



**Subject:** Investment Fund Funding Approval – North of Tyne Culture and Creative Recovery Fund  
**Report of:** Director of Economic Growth  
**Portfolio:** Place and Productivity

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## Report Summary

In January 2020, Cabinet agreed an allocation of £6m of the Investment Fund to support the growth of the culture and creative sector. The impact of the COVID-19 crisis on the sector has been extreme and has highlighted the need to stabilise the sector before it is realistic to expect growth opportunities. In June 2020 accordingly, Investment Panel agreed an approach for the Culture and Creative Programme with £3.25m to be utilised to establish a North of Tyne Culture and Creative Recovery Fund focusing on the restart and recovery phases for the sector.

NTCA launched a call for proposals to deliver the Recovery Fund in August 2020. This call closed on the 21<sup>st</sup> September. Two proposals were received and have been being evaluated by a panel of officers from the Combined Authority and constituent Local Authorities. Investment Panel considered the outcome of the call process and recommended that the Interim Head of Paid Service should approve the funding for the Creative England Proposal subject to satisfactory completion of a due diligence appraisal.

The purpose of this report is to request the approval of the North of Tyne Culture and Creative Recovery Fund delivered in partnership with Creative England to the total value £3,250,000 following the completion of an independent financial due diligence appraisal.

The Fund represents real innovation in this sector – the first regionally devolved approach to sector recovery delivered in partnership with a national agency; underpinned by strong local collaboration and sector buy-in. Subject to the approvals sought in this paper, the Fund would be launched in April 2021.

## Recommendations

The Interim Head of Paid Service is asked to

- i. Approve funding of £3,250,00 to Creative England for the North of Tyne Culture & Creative Recovery fund project subject to the conditions highlighted in paragraph 1.18.

## 1. Background Information, Proposals and Timetable for Implementation

<b>Proposal Name</b>	North of Tyne Culture & Creative Recovery Fund
<b>Lead Organisation</b>	Creative England
<b>Delivery Areas</b>	North of Tyne wide
<b>Timescales</b>	February 2021 – March 2023
<b>Project Value</b>	£4,631,989
<b>Grant / Loan amount requested</b>	£3,250,000
<b>NTCA Budget Implications:</b>	This element of the Culture and Creative Programme forms part of the £8.65m Culture, Creative & Tourism component of the Investment Plan which is fully allocated. Subject to this decision, £7.15m will be committed.

- 1.1 In January 2020 Cabinet agreed an allocation of £6m of the Investment Fund to support the growth of the culture and creative sector. Cabinet authorised the Head of Paid Service, in consultation with the Investment Panel and Portfolio Holder, to consider and approve relevant call documentation, business case applications and strategic commissioning frameworks relating to delivery of a Culture and Creative Programme.
- 1.2 The impact of the COVID-19 crisis on the Culture and Creative sector has been extreme. Cabinet acknowledged the need to stabilise the sector before it is realistic to expect growth opportunities. In June 2020, Investment Panel agreed an investment plan for the Culture and Creative Programme, with £3.25m to be utilised to establish a North of Tyne Culture and Creative Recovery Fund focusing on the restart and recovery phases for the sector. This fund will be complemented by Culture and Creative Zones which will be established and operational in 2021/22 onwards. In addition, a specific focus on creative skills will form part of the overall NTCA Skills for Recovery and Growth approach.
- 1.3 NTCA launched a call for proposals for a North of Tyne Culture and Creative Recovery Fund in August 2020, which closed on the 21<sup>st</sup> September 2020. The NTCA Culture and Creative Recovery Fund is not intended as crisis funding to provide subsidy for the organisations to cover overheads during lockdown but instead is focused on supporting innovation in recovery. The NTCA fund is aimed at supporting recovery for smaller organisations, SMEs and freelancers and will provide support to adopt new modes of delivery and establishing new or revised business models. The Recovery Fund will target local culture and creative infrastructure and support recovery at the grass roots level, which is essential for the long-term health of the sector. In addition, NTCA has been clear that the fund cannot support activity which duplicates or displaces current provision or funding but must instead stimulate additional benefits. NTCA and partners are of course continuing to engage with Government on the national support packages needed for the sector.
- 1.4 The call invited proposals which focused on supporting and enabling the Culture and Creative sector in the North of Tyne area to recover; encourage organisations and individuals in the sector to think about adaptation in the face of changed market conditions; and help make the sector more resilient in the long term. The intention for this Fund is to support the sector through to recovery but also to establish support mechanisms which have the potential to become longer term vehicles for delivery.
- 1.5 Several organisations reached out as part of the call process and two proposals were submitted. Many of the organisations which reached out initially, formed a partnership approach under one proposal – reflecting the ethos of collaboration within the original call. Evaluation of the two proposals was undertaken by a panel made up of NTCA Officers and Culture and Creative and Economic Development representatives from the local authorities. The project proposals were scored against

