support and actively contribute or create social value in the local area. Organisations have different approaches to identifying who they feel to be most at need within their community - from data-driven to mission-led, and priorities often reflect the activities of the business and where decision-makers feel they are best placed to make a difference.

Unsurprisingly, marginalised groups such as BME communities, young mothers and those “*without a voice*” (in vulnerable situations) are often a priority but other groups such as the unemployed, female entrepreneurs, or entrepreneurs who are at a very early stage/ from disadvantaged areas are also a focus.

Engagement with the local community can range from more traditional charitable or CSR-type activities (supporting local charities financially or through pro-bono support etc.) to putting in place active policies to support inclusion, such as work-experience schemes and employment policies. However, the majority of for-profit SMEs are not currently undertaking much activity in terms of community engagement, although they express a desire to do more.

In contrast, being a responsible local business is often at the heart of a social enterprise's mission and can influence their whole business model, including the products or services made/ offered. Social enterprises in particular often focus on ensuring that their offer is “*free or low cost*” to community residents.

A second dimension relates to **being a responsible employer - offering good quality employment and well-paid jobs**. At its heart, “*this means looking after your employees*” and creating “*a fun, safe working environment*” which contributes to the wellbeing of staff. It encompasses a range of aspects from the employer perspective:

- Paying people a reasonable wage (at least London Living Wage) for the work they do, - and this should include paying founders, owners and managers who often work for low or no pay in the start-up phase
- Paying people in a way which is legal - PAYE (with NI and pension contributions as appropriate) rather than cash in hand
- Offering a good mix of positions, both salaried and casual, where possible and in line with business needs
- Investing in and supporting staff training
- Offering opportunities for young people or those without the relevant skills - through work experience, apprenticeship programmes and other training schemes

Currently, however, it is predominantly only the larger and more established organisations who are taking on apprentices, although more are able to offer at least occasional work experience placements.

The third dimension of being a responsible local business is **being conscious of the environment** and “*concerned with how your business operates in relation to the environment*”. This is less commonly mentioned and typically only arises from those businesses whose activities have an obvious environmental connection.

Yet despite their ambitions, **many SMEs and social enterprises identify challenges with achieving their goals of being a responsible business**. For smaller firms and new start-ups, the time and, to a slightly lesser extent, money required to deliver on social/ environmental goals can be difficult to justify. “*The bottom line is the key thing*” and their first obligation is to keep the business operational and, ideally, profitable. Offering better training opportunities or work experience, for example, requires time and potentially additional staff, which many organisations cannot afford.

“Small businesses have to grow first and things such as CSR gets put behind because of fears of running out of money. It's something we should do and aim to do”.
(SME, Communications sector, in Southwark since 2012)

The other challenge mentioned by a few businesses is understanding how best to have a positive impact locally. It can be difficult to know who to work with or engage within a specific area.

SME & social enterprise ambitions

The vast majority of both SMEs and social enterprises have ambitions to grow in the coming years. However, for most the growth ambitions are modest; few have plans to scale to more than 50 employees and the majority anticipate employing just a few additional members of staff. Some SMEs and social enterprises are, however, stuck because they lack the investment necessary to do so.

Of those who do not have ambitions to grow, this is largely because they are either focusing on improving the quality of their offering (e.g. investing in premises or product development) or are anticipating a period of consolidation after recent growth, with an emphasis on retaining good quality clients rather than growing at an unsustainable pace (particularly for-profit firms). For one or two small organisations, the question is simply one of survival.

There are other notable differences between social enterprises and for-profit businesses too. A core ambition for many social enterprises is to become more embedded in their local community and increase their social impact, which may or may not entail growth in staff or turnover.

“Grants to help fund work with the community. We want to do social outreach but the only way it happens is with funds. We need funds for community engagement.”
(SME, Creative industries sector, in Southwark since 2012)

There is also a stronger sense of attachment to the place in which they are based, and an explicit hope that they will be able to remain in their current premises or find suitable alternatives within the locality. On the other hand, consideration of the implications of Brexit and the uncertainty this engenders for future plans was mentioned primarily, but not exclusively, by for-profit firms.

Drive to innovate

“Innovation” is not the most intuitive concept or top of mind consideration for many organisations. The term means different things to different people - from simply always being on the look-out for new/better ways of doing things, or breaking in to new markets. A new or increased digital offer (e.g. app or online sales channel) is also a relatively common area of exploration for businesses which are based on more traditional models. Very few organisations express the desire to diversify their activities significantly. Tech based firms, however, tend to be actively looking to develop new products and services and R&D is at the core of their work.

