THE BUSINESS BOARD

Agenda Item No: 3.1

Growth Works Programme - Management Update for Quarter 7 (July to September 2022)

To:	Business Board
Meeting Date:	14 November 2022
Public report:	Yes
Lead Member:	Chair of the Business Board, Alex Plant
From:	Interim Associate Director of Business, Steve Clarke
Key decision:	No
Recommendations:	The Business Board is recommended to:

a) Note the Growth Works Programme performance data for Q7 (01 July to 30 September 2022);

b) Note the outcomes and findings of the recent Programme Review; and

c) Endorse the proposed recommendations from the programme review, as set out in section 5 of this report.

1. Purpose

1.1 To note the programme performance data for Quarter 7 of the contract (or Quarter 3 of calendar year 2), covering the period from July 2022 to September 2022.

1.2 To note the findings of the programme review on overall performance to date, as undertaken by Gateley Economic Growth Service (GEG) and its private sector partners, as directed by the Combined Authority.

1.3 To consider the suggested changes proposed from the programme review and to seek consensus from members on their implementation to address performance concerns and to sustain successful delivery of the Growth Works Programme.

2. Growth Works Programme – Performance Summary for Q7

2.1 Growth Works is a Combined Authority programme, which is designed to support high growth / growing / scale-up businesses. It is managed by the Cambridgeshire Peterborough Business Growth Company Limited (Growth Co), which is a subsidiary of the Combined Authority. Growth Co manages the Growth Works contract on behalf of the Combined Authority, and the contract is led by GEG.

2.2 The Growth Works Programme Performance Report for Quarter 7 (Quarter 3 of calendar year 2), attached at Appendix 1 to this report, provides detailed analysis for each service line within the programme. Table 1 below sets out a summary of performance outcomes for jobs and apprenticeships at programme level.

Service Line	Total Programme Target	Year 2 Target	Year 2 Actual (1 Jan – 30 Sep)	Programme Actual (15 Feb 2021 – 30 Sep 2022)
Coaching	3,223	1,454	934	1,073
Inward Investment	808	263	304	627
Skills: Apprenticeships	1,400	449	200	266
Grants & Equity	1,455	474	245	684
Totals	6,886	2,640	1,683	2,650

Table 1 – Performance Outcomes

2.3 While the overall outturn against job forecasts remains ahead of the curve, with jobs committed being 15.8% ahead by Quarter 7, there are challenges that need addressing, particularly in the volume heavy service lines for Growth Coaching and Skills:

- Macro-economic environment and market conditions are impacting the ability of volume heavy services to deliver the current required outcomes.
- Performance improvement plans have not delivered the intended upturn in results the services had forecast.

- Ongoing engagement with the Department for Business, Energy and Industrial Strategy over the Growth Hub year-3 funding.

2.4 Customer satisfaction is measured on a quarterly basis using an independent survey company undertaking Net Promoter Score (NPS) surveying, which is a widely accepted approach to gauging client and/or customer levels of satisfaction. The NPS is calculated by subtracting the number of detractors from the number of promotors. It can be expressed as a whole number or a percentage and range from +/-100. A positive NPS (above 0) is considered “good”, an NPS of 50-69 is considered “excellent,” and anything 70 and above is considered “world-class.”

2.5 The Growth Works Net Promoter Score (NPS) for the Quarter 7 survey was 62%, and is classed as ‘excellent’. Although it falls short of the 78% ‘world-class’ result of Quarter 6, it is comparable with Quarter 4’s NPS of 68%, and is still above Quarter 5’s NPS of 56%. With Growth Works contractors inviting more companies than in previous quarters to participate in the survey, there were 29 responses out of 124 companies, which gives a 23% survey response rate for Quarter 7. Earlier responses were 53% for Quarter 6, 50% for Quarter 5, and 44% for Quarter 4. There were 21 promoters surveyed scoring 9 or 10 out of 10, which is a good achievement. A copy of the NPS Survey is attached at Appendix 2 to this report.

2.6 Furthermore, data led views and projections of performance conclude that continuing to deliver the service as currently structured will not create the desired level of outcomes that the Combined Authority hoped for when designing the Business Growth Service (Growth Works Programme). A full breakdown of performance by service line is attached as Appendix 3 to this report.

3. Service Line Performance & Impact

Skills Service Update

3.1 At the end of Quarter 7, the Skills Service has not reported the performance level expected. Growth Works with Skills (GWwS) is behind target with all the leading indicators.