the selection criteria set out in the call definition document and which focused on strategic fit; delivery of outcomes; fund structure and pipeline; value for money; and deliverability. The proposals and the outcome of the evaluation were considered by Technical Officers group and Investment Panel.

- 1.6 The proposal from Creative England achieved the highest score with a thorough and evidenced based approach entirely in line with the specification set out the call definition document. The strong local partnership support, the organisation's knowledge of the culture and creative landscape, the extensive experience of managing these types of fund and the strong process and procedures in place to manage the Culture & Creative Recovery fund were particular strengths.
- 1.7 This partnership proposal led by Creative England centres around two elements

#### **A) Investment**

- Grant funding for earlier stage businesses, individuals, artists and creative practitioners to support new IP
- Recoverable investment for early stage businesses to support new IP, market research, diversification, and skills
- Loan finance for increasing capacity, building infrastructure, leveraging further investment, and scaling

#### **B) Investment and Business Support Package**

Wraparound support designed to target specific market failures of access to finance / fundraising capacity; lack of investors in the sector; and cross-sector collaboration/ effective networks. The support package will include business diagnostics and signposting; and accelerator programme; investor cultivation; brokering cultural collaborations; leveraging partnerships

The above will be supported by

- Discovery and Pipeline Development – a pipeline of beneficiaries will be developed and tracked which will help demonstrate impact.
- The development of a North of Tyne ecosystem report and journey map to set out delivery activities, referrals strategy and timeline which reflect the new landscape in which the sector operates.
- Strong partnership working with a variety of local partners including Creative Fuse, Community Foundation, Newcastle University, Northumbria University, North East Cultural Partnership, Arts Council England North East, and Northstar Ventures.
- A thorough governance approach which will steer the full development and deployment of the fund.

The North of Tyne Culture & Creative Recovery Fund will be operational for businesses to access from April 2021 onwards.

- 1.8 The Creative England delivery model includes robust governance arrangements to oversee both the delivery of the programme in line with strategic priorities and individual investment decisions against applications for funding. Creative England will establish an Advisory Group which will provide oversight for the delivery of the programme and ensure that the programme aligns to regional priorities whilst remaining responsive to challenges and opportunities over the lifetime of the programme. An Investment 'decision making' panel will be also be established with appropriate private and public sector representation, including representation from NTCA and our three constituent Local Authorities. The Investment panel members will have significant investment and sector expertise. They will provide scrutiny and due diligence for all investment decisions administered through the fund, ensuring lean, commercially experienced, and outcomes-focussed oversight.
- 1.9 Operationally, the delivery arrangements are in line with those agreed for other similar NTCA funds;
- A grant funding agreement will be in place between NTCA and Creative England, clearly describing the permitted use and structure the Culture and Creative Recovery Fund
  - As part of the grant funding agreement, Creative England are eligible to claim their operating costs – these will be claimed quarterly in arrears.

- Creative England will act as accountable body for the fund with no direct contact between the final beneficiaries and NTCA.
- For funding to final beneficiaries, a quarterly forecast of funds expected to be claimed by projects will be provided to NTCA, this will be paid in advance and a reconciliation exercise undertaken at the end of each quarter prior to the next payment.
- The grant funding agreement will be closely monitored, this will include sample checks on payments to final beneficiaries.
- A clawback clause will also be included within the grant funding agreement and can be implemented should any non-compliance be identified. This arrangement will ensure that project spend is solely drawn down for the uses permitted, and within the agreed structures, of the grant funding agreement.