Support needs

Our conversations with organisations clearly demonstrate that the need for support decreases commensurately as an organisation grows (in staff numbers or turnover). Medium size businesses have typically reached the point where unless they are seeking a significant financial investment to support growth or expansion, their support needs are relatively limited. At the other end of the spectrum, start-ups and social enterprises are often struggling on a number of fronts to manage and grow their organisations and would benefit from support in several areas. These can be summarised as:

- Affordable workspace - and also access to affordable space for events and similar ad-hoc/ one-off activities
- Business support - from personalised guidance and mentoring to practical support on things like HR, IT and Marketing
- Networks - The ability to connect with people operating locally and/ or in a similar sector, opportunities to find out on a regular basis about opportunities (including funding), such as via newsletters, and access to directories and guides to local resources and groups
- Finance - Improved access to appropriate sources of finance and support to access it

While it is not possible to quantify precisely the differences, Figure 1 provides an illustration of the relative priorities of organisations at different stages of growth and development. It should be noted that affordable workspace is not included in the illustration as for all organisations this is seen as a ‘hygiene factor’ or essential pre-requisite for them to be able to operate from within the borough.

Figure 1: Priorities for support by organisational growth stage



However, it is important to note that the type of business support needed varies as organisations grow, and preferences for type of financial support also change. Each of the areas for support is explored in more detail in the following sections.

SMEs, start-ups and social enterprises in Southwark identify a range of ways in which the Council can improve support to the business community. These respond to some of the deficits in provision identified. There is a sense that SMEs could be encouraged to be more responsible both socially and environmentally and that the Council could offer recommendations as to how SMEs can give back and pave the way to doing so. Specific recommendations for the Council are included under each type of support.

Staying local and growing a social enterprise

She has been running her company since 2001 but is struggling to raise the finances to grow: *“We need to grow our workforce to grow our company - we’ve been at a crossroads for a few years and can’t take next steps without at least 2 more workers.”* Her work is focussed on helping disadvantaged young people in the borough. She believes that businesses based in the area have a responsibility *“to be true to residents and people who live in Southwark and being respectful of them. Too many people are coming in who don’t understand this and local people are getting pushed out.”* She explains that one of the primary challenges she faces is, *“knowing enough about what’s going on in the borough and what’s available to us. I found out about a neighbourhood renewal fund yesterday that I could have applied to but I did not know about it in time.”*

Affordable workspace

The availability of affordable workspace is a major issue for many ventures. *“Things are challenging in Southwark because the borough lost 60% of affordable work spaces in the last 4 years”* (Intermediary organisation). There are a number of challenges/ needs which coincide to make it difficult for some organisations to find a base or grow into different premises within the same locality. Affordable workspace is a basic pre-requisite for being able to operate in the borough, regardless of organisational type, size or stage of development. As such, it is not perceived as a “support need” in the same vein as finance, networks and business support but rather a core provision of assets which must be developed if the social enterprise community in the borough is to continue to flourish.

- There is pressure on affordable workspace from businesses moving into the borough to take advantage of the offer
- There is not always the right mix/ type of workspace available - single entrepreneurs with a laptop are able to work more flexibly and there is greater provision of office space; those looking for other types of workspace, e.g. artisans, creatives, those with large storage requirements, or light industrial, and those who have mixed-use requirements (e.g. shop front with storage and office space) are more limited in their options
- Co-working spaces in the borough are generally not perceived as having a strong sense of community or building networks between those who use them. There is a clear desire for more communal and inclusive working environments which are purposively designed and managed to build links between individuals and organisations.

There are also significant variations in the workspaces between different wards and neighbourhoods across the borough. London Bridge is seen as an exciting and dynamic area, but with prices to match that are pushing out SMEs and social enterprises. Areas such as Peckham and Camberwell are perceived as more affordable. The lower rates in these areas are, however, attracting businesses who can no longer afford to be in more central location, making workspaces less affordable and pushing out small local businesses. There is also some criticism levelled at some co-working places which claim to tackle this issue, but rent space to ventures “using it as a showroom” when there are others who have a more urgent day-to-day operational need for space.

The Camden Collective is held up as model of a co-working space which Southwark could consider replicating. It offers free space to local start-ups and subsidised space to more established small ventures, with a strong ethos of inclusivity, building networks and collaborations. It is based in disused buildings across Camden and rent from some offices cross-subsidises renovations and the provision of free hot-desking space.

In addition to the need for *affordable* workspace, several ventures mentioned the need for larger event or meeting space that can be hired on an ad-hoc but affordable basis. The demand for larger spaces that can be rented at a low rate for community activities is also mentioned by social enterprises.

From the sample of organisations we spoke with, it is not possible to determine what proportion of all start-ups, SMEs and social enterprises in the borough need what type of space – for example hot desking or small offices, vs. retail fronts, storage and light industrial or a combination of those. Indeed, the needs of an individual business change over time as they grow or contract, and diversify or rationalise their offer.

Recommendations for the Council

1. Increase the availability of affordable workspace
2. Consider how rents can be subsidised or free workspace made available to enable ventures to grow within their community, without having to relocate to other areas.
3. Capitalise on the empty space within the borough, for example by looking to models such as the Camden Collective or similar ‘pop-up’ models.
4. Ensure there is an appropriate range of workspaces available, including looking at what is being done in Lambeth with pop-up parks and the Remakery.

Business support

Start-ups, small businesses and social enterprises are keen to access a greater level of general business support, particularly at subsidised rates or free/ pro-bono.