3.2 The current preferred Key Account Management (KAM) approach in this service line has so far not yielded the desired results in these metrics. A different approach is now being taken. A broad engagement campaign targeting more than 32,000 business decision-makers (honed to district areas and by sector) has been undertaken. In addition, the GWwS has started building relationships with economic development teams in all local authorities, and is engaging with the local colleges. This engagement has been too slow. Critical to the success of the skills offer is the service playing an active role in the skills system across Cambridgeshire and Peterborough.

3.3 Feedback from the market is that access to talent and the right skills is a leading barrier to growth identified by many businesses within the Combined Authority area, and this is confirmed by insight from the programme. The performance of GWwS is juxtaposed with what the market is telling us, highlighting the need to reinvigorate the skills offer through a change of approach to the delivery of this service line.

Growth Coaching Service Update

3.4 At the end of Quarter 7, the Growth Coaching Service had created 1,073 jobs against an expected target of 1,189, but the trend line is currently downwards. It is predicted that if Growth Works continues to deliver the Coaching Service as constituted, it will deliver 1,890-1,900 jobs, approximately 59% of the 3,223 total jobs required at contract end. Taking the last six months' figures (88 in April, 60 in May, 54.5 in June, 20.5 in July, 168 in August 168, and 160 in September), if it were not for the trend numbers in August and September, then the prediction would be lower.

3.5 Equally, performance in the leading indicators (and trend in the performance) does provide confidence that Coaching will deliver the jobs outcome, underpinning the above prediction. It is predicted that companies starting a Coaching Journey will finish the contract at approximately 78% (775-785) of the 1,005 contract target. Likewise, by contract end, companies completing a Coaching Journey will be approximately 38% (375-385) of the 1,005 contract target.

3.6 Feedback from the market is that businesses currently do not want to buy coaching support, as it is not a priority for most businesses. This is reflected in the Growth Coaching service performance trends.

Inward Investment Service Update

3.7 Despite the challenges the high-volume service lines have experienced in the current economic climate, the inward investment service line continues to substantially over-deliver on all metrics. At the end of Quarter 7, 627 jobs have been created against an expected target of 261. It has built a pipeline of over 200 growing international companies, and it is predicted that if Growth Works continues to deliver inward investment as constituted, it will deliver 1,100-1,110 jobs, approximately 137% of the revised 808 total at contract end. Taking the last six months figures, jobs confirmed between April and September are 286, which reflects the quality of the investments secured for the Combined Authority.

3.8 Equally, performance in the leading indicators provides confidence that inward investment will deliver substantially above the job outcomes, which supports the prediction. It is also predicted that 450-470 companies (against a 160 target) will be serviced in the pipeline, and the required 40 project successes will be delivered by contract end.

3.9 According to the International Monetary Fund, Foreign Direct Investment (FDI) tends to be resilient during an economic crisis and allows the transfer of technology and capital input that is unable to be achieved through trade in goods and services. Inward FDI can enhance growth and innovation, create quality jobs, develop human capital, raise living standards, and improve environmental sustainability (OECD 2021). The resilience of FDI in the current environment is demonstrated by the pipeline and delivery to date of the service.

Grants and Equity Service Update

3.10 At the end of Quarter 7, the Grants and Equity Service had created 684 jobs, against an expected target of 706. It is predicted that if Growth Works continue to deliver these services as constituted, they will deliver 1,010-1,015 jobs, approximately 69% of the 1,455 total at contract end. The prediction is tempered by the dwindling small and medium-sized (SME) capital expenditure (CapEx) grants pot and the hiatus in the Equity Service line not starting during the first year of the programme. The Equity Service was redeployed in late September 2022, via a Change Control Note (CCN) that transferred it from the initial sub-contractor directly to GEG.

3.11 Performance in the leading indicator (and trend data) leads to a prediction that 77-82 SME

CapEx grant awards will be offered by contract end, approximately 143% of the 56 target. Enabled through the CCN, the new Equity Service has a defined metric to achieve by contract end that GEG are confident of achieving.

3.12 Feedback from the market and economic conditions demonstrates that preserving cash is a priority for businesses across the Combined Authority region. Insight from the programme proves the success of an access to capital offer that is not available commercially. Growth Works will continue to provide access to capital through the Equity Service. An equity-led offer will address market failures without draining business cashflow in the way commercial loans do.

4. Growth Works Programme Review

4.1 The purpose of the review is to provide members of the Cambridgeshire and Peterborough Business Growth Company, as well as the wider Combined Authority, with a detailed review of the Growth Works Programme to date. This review was prompted by concerns around leading indicators, the impact of wider macro-economic aspects, and feedback from businesses. It forms a good reflection point against which to align with other reviews taking place within the Combined Authority.