## **Financial Due Diligence**

- 1.10 Independent financial due diligence of the proposal was commissioned and completed by UNW. The independent appraisal confirms that Creative England has the expertise to deliver the Fund ; has the relevant process and procedures in place to manage investment and risks; and as an organisation have the ability to effectively manage their resources and maintain positive results in challenging environments.
- 1.11 The appraisal confirms that the measures proposed in respect of grant and loan funding will comply with the EU state aid legislation and that Creative England have the knowledge and experience to be able to operate the proposed schemes. NTCA have also requested legal advice confirming how the proposal is compliant with the new UK Subsidy regime.
- 1.12 Creative England have an established investment assessment and due diligence process that is performed by either a member of the investment team or external assessors. The assessment for the Fund will be performed on a commercial basis to assess the eligibility applicants, as well as to determine which type of funding support is most appropriate for the project. Creative England's experience in the investment process in previous funds such as the RGF and CGF demonstrates the businesses ability to deliver this process in an appropriate manner.
- 1.13 The proposed application process for the Fund was reviewed in detail, with the appraiser assessing this as a thorough process. All applications require a detailed business plan and Creative England will perform a rigorous appraisal on all potential investees to assess the risk of each applicant's proposal, both in relation to the potential success of the project, but also the financial viability of each investee. A similar process has been used by Creative England on both the Regional Growth Fund and the Creative Growth Finance Debt Fund. This process is, in essence, a due diligence exercise and results in the production of a detailed Credit paper for presentation to an Investment Committee. Assurances have been provided by the applicant on the assessment of additionality and the appraiser recommends that NTCA ensure that the processes which Creative England adopt for this fund include a conclusion within each appraisal to demonstrate additionality.
- 1.14 The appraisal notes that Creative England has a diverse management team which can demonstrate a significant amount of experience operating investment schemes, including grants, loans and equity. The team also has a strong background in working with organisations within the creativity industries, which will be beneficial in delivering the Fund.
- 1.15 The financial controls in place at Creative England are thorough, detailed and appear to provide significant comfort that the preparation, review and sign off all goes through robust and clear processes. The processes and segregation of duties described and detailed by the business are appropriate for a business of Creative England's size.
- 1.16 The appraisal highlights that although COVID-19 has impacted the business materially in relation to its ability to deliver its programme work, the business has been able to manage its cost base, both in terms of project delivery and overhead, to generate a positive surplus for the six months ended 30 September 2020. This demonstrates the ability of Creative England to effectively manage their

resources and maintain positive results in challenging environments. The performance for the year to date will be offset by future programmes as the operation moves back to full delivery capacity.

- 1.17 The Creative England proposal incorporates an element of recoverable finance in the form of loans and recoverable grants/equity, Creative England anticipate recouping at least 80% of Loans and 50% of Repayable Grants/equity disbursed, with £1.5m recouped by FY26/27. The appraiser notes that equity investment is inherently riskier than providing loan finance, although has the potential to be recovered when compared to a grant. Equity finance is also typically more expensive from a legal transaction perspective and requires higher levels of due diligence. Creative England do not have FCA (Financial Conduct Authority) authorisation and would potentially have to partner with another organisation to do so and as they have done in the past. The appraiser recommends that NTCA should ensure that Creative England have FCA authorisation if required, and that appropriate measures are put in place to measure the State aid implications of such investments. CE have the support of Northstar - an experienced venture capital funder and has agreed to be a member of the Investment Committee - this should help mitigate some of the risk of equity investments made through the Fund. The appraiser also recommends that the plan for realising and reinvesting recoverable investments (equity investment, repayable grants, conditional loans and loans) is agreed as part of the contracting process.
- 1.18 Investment Panel considered the outcome of the call process in October 2020 and recommended that the Interim Head of Paid Service should approve the funding for the North of Tyne Culture and Creative Recovery Fund to Creative England subject to satisfactory completion of a financial due diligence appraisal. It is recommended that the Interim Head of Paid Service that funding of £3,250,000 to Creative England is agreed subject to the following conditions
- i. Independent legal advice is provided confirming how the proposal is compliant with the new UK Subsidy regime and confirmed by a suitably qualified lawyer acting on behalf of the North East LEP/North of Tyne Combined Authority.
  - ii. A detailed proposal for realising and reinvesting recoverable investments (equity investment, repayable grants, conditional loans and loans) is agreed by NTCA.
  - iii. The Business Case to be amended to reflect changes under due diligence and signed off to reflect the clarifications received under appraisal