“We need financial support, IT, HR support, PR – things like advertising and media. We have to pay for whatever support we use”.
(SME, Support services sector, in Southwark since 1986)

Faced with the daily demands of running a business, owners/ founders and managers can struggle to prioritise and manage their time. This is particularly the case for early-stage start-ups or those organisations which have ambitions to grow after a period of initial consolidation. There is little capacity within existing staff structures to research and access additional support, and similarly a lack of funding to pay for significant amounts of professional time.

Entrepreneurs are often aware that there is much to know and learn from but find it difficult to locate a bank of resources which provides the critical information in an accessible format, and/ or low-cost or free sources of advice. In addition, many social enterprises face a challenge of shifting an internal mind-set from that of operating in the charitable sector, to thinking and acting more like a commercial business.

Needs can be summarised as falling into one of several, albeit overlapping groups: skills development, advice on specific issues, and general mentoring and guidance. At the very earliest stages of start-up, the priority needs tend to relate to the basics or essentials of starting a business – how to create a business plan, where to obtain start-up funding, how to become legally incorporated and choose the right structure and so on. Later on, once the organisation is slightly more established, the focus turns to helping the business to become sustainable and operate efficiently. The specific skills or support required depend on the background of individuals and the sector of the business but typically cover areas such as accountancy, fundraising and/ or sales, branding, PR, media, and IT. The hiring of staff, particularly for the first time, can also create a more pressing need for HR advice to ensure that the organisation is compliant with necessary legislation or best practice, and has in place the policies and processes to be a responsible employer.

Few small or start-up ventures are currently accessing corporate/ pro-bono support, although most feel that there should be significant capacity for large enterprises based locally to offer this. Mentorship is attractive in principle to leaders across all types of organisation but most feel they do not have the skills or contacts to facilitate such support. That said, many are keen to stress that pro-bono support must be tailored and matched to their needs - while the offer of help from, say, a legal advisor from a corporate firm is appreciated, that individual may not have the right skill set to support a business which is primarily struggling with how to open up new markets. Corporate volunteers do not always have the necessary entrepreneurial mind-set or experience, or the capacity to provide the onsite support required.

Growing a Communications SME

James is the Founder and Director of a communications company, currently with no other employees. He has been based in Southwark since 2012 and enjoy being located close to home and that the area is full of new and growing businesses. His ambition is to grow to a team of 3 within the next 12 months but is struggling with general business growth support. James knows he needs finance to grow but is unsure how to get the advice they need or make the right decision: *“It would be useful to get business advice on what the best external finance option would be. Southwark [Council] could facilitate advice on grants and investment.”* He is also keen to meet other business leaders in the borough for mutual support and sharing ideas and services. *“An ideal network would be informal, serious, medium-sized, dynamic and meetings would take place in person.”*

More mature and established SMEs in particular differ in that they rarely raise the need for business support of this practical nature. Some leaders would welcome the opportunity for mentorship but

generally feel that they have the necessary skills, staff and knowledge to manage the core operations of their business or are able to buy-in specialist support as required.

Some SMEs and social enterprises are accessing growth programmes, accelerators or incubators and other similar offerings, both within the borough and from London- or UK-wide providers (e.g. via organisations such as The British Library, RSA, and Escape the City). These are valuable to those who can access them but many are either not ready for the type of support available, or are unaware of it or how to access such opportunities.

Almost all SMEs and social enterprises would welcome a centralised resource for entrepreneurs which helps them to run their business on a day-to-day basis, without being necessarily focused on innovation or growth in the first instance. Ideally this would comprise both content and resources that can be accessed independently and the provision of regular, subsidised or free skills development opportunities. Examples of areas might include understanding the right legal form of business and how to register a company, or a guide to becoming an employer. There is also a significant level of demand for a mentor matching service which would link local SMEs to appropriate experts from corporates in the borough, or retired professionals looking to contribute to the local community.

Recommendations for the Council

5. Explore routes to providing free/ subsidised/ pro-bono support (of all types) to the SME and social enterprise community, including mentoring and one-to-one guidance.
6. Create a forum to show what support is available to SMEs, including a guide to Council and other funding sources
7. Improve Council engagement with ventures and recognise that the Council is not always the most trusted broker

Networks

SMEs and Social Enterprises have mixed experiences of professional networks. Most SMEs feel that there are not many business networks in the borough, and that where there are they are generally unconnected. Some businesses feel isolated in their activities or like a “lone ranger” and believe Southwark Council has some work to do in developing a strong, networked SME sector. In contrast, others believe there is a lot going on in the borough in terms of networks but that it needs to be organised and managed better.