4.2 In line with the principles of good governance, the review considered and evaluated several key elements including:

- The evaluation of the material changes in the macro and micro economic environments since Programme inception and mobilisation.
- The evaluation of the performance of each service line since contract start, as well as the past six months when a significant ramp up was expected, and an objective data-driven review of each sub contractor's demonstrable ability to deliver against the existing and proposed outcomes.
- Re-evaluation of the original programme objectives and hypotheses against today's macro-economic environment to consider if any adjustments are required to maximise the benefits of Growth Works for workers, learners, and business leaders across the third and final year of the programme.

4.3 Despite the programme being ahead of where it expected to be at this stage, for overall jobs created metric there have been concerns expressed by the prime contractor, members of the Growth Co Board, Senior Responsible Officers (SROs), and Sub-Contractor Service Line Leads about the impacts of the macro-economic environment currently being faced, and the consequence this would have on the programme in the final months of year two and year three.

4.4 In the Monthly Contractual Report for September (end of Quarter 7), whilst strong performance is seen in Inward Investment and SME Capex grants, declining performance is also being seen across Growth Coaching and Skills. However, the trend being seen in performance does not lend itself to assuring stakeholders that these service lines can deliver the outcomes to which they are contracted. All service lines were required to deliver a significant increase in performance to meet the required sharp upturn in outputs during Quarter 6 to Quarter 8. To date, data from the Growth Coaching and Skills Service Line demonstrates this has not materialised.

4.5 Strong performance in the first twelve months of the contract created a surplus in most leading indicators, which has been eroded to the point of deficit across key metrics, particularly within the Growth Coaching and Skills Service Lines (including European Regional Development Fund (ERDF) and European Social Fund (ESF) metrics). Since the strong delivery in the first twelve months of the programme, market forces and economic uncertainty are now impacting the desire of firms to expand and create jobs, over preserving cash reserves.

4.6 Furthermore, the sub-contractor delivering the Growth Coaching Service line set out in a draft project change request (PCR) to the Department for Levelling Up, Housing and Communities (DLUHC) that "applicants did not favour coaching" but "require support for projects that more directly drive business growth". Further insight gained on challenges being faced by business demonstrates that the need to "find the right new people" and the need for "growth finance" are the leading challenges identified.

4.7 The national macro-economic environment has seen significant changes recently and high inflation means the real cost of doing business has taken a severe upturn in recent months, rising to 2.1% from 0.8% in February 2021. In July 2022, inflation peaked at 10.1%, and currently sits at 9.9%.

4.8 In addition, bottlenecks in supply chains, which never recovered fully from the Covid-19 pandemic, as well as soaring energy prices, are drivers affecting the abnormal inflation rates the UK is facing, and will remain the top concerns for businesses. This, coupled with the recent interest rate rises, has tightened business budgets further, increasing costs on debt and office space. Business leaders and consumers alike will feel their budgets increasingly squeezed, and as the UK moves towards an economic slowdown, companies will move away from non-essential costs to sustain operations.

4.9 The weakening of the pound will only exacerbate the current issues the country face as prices of imports grow, and so too will business costs, tightening budgets further. Despite this, a favourable exchange rate does create an attractive environment for inward investors looking to expand internationally and move capital across borders, with evidence of this beginning to be seen in the make-up of the Inward Investment Service pipeline.

4.10 These domestic challenges and economic conditions are similarly reflected across the Combined Authority area. Most businesses in the region forecast a rise in capital expenditure. This creates a fertile environment for demand for CapEx and equity investment (both domestic and international). This allows the Combined Authority to be the catalyst for capital investment and growth, despite uncertainty.

4.11 In summary, the impact of inflationary pressures, incomplete Covid-19 recovery (and the detrimental impact on supply chains of the pandemic), the war in Ukraine raising the costs of inputs such as fuel and other related costs, interest rate and wage rises, have all contributed to businesses struggling with controlling costs in the face of increasing uncertainty. Businesses are focused on cash retention and cost control. This will create a material shift in the needs and focus of businesses across the Combined Authority region, affecting their expansion, investment and resultant resource requirements. It is incumbent on GEG, as prime contractor, to ensure that the objectives and approach of the Growth Works Programme is best aligned to the significant challenges being faced by local businesses.

5. Growth Works Programme - Change Recommendations

5.1 Based on the evidence set out in this report and the forecast contractual outcomes, modelled on performance trends, there are six proposed recommendations to ensure Growth Works' offering is realigned to current market conditions and reflects insight gained from businesses.

5.2 The central tenets of the recommendations are the realignment of outcome targets based on market conditions, and the reallocation of programme funds to services that are proven to deliver. The six recommendations are as follows:

- Increasing the jobs to be created from the £3,000,000 ERDF-funded grant programme from 400 to 1,240 building on performance to date and levering the ongoing PCR.

