

<b>BUSINESS BOARD</b>	<b>AGENDA ITEM NO: 3.3</b>
<b>15 SEPTEMBER 2020</b>	<b>PUBLIC REPORT</b>

## **BUSINESS GROWTH SERVICE – FULL BUSINESS CASE**

### **1.0 PURPOSE**

- 1.1. Following the approval and endorsement of the Outline Business Case for the Business Growth Service in November 2019 and the conditions set as for approval of a subsequent Full Business Case, one has been produced reflecting the progress made in the design and development of the Service, in collaboration with bidders to deliver it, and taking into account the impacts of COVID 19 and the related Local Economic Recovery Strategy.
- 1.2. The Full Business Case comprises the Strategic, Economic, Commercial, Financial and Management cases modelling the Green Book in line with the HM Treasury Central Government guidance on appraisal and evaluation.
- 1.3. This report to the Business Board provides the information required to make recommendations to the Combined Authority Board to approve and agree the FBC including delegation to award the contract to deliver it.

<b><u>DECISION REQUIRED</u></b>	
<b>Lead Member:</b>	<b>Austen Adams, Chair of the Business Board</b>
<b>Lead Officer:</b>	<b>John T Hill, Director of Business &amp; Skills</b>
<b>Forward Plan Ref: N/A</b>	<b>Key Decision: Yes</b>
<p>The Business Board is invited to:</p> <ol style="list-style-type: none"> <li>(a) Approve and adopt the Full Business Case to mobilise the delivery of the Business Growth Service, including;</li> <li>(b) Agree that the conditions for FBC approval set at OBC have been met, specifically: <ol style="list-style-type: none"> <li>1) Confirmation of EU funding, and the conditions set out in item 4.2 for contracting only upon further correspondence from MHCLG.</li> </ol> </li> </ol>	

- 2) Appointment of delivery partner
  - 3) Submission of 3-year cash flow forecast; monthly for year 1 and annual thereafter.
  - 4) Contact / Involvement of HMRC to upskill Growth Hub staff
  - 5) Discussions with local authority partners on availability of in-kind support via use of L/A office space, provisional of secretariat, and officer time
  - 6) Submission of an independent state aid report covering:
    - i. ESF and ERDF application and utilisation;
    - ii. allocation of £2.335m of the authority's revenue budget to Growth Service Management Company Ltd;
    - iii. Management of Capital Growth Fund
  - 7) Submission of Sustainability and Environmental policy for the Growth Service Management Company Ltd
  - 8) Submission of evidence to support the claim of delivering 2.8 new jobs per firm receiving supported in-depth coaching
- (c) Agree that additional conditions, to be considered post-COVID 19, have been met, specifically:
- 1) That the Service has been appropriately adapted to support the Local COVID 19 Economic Recovery Strategy
  - 2) That the impacts of COVID 19 on contributing funding from Enterprise Zone, business rates receipts, have been appropriately considered.

## **2.0 BACKGROUND**

2.1. The key messages from the Cambridgeshire & Peterborough Independent Economic Review (CPIER) that have informed our Local Industrial Strategy (LIS), and driven the need for more inclusive, and knowledge intensive, jobs growth is summarised through the LIS' three main goals:

- (a) *To improve the long-term capacity for growth in Greater Cambridge to support the expansion of this innovation powerhouse and, crucially, reduce the risk of any stalling in the long-term high growth rates that have been enjoyed for several decades.*

- (b) *To increase sustainability and broaden the base of local economic growth, by identifying opportunities for high growth companies to accelerate business growth where there is greater absorptive capacity, beyond the current bottlenecks to growth in Greater Cambridge.*
- (c) *To do this by expanding and building upon the clusters and networks that have enabled Cambridge to become a global leader in innovative growth, creating an economy-wide business support eco-system to promote business inclusive growth*

2.2. The policy response set out in LIS to meet these goals, in the shortest timeframe, to create medium term impacts, was the Business Growth Service. This was designed to better enable our academic ideas to be more rapidly commercialised and spun-out, whilst ensuring our most exciting entrepreneurs are supported to scale-up and that the world's brightest firms are encouraged to locate here. The Service will deliver across the specificities of our three sub-economies as an integrated single-front-door offering for high-growth start-ups, scale-ups and set-ups. Central to the idea is building a network of growth companies that, when connected through innovation, skills and growth support, become more than the sum of their parts. In this way we aim to develop the same quality of growth support that has made growing businesses inside Cambridge, so much faster and more sustainable than nearly anywhere else in the UK.