Many networks in Southwark appear to be largely sector-based rather than focused on the business needs of SMEs or start-ups, and London-focused rather than Southwark-focused. There are a number of networks and organisations focused on supporting and networking businesses and organisations but at a much more localised level, such as in Peckham, Camberwell, the Old Kent Road or London Bridge areas. There is little awareness of any business networks for Southwark as a whole. *“Team London Bridge help small businesses have a voice and help them promote their services in the borough.” (SME, arts, entertainment, and recreation sector, in Southwark since 2000).*

The level of activity in networks is inconsistent across SMEs and social enterprises – size and longevity of businesses do not appear to make a direct impact on involvement in networks. Where businesses are located in co-working spaces they are involved to some degree in networks in these spaces, but this tends to be informal and ad hoc. However, where businesses are involved in networks outside of their workplace they tend to be active in networks that are sector-specific at a national or London-wide level, whether that is in real estate, health, publishing, legal services, or architecture, for example. Many value these networks more highly than local business networks.

While some businesses find it difficult to connect with networks due to time – “the problem with small business is capacity. It’s hard to find time to go to network meetings” – most SMEs and social enterprises agree that networks are very important. For some, such networks are based on the locality – “networks offer the opportunity to know your neighbours” – for others on general business development – “[it is] very important [to help people] manage and improve their business” and some primarily for the opportunities to collaborate – “it is very important in terms of co-support and sharing ideas and services”.

Creating a start-up community building on local assets

Mark is the managing director of a start-up working with digital healthcare. His business has been established and operating in Southwark since 2015. He finds that one of the challenges of being based in Southwark is that “office space is expensive, and so are business rates. The combination of rents and business rate is a big burden on any small business. I am tempted to move to East London where rents are cheaper.” He believes the council can do a great deal to support SMEs financially in the borough. He suggests that, “the council could set up an innovation hub for digital healthcare given the other organisations in the area e.g. Guy’s and St Thomas and KCL”.

Nonetheless, it is important to note that while networks are attractive and most see the potential benefits, they are a relatively low priority compared to other types of support that could be offered. In particular for more early stage organisations, affordable workspace, finance and business support are all more important. Networks become more important for those organisations which are more mature and established as they typically have more ‘bandwidth’ to be able to consider opportunities outside their core role of getting the business up and running or ensuring sustainability on a day to day basis.

In terms of what a business network in Southwark might look like, SMEs and social enterprises highlighted the importance of business networks in:

1. Developing skills
2. Sharing resources
3. Supporting procurement
4. Developing community-focussed organisations
5. Providing support for existing work rather than new organisations and businesses
6. Being dynamic, informal, productive and face-to-face
7. Being designed for and marketed to small businesses and organisations

Southwark Council is primarily viewed as a potential enabler of networks in the borough – for example by more actively promoting those which exist on its website and through other channels, and by supporting the creation of new networks which are created and led by local business groups. SME and/or social enterprise meet-ups are also another form of networking that the Council could support, for example through providing meeting space and communications.

Recommendations for the Council

8. Facilitate the creation of regular communications which signpost ventures to opportunities - these could extend beyond funding and business support opportunities to include local events and chances to engage with the community (both to give back and to help grow local business)
9. Support the creation and development of business-led networks within the borough
10. Where appropriate, look to stimulate collaborations between public, private and third sector organisations in the borough. For example, a tech based social enterprise suggested “set Southwark up as a hub for digital health, as Digital Health.London and the Health Innovation Network are already based there ... there is just a lack of resources in Southwark CCG to fund local evaluations ... and it could be supported by Guy's & St Thomas Hospitals' / King's College London too”.

Financial support

While SMEs and for-profit start-ups are dependent entirely on sales for their income, the majority of social enterprises are reliant on a blend of income from sales plus grant funding from a range of sources to help them achieve their social impact. Social enterprises in particular feel that they have to “hustle hard to bring the money in”. An SME working in communications summarises the two key support needs for the Council to address: “It would be helpful to get more reasonable rates - commercial rates are so high that smaller businesses are moving out. The Council should also offer more reasonably priced office space.”

Some businesses have needed to take out loans or resort to measures like re-mortgaging their house in order to get their business up and running or to support growth plans. However, loans are extremely unpopular form of financing - businesses are worried about interest rates and being able to meet repayment schedules. With uncertainty over future incomes, particularly in the early-stages, a loan is too risky for most to consider. However, one intermediary did note that many entrepreneurs do not fully understand different types of finance and that at times (although by no means always) small loans might be a good and appropriate option.

The way in which many loans are often tied to specific initiatives or projects is also restrictive. Instead there is a need for more flexible finance that ventures can use to meet needs as required. Even where loans appear to be a more feasible prospect, some SMEs find that they are too small to qualify for bank

loans at an affordable rate. These SMEs would require more guidance and information on what finance was available, its suitability and relevance for their business and, importantly, any loan finance would need to be at a lower rate than more traditional lenders (e.g. local banks) and on longer and/or more flexible repayment terms.

Struggling to scale: A social enterprise

Shirin is the Founder of a social enterprise working with people who have learning disabilities; currently there are four employees. Her main focus is on incremental growth of the business. Due to their size they struggle to access small or large funding, and feel that there is a missing middle: “I don't know who to speak to in the borough and the Mayor's office (there are strategic funds there) - there needs to be more signposting as to who to contact ... There needs to be more middle ground investment because we are over delivering but need funding to scale.” However, the most helpful type of support would be - “a rent subsidy and affordable spaces with wheelchair access.” They are interested in connecting with others locally but don't always have the capacity: “It's hard to find time to go to meetings – it would be good to have signposting, information sharing, or an online forum.”