## **2. Potential Impact on Objectives**

- 2.1 The Culture and Creative programme links directly to NTCA's strategic priorities and is identified as a priority sector in both the NTCA Economic Vision and the Devolution Deal. The programme and this proposal directly contributes towards the Champion of Enterprise, Spark of Innovation and Pride of Place pillars of the North of Tyne Economic Vision. The vision highlights the commitment to create innovative, long-term opportunities for growth that reflect a transforming economy and emphasises the intention to invest in key sectors and support assets, including those that are world leading or have the potential for global impact. The vision for the North of Tyne Culture and Creative Sector is to be renowned across the UK and globally as an exemplar for culture and creative-led inclusive growth. Culture and creative industries will be at the heart of driving North East economic growth and productivity and enhancing quality of life, wellbeing and opportunity for people and communities.
- 2.2 The North of Tyne Culture & Creative Recovery Fund proposal from Creative England has a strong fit with the Combined Authority's vision and key priorities. The proposal demonstrates strong alignment with the North of Tyne Economic Vision and demonstrates alignment with regional and national policy, specifically the UK Industrial Strategy and the Culture & Creative Sector Deal.

## **3. Key Risks**

- 3.1 Risks associated with the funding application have been considered as part of the application and appraisal process. The conditions associated with the funding approval relate to the mitigation of risks

#### **4. Financial and Other Resources Implications**

- 4.1 All funding provided will be revenue and all funding is expected to be defrayed by March 2023. The Creative England proposal incorporates an element of recoverable finance in the form of loans and recoverable grants/equity, Creative anticipate recouping at least 80% of Loans and 50% of Repayable Grants/equity disbursed. Modelling these assumptions on the fund model, CE anticipate recouping approximately £1.5m by FY 26-27. The funding is subject to NTCA agreeing a detailed proposal for realising and reinvesting recoverable investments (equity investment, repayable grants, conditional loans and loans).
- 4.2 Independent financial due diligence of the proposal was commissioned and completed by UNW to provide additional assurance in advance of contracting. The independent appraisal confirms the Creative England has the expertise to deliver the North of Tyne Culture and Creative Recovery Fund (CCRF); has the relevant process and procedures in place to manage investment and risks; and as an organisation have the ability to effectively manage their resources and maintain positive results in challenging environments.

#### **5. Legal Implications**

- 5.1 The comments of the Interim Monitoring Officer are included in the report.

#### **6. Equalities Implications**

- 6.1 As required by Section 149 of the Equality Act 2010, the Combined Authority has considered its obligations regarding the Public Sector Equality Duty and there will be no anticipated negative impact on groups with protected characteristics from these proposals.
- 6.2 In addition, NTCA will encourage Creative England to be mindful of our commitment to equalities and direct them to guidance provided by the Equalities and Human Rights Commission. <https://www.equalityhumanrights.com/en/advice-andguidance/guidance-businesses>.

#### **7. Inclusive Economy Implications**

- 7.1 The Inclusive Economy impact of this project was considered as part of the Appraisal process. The Combined Authority believes that the North of Tyne Culture and Creative Recovery will positively contribute to creating a more inclusive economy in the North of Tyne with specific positive impact on closing the unemployment gap and closing the skills gap by linking up national employment and skills strategies with the business diagnostic component.

#### **8. Climate Change Implications**

- 8.1 The Combined Authority has considered the implications relating to climate change in decisions regarding the delivery of the North of Tyne Culture and Creative Recovery Fund and believe there will be no negative impact as a result.
- 8.2 In addition, NTCA will work closely with Creative England to identify ways in which support provided to end beneficiaries can be linked to broader measures to reduce carbon emissions.

#### **9. Consultation and Engagement**

Consultation has taken place with a broad range of regional stakeholders to develop the call definition document inviting proposals for a Culture & Creative Recovery Fund. The Creative England proposals has been discussed at the North of Tyne Culture, Creative & Tourism Steering group and has been considered by Technical Officers Group and Investment Panel.

#### **10. Appendices**

N/A

**11. Background Papers**

NTCA Cabinet, 28<sup>th</sup> January 202, Item 4b – Culture & Creative Industries – Sector Development Update

<https://www.northoftyne-ca.gov.uk/wp-content/uploads/2020/08/NTCACabinet28January2020AgendaPack.pdf>

**12. Contact Officers**

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**13. Glossary**

**11. Sign-off**

1) Mayor and Portfolio holder Yes	2) Director/SMT Yes	3) Chief Finance Officer: Yes	4) Monitoring Officer: Yes	5) Head of Paid Service: Yes
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