2.3. The programme design response to the impact of COVID 19 and the development of a Local Economic Recovery Strategy, has been to adapt the originally designed Service to create a modified Business Rebound & Growth Service that will ensure that recovery is speeded through a stronger rebound and that it is even more inclusive, reducing the disparities between our sub-economies and building future resilience. In addition, the Service must help our economy become greener, faster.

### **3.0 THE BUSINESS GROWTH SERVICE**

3.1. The Service will provide:

- (a) A Growth Coaching Service to engage and support our highest potential firms to speed their growth, build their capacity for growth, sustain their period of growth, or all three, to create 3,498 jobs.
- (b) An Inward Investment Service to better connect us into global markets, to engage and persuade firms to locate into our economy or invest in our strategic projects, to create 1,328 jobs.

- (c) A Skills Brokerage Service to link learners and those retraining for new jobs, to employers and skills providers to improve the supply of skills to our growth sectors, to provide 3,505 people with better skills for new jobs, including 1,600 apprenticeships.
  - (d) A Capital Growth Investment Fund to help SMEs, grow through organic expansion, offering an integrated range of grants, loans and equity products unavailable commercially, to create 1,500 jobs.
- 3.2. By integrating all these services into one single-front-door Service to create a total of 6,326 jobs, we will better connect our places and business clusters and provide across them, a quality and connectivity of growth support that reflects, and has the potential to develop towards, the support eco-system developed over half a century within Greater Cambridge. To do this, the Service will expand and build on the growth support networks that are already present in and around Cambridge and develop a commercial marketplace for advisory and investment services, as well as a mentoring culture amongst supported entrepreneurs.

#### **4.0 CONDITIONS FOR SIGN OFF SET AT OBC**

- 4.1. Approval of the Outline Business Case by the Business Board, and later ratified by the Combined Authority Board, was based on eight conditions being met, and documented within the Final Business Case. These were:
- 4.2. Confirmation of EU funding
- (a) Of the £7,327,148 of ERDF and ESF funding required to part-finance the complete Service, the ESF funding has now been confirmed as being secured via a Grant Offer Letter from DWP.
  - (b) The ERDF funding proposals for the Growth Coaching Service and the Inward Investment Service, have successfully passed the primary evaluation by MHCLG, and are now progressing through the more iterative, secondary stage of clarification questions. All clarification questions have been satisfactorily answered and we have been issued with a Letter of Comfort that informs us that confirmation of funding should be received during September. See both in Appendix 2. On the basis that the proposed Service provides important support not to just to future growth but for recovery and rebound or COVID-impacted business, it is planned that:
    - Pending, and only in the event that, MHCLG confirm of the remaining two packages of ERDF funding, that the CPCA will enter into a contract for delivery of the whole Service with the Preferred Delivery Consortium. Based on MHCLG's Letter of Comfort, we expect a positive approval of our proposals during September, and

to use these approval letters as the basis for entering into contracts be during October.

- Should MHCLG's confirmation come later, we will delay contracting with the Preferred Delivery Consortium until that point.
- Should MHCLG decline to fund one or both packages of ERDF funding, we will re-plan the whole Service, with scaled down versions of the Growth Coaching and Inward Investment elements, returning to the Business Board and CA Board in January 2021 for approval of a scaled-down service.

#### 4.3. Appointment of delivery partner

- (a) Page 60 within the Commercial Case describes the procurement process that has led to the selection of a Preferred Delivery Consortium Bid. The winning bidders were informed on the 4th September. Upon completion of the Alcatel Stand still Period, the identity of the Delivery Consortium members will be published, and contracts provisionally set out for a commencement of Service during October 2020, via Officer delegation.

#### 4.4. Submission of 3-year cash flow forecast; monthly for year 1 and annual thereafter.

- (a) Appendix 7 provides the cashflow for the expenditure of the Growth Service over the three years to October 2023.

#### 4.5. Contact / Involvement of HMRC to upskill Growth Hub staff

- (a) Page 43 within the Economic Case provides an update on the work carried out by CPCA Officers with a range of colleagues within the BEIS Business Growth Directorate, HMRC and the Office of National Statistics, including access to the work of the Data Enabled Change Accelerator (DECA). This work has provided the insight sought to help the Growth Hub, and new Service that replaces it, to better target high growth potential firms more effectively.