Only a small handful of the businesses we spoke with have received equity investment, from either venture capitalists or angel investors. These are predominantly the larger, commercial and more established SMEs but also include one social enterprise. For most, equity investment is not of interest and it is not something that they have considered due to their size, business model, or the nature of their work, which may be more suitable for grant funding; the reality is that equity investment is a financing option only available to companies limited by shares. A perception for a handful of larger limited companies has been that equity investment is 'complex' and 'more risky'. Nonetheless a few firms are considering the possibility of equity investment but feel they need more guidance to help them understand this form of finance, its advantages and disadvantages, and appropriateness for their individual situations.

For those businesses who do feel ready for more significant financial investment, a hybrid form of finance may be more appropriate – a mix of grant and loan. The loan must come with affordable interest rates and good repayment terms. Most of the businesses who had raised investment had also secured sector specific grants (e.g. from Innovate UK). Additionally, any investment should also be offered alongside more general business support and advice. As one intermediary noted:

"It's about making loans as affordable as possible and capping it at a certain amount. E.g. a loan of up to 10k and you can repay it within 5 years ... Start-ups have to make a case for their business to get money and support for developing it. Providing a grant is too easy – at some point you have to become competitive. Having a loan at a reasonable amount that can be repaid with flexible terms and would give start-ups the right level of responsibility and accountability".
(Social enterprise providing business incubator support).

In terms of actions to improve their financial sustainability, many ventures point instead to ways of reducing their outgoings - for example by cutting business rates, subsidising workspace, or exempting them from paying the Apprenticeship Levy. As pointed out by one tech based social enterprise, "Finding office space and grants/loans to cover business rates for cash flow of SMEs and start-ups." Some also observe that Council procurement processes should reflect the fact that SME is an extremely wide category; micro and small firms are still at a significant disadvantage when competing with medium-sized firms which may have over 100 employees.

Much of the challenge for SMEs and social enterprises also lies in understanding how to identify relevant funding and financing opportunities, how to navigate the funding system, and how to most effectively make applications. Smaller ventures often face a capacity problem in exploring where and how to access funding. A further barrier can be that while training or useful events on how to access funds may be available, sometimes the costs involved with attending (travel, staff time) can be prohibitive - support to facilitate participation in such opportunities would be welcomed.

Recommendations for the Council

The implications for the Fund are highlighted in Chapter 5. In addition:

1. The mix of grant and loan would depend on the balance of priorities between stimulating more innovation in the borough and supporting the scaling of more established products, services and businesses. Grants are more favourable for piloting, testing and experimenting with new innovative solutions. Loans would be suitable for those who are more established and have more sustainable income streams.
2. Look to improve procurement terms and processes to support SMEs and social enterprises more effectively.

4. EXAMPLES FROM ELSEWHERE

There are a range of examples where local authorities have developed business support programmes and funds with a variety of funding models:

Grants for start-ups and SMEs

Tendring District Council's SME Growth Fund

Model: The initial scheme of a total of £750,000 came to an end in March 2018 but recognising the value it created for the local economy, the scheme has been extended until 2020 and expanded to include all sectors except retail. The new total fund is £250,000 and grants are available between £3,000 and up to £150,000. Businesses must also find match funding alongside the grant, 75% match funding for SMEs and 50% for start-ups. The grant can be used towards both revenue costs and capital costs.

Fund: The Growth Fund is jointly funded by Essex County Council and provides grants for new start-ups and existing SMEs working or looking to locate to Tendring District.

Priorities: The Fund focuses on businesses working in the following sectors: manufacturing, engineering, energy, low carbon, maritime, and R&D activities/supply chain businesses that support those sectors. The grants are intended to contribute to the costs of starting up or growing a business and support the creation of new permanent part-time or full-time jobs or safeguard existing jobs.

Impact: In its first three years of operation, ten local business have a received a grant, with a combined value of £400,104. It has been calculated that this funding has created 37 new FTE jobs, safeguarded a further 17.5 FTE roles, and leveraged £831,852.31 in additional private sector investment. The high level of local demand means that in December 2018 the District Council is considering adding an additional £250,000 to the Fund.

New Anglia Growing Business Fund (Norfolk and Suffolk)

Model: Launched in 2013, the Fund offers grants of £5,000 and up to £500,000 for SMEs across Norfolk and Suffolk that want to grow and create new jobs, grants can be used for up to 20% of the total project cost.

Fund: The Fund is delivered by New Anglia LEP in partnership with Suffolk County Council and Finance East.

Priorities: The Fund's priorities are supporting businesses who are looking to grow, expand and recruit new staff, seeking capital funding.