- The Growth Coaching Service would be reduced to ensure it can still service existing clients delivering an additional 707 jobs on top of the 710 (ex-ERDF) created to date. The revised total target of the Growth Coaching Service is 1,417 (ex-ERDF). This reduction in service reflects the lack of market demand while ensuring continuity for existing clients.

- Reallocating £500,000 of the contracted Funding and in parallel 454 jobs output target from the Growth Coaching service line to the Inward Investment service line, to give a new total of 1,262 across the contract attributed to Inward Investment.

- An overall reduction of 10% in the jobs created target due to the impacts of external macro-economic factors and their impacts on the UK economy. The new jobs created target for Growth Works would be 4,937 compared to an initial target of 5,486.

- Growth Works with Skills have been pursuing a Key Account Management model throughout the programme to-date and while this has had some impact, performance data shows it lacks the immediacy and sustained business engagement required to deliver the volume of outputs required within the duration of this contract. We recommend the service pivot from focusing on longer term culture change to medium term deliverables to deliver the required learning outcomes, apprenticeship starts and ESF Key Performance Indicators (KPI's), this will require both strategic and operational changes at pace in this service line.

- Insight from business engaged by Growth Works is that the struggle they face filling vacancies has intensified over the past two years. This is supported by the region's unemployment rate (3.4%) being lower than the national rate and has resulted in the number of unemployed people per job vacancy across the region falling to 1 (the lowest since records began in 2001). The review suggests for better and more realistic alignment of Growth Works for Skills with the emergent needs of businesses on patch.

5.3 A summary of the impact on the overall job outcomes for year three of the programme is attached at Appendix 4 to this report.

5.4 Taking immediate action will ensure Growth Works will successfully deliver its outcomes during the current economic climate and will remain aligned to the priorities of the Combined Authority and the businesses in the region. If these recommendations are accepted, the programme will be able to deliver the required 4,937 jobs over the remainder of the contract.

5.5 The most significant reallocation of funds is from Growth Coaching to Inward Investment Service. This proposal is centered not only on the pipeline and performance of the Inward Investment Service, which has a proven ability to create jobs and weather volatile market conditions, but also on seizing opportunities presented by a weakened pound.

5.6 Furthermore, foreign firms are more responsive to business environment fluctuations given they tend to be diverse businesses already successful in their home market, and they tend to be substantial, lasting investments delivering the desired Gross Value Added growth and economic resilience.

5.7 These recommendations are further enhanced by the limited market demand for the Growth Coaching Service as currently operating, and the proposal to increase the required outputs from the ERDF pot is in response to the initial hypothesis about firms using ERDF nudge grants to complete Growth Coaching journeys having been disproven by virtue of the sub-contractor's PCR (the PCR being for nudge grants to be used beyond coaching for any revenue generating activities and CapEx in support of business). Therefore, approval of these recommendations will be subject to DLUHC agreeing the PCR, which will be initiated by the Combined Authority as lead authority for EU funding.

5.8 In conclusion, these recommendations have been produced to reflect the ability of each sub-contractor to deliver, within existing resources and using current budgets, to ensure the strongest possible performance in the third and final year of the programme. They also look to build on the proven strengthens and the evident needs of businesses, while mitigating current performance risks and challenges.

Significant Implications

6. Financial Implications

6.1 There are no direct financial implications, as the recommended changes to the programme are within approved budget levels.

7. Legal Implications

7.1 Proposal of the suggested recommendations to the Combined Authority Board is to be considered by the Skills Committee at its meeting on 7 November 2022, and they are being presented for the Business Board’s endorsement. The Growth Co Directors have approved all six recommendations from the programme review set out in this paper and, subject to the approval of the Combined Authority Board, a contract change notice will be signed between Growth Co and the Growth Works contractor to action contractual changes.

7.2 Any changes to the existing Grant Funding Agreements for ESF and ERDF between the Combined Authority and the funding bodies (DLUHC and the Department for Work and Pensions) would be subject to approval of the proposed PCRs to those funding bodies.

8. Public Health implications

8.1 There are no public health implications.

9. Environmental and Climate Change Implications

9.1 There are no environmental or climate change implications.

10. Other Significant Implications

10.1 There are no other significant implications.

11. Appendices

11.1 Appendix 1 – Growth Works Programme Performance Report for Quarter 7

11.2 Appendix 2 – Growth Works Net Promoter Score for Quarter 7 Survey

11.3 Appendix 3 – Growth Works Programme – Summary of Performance by Service Line

11.4 Appendix 4 – Growth Works Programme – Summary of Review Recommendations

12. Background Papers

12.1 None.