#### 4.6. Discussions with local authority partners on availability of in-kind support via use of L/A office space, provisional of secretariat, and officer time

- (a) Through the work of the COVID 19 Economic Recovery Sub-Group (ERSG), involving all the constituent Local Authority Economic Development Teams, the Service has been co-developed and adapted for economic recovery. These adaptations, jointly agreed through the ERSG build on previous strong collaboration to produce the joint delivery plans for each sub-economy, to be executed jointly through CPCA Officers, LA Officers and the contracted Service Delivery Partner (see Appendix 3). This will include in-kind support from LA colleagues and in some cases the use of LA offices for meetings with the Service Delivery

Partner and customers of the Service. A table of commitments from each LA partner is also contained within Appendix 3.

- 4.7. Submission of independent state aid report covering ESF and ERDF application and utilisation; allocation of £2.335m of the authority's revenue budget to Growth Service Management Company Ltd; Management of Capital Growth Fund
  - (a) Pinsent Mason, our legal advice provider has provided a 20 page, detailed advice on state aid compliance, the use of ERDF, ESF and CPCA funding and the structure of the Growth Service Management Company. See Appendix 4
- 4.8. Submission of Sustainability and Environmental Policy for the Growth Service Management Company Ltd
  - (a) Officers have produced a Sustainability and Environmental Policy, See Appendix 5.
- 4.9. Submission of evidence to support the claim of delivering 2.8 new jobs per firm receiving supported in-depth coaching
  - (a) Page 40-43 within the Economic Case provides three sources of fresh evidence that all validate the assumptions made in the OBC, around the potential for jobs creation by the Service, based on OBC forecasts for the average number of jobs created per growth coaching intervention being 2.8.

## **5.0 ADDITIONAL CONDITIONS TO BE CONSIDERED POST-COVID 19**

- 5.1. That the Service has been appropriately adapted to support the Local COVID 19 Economic recovery Strategy
- 5.2. The adaptations made to the Service in response to the impact of COVID 19 and the development of a Local Economic Recovery Strategy, include:
  - (a) Adaptions to the Growth Coaching Service to help growth business to find new ways to capture what they have learned from the unforeseen and enforced impacts of Covid-19 on markets, customer behaviours and working practices, using our "ROAR" approach to regrowth, comprising four elements: Recover–Orient–Adapt–Regrow.
  - (b) Support for the Visitor Economy to recover & adapt by linking firms with potential for strong rebound, within the visitor economy of Cambridge and elsewhere, into the new £145,000 Grant Scheme for revenue grants of between £1000 - £3000 for equipment and support to help evolve, adapt and implement new processes and technologies to capture the evolving remote "virtual visitor" experience and marketplace.

- (c) Support for displaced workers to transition into start-ups by encouraging entrepreneurialism and self-employment with both young adults as well as mature, displaced workers. Whilst there are many layers of existing support for potential company start-ups and the self-employed sole traders, the landscape needs to be simplified and localised to the specifics of our sub-economies and market towns to address and harness local opportunities. Both types of new entrepreneur will be supported through mentoring, grants, incentives and leveraging other programmes such as the National Skills Fund and AEB Funding to design specialised courses for aspiring entrepreneurs.
- (d) Support for city & town centre firms to rebound, by linking retailers into the new city centre improvement fund, provided by the CPCA Business Board, through its Local Growth Fund and ringfencing £2m of the existing Market Towns Fund to support the changes required post-COVID to the management of people meeting and socialising, and maintaining the retail, leisure, hospitality and environmental sectors in town centres.
- (e) Adaptions to the Skills Brokerage to improve careers advice to better connect school leavers with jobs, by implementing the recommendations from the Cambridge Ahead report on the disconnect between career guidance in schools and the workplace. This will include a Greater Cambridge pilot to encourage more large employers to generate active engagement with schools to increase work mentoring, work experience, and industry placements; ensure all schools have a dedicated careers leader to coordinate career guidance and that teachers understand technical education pathways and give them equal emphasis.
- (f) Improved learner access to digital skills development, ensuring that Skills Brokers signpost workers and those unemployed to greater provision of digital skills to help mitigate against digital exclusion for those most in need of training and in low skilled jobs. This will include increased provision through local devolution of the Adult Education Budget and better connecting displaced talent into re-skilling & jobs faster, through Skills Brokers specifically targeted, through our partners in Job Centre Plus, on those displaced workers from the hardest hit sectors.
- (g) Connecting displaced talent into re-skilling & jobs faster, by targeting Skills Brokers, through our partners in Job Centre Plus, onto those displaced workers from the hardest hit sectors. Adapting the service to create bespoke pathways into retraining and on into a job. This will include fast and facilitated access to the:
- CPCA Apprenticeship Levy Pool to pay for training costs
  - Apprentice Bonus Scheme for new apprenticeships created
  - Kickstart Scheme new jobs that include training
  - Traineeship Bonus Scheme for new traineeship placements