Impact: By late-2018, the Fund had awarded over £20million in grants to over 300 businesses. These have created almost 2,500 jobs and secured over £100m in private investment.

Loans for start-ups and SMEs

The Innovation Investment Loan (Kent)

Model: SMEs can apply for a 0% loan between £200,000 and £999,999 who have the potential for innovation and high growth.

Fund: The total fund is £2million and funded by the South East Local Enterprise Partnership, and Local Growth Fund.

Priorities: The Fund's priorities are for businesses to contribute towards sustainable employment opportunities. Priority sectors are: Manufacturing, Low Carbon Technology, Pharmaceuticals & Life Sciences, ICT Software Development and Information Management, Media, Creative and Cultural Industries; Marine Ports and Logistics and Technological Development.

Impact: 2017-2018 is the first cycle of funding so impact is as yet unknown. The planned ambition was to It will support around 60 businesses and create up to 450 jobs.

Business Loan Fund (Stoke-on-Trent and Staffordshire)

Model: The fund supports SMEs with fewer than 50 employees who have sustainable businesses but have been unable to secure finance from traditional banks.

Fund: The fund is managed by the Black Country Reinvestment Society (BCRS) and loans are available between £10,000 to £50,000 to SMEs located in Stoke-on-Trent and Staffordshire.

Priorities: The Fund's priorities are for businesses to contribute towards sustainable employment opportunities.

Impact: By March 2018, the Staffordshire Fund had supported 176 businesses and created or protected 1,155 jobs. BCRS manages similar funds for Stoke-on-Trent, Staffordshire and Worcestershire as well as the Midlands Engine Investment Fund (since 2017) and the Wolverhampton Independent Retail Loan Fund (since mid-2018). In total, since 2002, BCRS has supported around 1,350 businesses and created or safeguarded around 3,000 jobs. The total estimated economic impact is around £330million.

Other examples of local economic development strategies

Innovation and Business Support (Scotland)

The Scottish government is working in partnerships across the public, private and third-sectors and have set up a range of business support programmes and funding opportunities for innovation and entrepreneurship development. The key business and innovation support for SMEs and start-ups include: an investment of up to £120 million, through the Scottish Funding Council, in a network of [Innovation Centres](#) to support collaboration between universities and businesses. Scotland's CAN DO Innovation Forum set up to help improve Scotland's innovation landscape through a set of shared outcomes. The [Scottish EDGE Fund](#) (£1.5 million) a competition fund for the most promising and impactful early-stage start-ups/entrepreneurs.

Impact: To date, the Edge Fund competition has received 2,705 applications and awarded £11m to 313 Scottish businesses. It is calculated that this has created 1,381 jobs, over £104m in additional turnover, and leveraged over £82m in additional investment. In November 2018, Scottish Enterprise awarded additional funding of £1m to grow the Edge competition.

Innovate to Save - Cardiff

Innovate to Save was launched in 2017 as a collaboration between The Welsh Government, Nesta and Cardiff University. A second round was launched in 2018. Its aim is to support new ideas that have the potential to generate cashable savings for Welsh public services and improve the quality and impact of service delivery. Cashable savings are defined as those which can be tracked on a budget line, while non-cashable savings are things like improved quality or value to beneficiaries. The first cohort of projects addressed issues such as looked-after children, social care and patient transport.

Innovators can apply for grants of up to £15,000 to test ideas that could improve services and lead to public sector savings. All initiatives are led by a public or third sector organisation, although private sector businesses can partner with them. Projects receive support from Nesta, Cardiff University and the Wales Council for Voluntary Action. Depending on the outcome of the trial period, there is then an opportunity to apply for a loan to implement the idea.

The Preston Model

The "[Preston Model](#)" is using principles of community wealth building and is a partnership between the Preston council, its anchor institutions and other partners within the wider Lancashire area. [Community wealth building](#) is a local economic development strategy focused on building collaborative, inclusive, sustainable, and democratically controlled local economies. In the Preston Model these have included a public pension fund investment, affordable housing, and looking to also develop an energy company and a community bank.

Impact: Between 2013 (when the programme launched) and early-2017, over £70 million of Public Sector spend was redirected back into the Preston economy, and £200 million invested into the wider Lancashire economy. An impact review in early 2017 identified a range of outcomes from the programme, of which the direct financial benefit was only one. The others included: A more democratic economy ("anchor institutions have a greater affinity to the local economy and its residents"), a change in procurement and strategic practitioners, putting Preston on the map as a leader in progressive local economic development (at the national and EU level); and improved collaboration between local institutions.

5. IMPLICATIONS FOR FUND DEVELOPMENT

There is a very clear message from our needs analysis that the need for greatest support lies within the small business sector, not medium-sized businesses. An equally strong message was that this should be a fund that supports and invests in the people and businesses of Southwark, not an entrepreneurship and small business/ social enterprise fund based in Southwark.