5.3. That the impacts of COVID 19 on contributing funding from Enterprise Zone, business rates receipts, have been appropriately considered. The possibility of the Enterprise Zone developers' forecasts being over optimistic, particularly following on from the COVID-19 pandemic, have been mitigated as follows;

- (a) Factoring down forecasts for optimism. The factor used on developer forecasts for each of the five Enterprise Zones varied depending on its maturity and track record in attracting new tenants over time.
- (b) Utilising the surplus cash at end of programme. The cashflow for the total Service, shown in appendix 7, is now, as a result of improvements made during the competitive negotiation procurement process, showing a surplus at the end of the contract, of £450k. This is nearly 50% of the projected Enterprise Zone receipts we had allocated to the Service budget, and creates a safety factor of 2, on our assumption of £927k of contributions from Enterprise Zones.

## **CORPORATE GOVERNANCE FOR GROWTH COMPANY**

On 27 July 2020 the Business Board approved stage 1 corporate governance arrangements for the proposed Growth Service Management Company (GrowthCo). The GrowthCo (called Peterborough and Cambridge Business Growth Company Limited) was incorporated on 13 August 2020. GrowthCo will become a party to the shareholders agreement regulating the relationship between CPCA and Angle Holdings Ltd.

It is generally recognised that it is not possible for a board of directors to have hands-on involvement in every area of a company's business, and that delegation of certain of its functions will be required. For example, day-to-day responsibility for the operation of the company's business will be delegated to the executive management (which, in the context of GrowthCo, means to the proposed Programme Management Committee, as set out in the Full Business Case), and potentially other functions to the audit, nomination, remuneration and risk committees (where they are established). Best practice is to adopt a formal schedule of matters which are reserved for their decision by the company's board, consequently making clear the extent of delegation to any committees.

It is also typical for major decisions to be reserved to shareholders for decision, whether due to the provisions of the Companies Act 2006 (which requires that certain decisions be taken by shareholders) or due to their strategic nature (such as the adoption of a new business plan).

It is therefore normal to set out in shareholder documentation what types of decision are to be taken at which decision making level – be it shareholder, board, or a committee reporting to the board.

## **PROPOSED DECISION-MAKING HIERARCHY**

What is envisaged for Angle Holdings Limited (Angle) and GrowthCo is a clear hierarchy of decision



making. The overarching concept is that all decisions should be taken at the lowest possible level of decision making in line with:

- agreed objectives; and
- the approved business plan, but with two caveats:
  - 1) certain decisions are considered important enough to be reserved to certain levels in the decision making hierarchy (so at company board or shareholder level); and
  - 2) a higher level in the decision-making hierarchy should always be able to step in (or be asked by a lower level to step in) to take a decision that would normally be capable of being decided at a lower level.

Appendix 8 of the FBC sets out the proposed decision-making hierarchy for GrowthCo.

## 6.0 FINANCIAL IMPLICATIONS

- 6.1. In order to contract with the preferred delivery consortium to deliver the Business Rebound & Growth Service, the CPCA will transfer into Growth Co, The Growth Service Delivery Fund of £14,939,148. The £4,500,000 balance of the £19,499,148 are direct contributions by SME's to the delivery partner.
- 6.2. In addition, to delivering the growth coaching, skills brokerage and inward investment services, the Business Board has tasked the Business Rebound & Growth Service with the management, on its behalf, of the Capital Growth Investment Fund and an Innovation & Relocation Grant, approved in September 2019 by both the Business Board and CPCA Board and confirmed now as final allocations for Business Board approval, in September 2020.

Grant & Equity investment Fund			
Scheme	Type	Range	Total pot value
Growth Grants	Capital Grant	£20k to £150k	£2,850,000
Growth Investment Funding	Capital Equity	£150k to £250k	£5,700,000
Administration Fee for Above		5%	£450,000
Relocation Advice Grants	Revenue	£5k to £25k	£150,000
R&D Grant Application Support Grants	Revenue	£10k to £50k	£300,000
Administration Fee for Above		10%	£50,000
			<b>£9,500,000</b>

- 6.3. In order for Growth Co to manage these investments on the CPCA's behalf, the CPCA will additionally, transfer into Growth Co, the Capital Growth Investment Fund and an Innovation & Relocation Grant fund, totalling £9,500,000.
- 6.4. The overall breakdown of the funding from the CPA to the Growth Service is set out in the table below.

Growth Service Cashflow	FY 20/21 Total	FY 21/22 Total	FY 22/23 Total	FY 23/24 Total	Grand Totals
<b>Income</b>					
LGF Equity Investment	£ 5,407,000	£ -	£ -	£ -	£ 5,407,000
CA Growth Hub	£ 123,000	£ 246,000	£ 246,000	£ 123,000	£ 738,000
CA Skills Implementation	£ 50,000	£ 50,000	£ 50,000	£ -	£ 150,000
CA LIS Implementation	£ 50,000	£ 50,000	£ 50,000	£ -	£ 150,000
CA Contract with CEC	£ 40,000	£ 80,000	£ 80,000	£ 40,000	£ 240,000
CA Enterprise Zone Receipts	£ -	£ 230,000	£ 279,000	£ 418,000	£ 927,000
ERDF Funding	£ -	£ 1,801,000	£ 2,500,000	£ 990,601	£ 5,291,601
ESF Funding	£ -	£ 600,000	£ 800,000	£ 635,547	£ 2,035,547
LGF Investment Fund (Capital)	£ -	£ 4,000,000	£ 4,000,000	£ 1,000,000	£ 9,000,000
LGF Investment Fund (Revenue)	£ 117,691	£ 166,152	£ 166,152	£ -	£ 449,995
<b>Totals</b>	<b>£ 5,787,691</b>	<b>£ 7,223,152</b>	<b>£ 8,171,152</b>	<b>£ 3,207,148</b>	<b>£ 24,389,143</b>
<b>Expenditure</b>	<b>FY 20/21 Total</b>	<b>FY 21/22 Total</b>	<b>FY 22/23 Total</b>	<b>FY 23/24 Total</b>	<b>Grand Totals</b>
Staffing (see tab for details)	£ 127,350	£ 259,694	£ 264,688	£ 134,841	£ 786,573
Administration (see tab for details)	£ 156,571	£ 119,027	£ 111,913	£ 47,933	£ 435,444
Capital Growth Fund Administration	£ 170,107	£ 206,418	£ 193,296	£ 96,648	£ 666,469
Innovation & Relocation Grant Administration	£ -	£ -	£ -	£ -	£ -
Capital Growth Grants	£ -	£ 3,800,000	£ 3,800,000	£ 850,000	£ 8,450,000
Innovation & Relocation Grants	£ 117,691	£ 166,152	£ 110,768	£ -	£ 394,611
Skills Brokerage Operational Budget	£ 646,910	£ 905,176	£ 875,152	£ 395,076	£ 2,822,314
Inward Investment Service Budget	£ 716,011	£ 1,100,578	£ 1,110,152	£ 517,726	£ 3,444,467
Growth Coaching Business Engagement Budget	£ 425,628	£ 923,533	£ 913,052	£ 427,510	£ 2,689,723
ERDF Nudge Grants	£ -	£ 661,334	£ 1,674,669	£ 664,001	£ 3,000,004
Prime Contract	£ 298,215	£ 444,992	£ 384,132	£ 174,566	£ 1,301,905
<b>Totals</b>	<b>£ 2,658,483</b>	<b>£ 8,586,904</b>	<b>£ 9,053,689</b>	<b>£ 3,133,735</b>	<b>£ 23,991,510</b>
Opening Balance	£ -	£ 3,129,208	£ 1,765,455	£ 498,786	£ -
Total Income	£ 5,787,691	£ 7,223,152	£ 8,171,152	£ 3,207,148	£ 24,389,143
Total Expenditure	£ 2,658,483	£ 8,586,904	£ 9,437,821	£ 3,308,301	£ 23,991,510
Closing Balance	£ 3,129,208	£ 1,765,455	£ 498,786	£ 397,633	£ 397,633

## 7.0 LEGAL IMPLICATIONS

Page 60 within the Commercial Case describes the procurement process that has led to the selection of a Preferred Delivery Consortium Bid. The winning bidders were informed on the 4th September. Upon completion of the Alcatel Stand still Period, the identity of the Delivery Consortium members will be published, and contracts provisionally set out for a commencement of Service during October 2020.

## 8.0 IMPLICATIONS FOR NATURE

8.1. There are no implications for nature

## 9.0 OTHER SIGNIFICANT IMPLICATIONS

9.1. There are no other significant implications

## 10.0 APPENDICES

10.1. Appendix 1 – Business Rebound & Growth Service; Full Business Case

<u>Background Papers</u>	<u>Location</u>
None	N/A