In considering the design and development of the Southwark Pioneers fund, we invite the Council to consider:

- **Your appetite for risk**– SME's and start-ups that are most in need of affordable finance and support are inherently a little more fragile. If offering loans to these organisations, the Council are likely to see a higher level of default (limiting the recyclability of funds) or need to offer very favourable repayment terms (payment holidays, repayments over 5-10 years etc.) – or blended with soft/grant finance- all and any of which will then influence if and when finance can be recycled.
- **Long term management requirements**, Resources will be required to design and administer the fund, not just in the selection and disbursement of funding, but in the case of any equity and loan agreements, resource will also need to be secured to manager the loan book/portfolio over a number of years. Unless secured from other sources or partners, the fund will need to absorb these costs. If offering loans, the fund is unlikely to offer competitive or attractive products, if interest rates are too high, limiting the opportunity to use interest repayments to support fund management overheads. In other words, while £1m is a significant sum, a significant proportion may be 'lost' to fund management unless funding is deployed into an existing vehicle, or if there are opportunities to leverage additional funding from other local partners.
- **The balance of non-financial and financial support provision**. Messages around the need for on-demand access to information relating to mentors, workspace, skills, finance and other resources were very clear in our interviews; as prominent as messages around the need for finance. The job in making all these highly valuable and useful resources visible and accessible to the SME community is well evidenced, and yet would require long-term resources to both develop and maintain. How far is the Council willing to consider deploying a significant proportion of the fund to enable greater access to resources and funding opportunities beyond its own?
- **Focus**. While keeping the Council's ambitions high, there is a need to narrow the focus of the fund. This was reinforced by the Advisory Group meeting, and it will be necessary to determine a focus before any modelling of the fund can meaningfully be undertaken. Focus might mean a number of things; including focusing on a particular sector/industry, a particular demographic of entrepreneurs, particular business locations in most need of support, or a particular theme such as health creation across the borough.

As a result of our analysis and inquiry, we have identified three distinct and different approaches the Southwark Pioneers Fund could take. In different ways, these options draw on research findings that show a need to focus on:

- The provision of affordable finance
- Accompanied by forms of non-financial support (be that mentoring or advice on whether taking on debt finance is appropriate for their business)
- Smaller, rather than medium size businesses
- Better connecting the needs of smaller businesses to existing forms of finance, support and networks

These can be summarised as:

Option 1 – Supporting SMEs that align with wider Council Priorities

This would involve securing co-investment with local and national social funders targeted towards a portfolio of ventures that can generate evidenced social value and hypothecated or cashable savings for the borough. This would quite specifically position the fund as a supporter of social and mission-led businesses rather than traditional commercial businesses. As an option focussed on recyclable loans, with the need for evaluation of impact, this option would probably not support the most fragile, or early stage businesses in the borough.

Southwark Council has a mission to support Southwark SMEs but is also required to manage a large number of social and environmental challenges within the borough. The Pioneers Fund would be quite limited in its overall impact on the ecosystem if it simply invested in a portfolio of disparate, different ventures. However, the Council could select a very particular challenge or theme (on an annual basis) and choose to support a cohort of businesses that are all directing their efforts towards tackling that particular challenge; where collectively, and with support and finance from a range of local partners, their activities might make a tangible, systemic impact on an issue. If we take the example (say) of tackling obesity in the borough, support would be offered to a range of smaller businesses whose activities were directed towards healthy eating. This would be attractive to certain local funding organisations, with many more opportunities to co-ordinate corporate and other community and institutional action on this issue; which might sit alongside funding activity and look more like a 'pledge' or a wider campaign.

In terms of modelling a fund of this kind, if we take the assumption of a fund of £1m, and a conservative estimate of £150k for fund disbursement, this would mean potentially supporting 20-30 smaller businesses with loans of between £10,000-£20,000 alongside a smaller portfolio (say 7-10) of larger scale loans for more mature start-ups, who are likely to represent lower risk investments. Loans would be disbursed to SMEs who were able to demonstrate that their business was driving social impact that also generated savings to the public purse some way down the line. Some allocation of funding would be used to assess social impact and broker non-financial support from existing providers of support for social ventures or corporate organisations across the borough. Workspace could potentially be free/subsidised for this portfolio, as required. The Council could expect some degree of loan default, and repayments over c.5 years, and taking into account fund management, and they might expect to get c. 60% of their fund returned for recycling over that period.

Examples of similar style initiatives, include the Innovate To Save fund in Wales, funded by the Welsh Government, and designed by our CEO while at Nesta. This fund offers small amounts of grant funding to accelerate initiatives and ventures that are capable of generating cashable savings for local councils. If proven, the ventures are able to access an interest free loan.

The School for Social Entrepreneurs 'match trading grants' are also an example of supporting smaller businesses that have a social mission to reduce their grant dependency and drive entrepreneurial behaviours. The School takes the figure of the previous year's trading and uses that as a baseline. Every pound the business makes over and above that baseline is matched by a grant of £1. Controlled experiments have shown that this model is effective in its aims, with entrepreneurial activity continuing even when the trading grants are removed.

Both these examples involve some deployment of 'soft' money, limiting direct recyclability, however returns on investment are interpreted as either long-term reduction of demand on public services or the value of driving more sustainable, inclusive, social businesses.

Option 2 - Council as Connector

In this model, investment is focused not on providing finance to specific ventures but on supporting the infrastructure to connect small businesses and start-ups to the resources, skills, finance and space they need to thrive. It would be a very different approach to take; requiring significant resource to develop and maintain. However, a repeated message from our interviews is the absence of clear signposting to

information, resources and funding opportunities within the borough. This is particularly acute for very early stage, local businesses, who need to put in significant time and effort to find out and assess what is available to them, with the risk of these efforts being at the expense of actually working on their business. Smaller businesses and start-ups also repeatedly mentioned the desire to access advice and mentors.

In this option, funding would not directly flow to ventures but to an infrastructure that supports a comprehensive triage function to enable:

- SME's to access information relating to hyperlocal, regional and national sources of funding, with clear and accessible descriptions of what will, and will not, be funded
- Access to peer and other sources of mentoring, on demand, and responsive to the needs of businesses
- Location of suitable, affordable places to work. These need to be everything from desk space to semi-industrial and storage space

We envisage this as a digital, collaborative platform, where any start up can enter their needs/requirements and be delivered timely, relevant information. The potential here to bring together – and make visible – the collective, existing resources of the borough and place at the fingertips of those most in need of that information could be incredibly powerful. Resource to develop partnerships would also enable the development of an on-demand mentoring and peer support service, enabling people ready access to people who can help them. Volunteering of this kind across London already exists, but in pockets, and not always straightforward to access. In this option, the Council is a catalyst – using its fund to map and unlock existing resources and mobilise new activity to support smaller businesses. Depending on the costs of development and management of the service, the Council might still expect to deploy loan finance to a range of selected businesses, ensuring that at least some of the fund were deployed direct to the front-line and subsequently recycled.

Option 3 - Council as Investor in its business community

This option would take the form of an investment fund that was focussed on supporting both new, higher risk start-ups as well as later stage organisations, that aligned to Council priorities, who are still in need of appropriate forms of finance to grow. While still recommended that some kind of filter/criteria is applied in order to narrow the focus a little more, this would involve take a flexible approach to both the type of finance provided and the type of entity that could be supported.

In the base case assumption of a £500k fund, this would involve:

- A proportion of the fund deployed into low/no interest loans to early stage start-ups, possibly blended with a layer of grant to reduce overexposure to risk for early stage start-ups.
- A second proportion of the fund issued to larger scale start-ups through the use of a convertible loan note, which accrues simple interest and, after two years, converts either to equity or to a revenue participation agreement, where the balance of the loan continues to accrue interest and is repaid at a fixed percentage of the venture's revenue over five years.

There would be a good deal of flexibility in this approach, enabling decisions on equity over loan repayment to be made on a case by case basis, depending on the relative attraction to the Council becoming a shareholder of businesses within the borough. If the Council favours (fairly) predictable returns over a manageable timeframe, loans are probably a preferred option. Fund management over the full length of the loan agreements would still be required, with resource front loaded into the first two years of activity.

In this, as in the first model, there is significant advantage in using this unique opportunity to leverage additional funding, through inviting other partners into a consortium, particularly given the need to ensure the right investment governance and investment infrastructure is in place.

APPENDIX: SUMMARY OF RECOMMENDATIONS FOR THE COUNCIL

1. Increase the availability of affordable workspace
2. Consider how rents can be subsidised or free workspace made available to enable ventures to grow within their community, without having to relocate to other areas.
3. Capitalise on the empty space within the borough, for example by looking to models such as the Camden Collective or similar 'pop-up' models.
4. Ensure there is an appropriate range of workspaces available, including looking at what is being done in Lambeth with pop-up parks and the Remakery.
5. Explore routes to providing free/ subsidised/ pro-bono support (of all types) to the SME and social enterprise community, including mentoring and one-to-one guidance.
6. Create a forum to show what support is available to SMEs, including a guide to Council and other funding sources
7. Improve Council engagement with ventures and recognise that the Council is not always the most trusted broker
8. Facilitate the creation of regular communications which signpost ventures to opportunities - these could extend beyond funding and business support opportunities to include local events and chances to engage with the community (both to give back and to help grow local business)
9. Support the creation and development of business-led networks within the borough
10. Where appropriate, look to stimulate collaborations between public, private and third sector organisations in the borough. For example, a tech based social enterprise suggested "*set Southwark up as a hub for digital health, as Digital Health.London and the Health Innovation Network are already based there ... there is just a lack of resources in Southwark CCG to fund local evaluations ... and it could be supported by Guy's & St Thomas Hospitals' / King's College London too*".
11. The mix of grant and loan would depend on the balance of priorities between stimulating more innovation in the borough and supporting the scaling of more established products, services and businesses. Grants are more favourable for piloting, testing and experimenting with new innovative solutions. Loans would be suitable for those who are more established and have more sustainable income streams.
12. Look to improve procurement terms and processes to support SMEs and social enterprises more effectively.