

Business Growth Service –Project change request

To: Business Board – Process for Urgent Decision Making

Date: 10 February 2021

Lead Member: Austen Adams, Chair of the Business Board

From: John T Hill Director of Business and Skills

Key decision: No

Forward Plan ref: **N/a**

Recommendations: The Business Board is invited to recommend the Mayor approve the project change request for the Business Growth Service

1. Purpose

- 1.1 At its meeting on 25 November 2019 the Business Board considered an application for funding on behalf of the Cambridgeshire and Peterborough Growth Service together with the Outline Business Case for the Growth Service. The application sought £5.4m of equity funding and £997k of enterprise zone receipts to fund Growth Coaching, Inward Investment and a Skills Service as well as £12m of capital grants to fund a connected SME grant and small equity scheme. The total cost of the project was estimated at £19.5m of revenue costs for the three services and £12m of Business Board Capital Growth Funds. The application confirmed that the balance of the revenue was to be provided from other sources including £7.2m of funding from the European Regional Development Fund and the European Social Fund. The Business Board recommended that the Combined Authority approve the Outline Business Case and the requested funds. At its meeting on 27 November 2019 the Combined Authority Board agreed these recommendations.
- 1.2 At its meeting on 30 September 2020 the Combined Authority Board approved the Full Business Case, conditional, among other things, upon the confirmation of EU funding. The officer report confirmed that contracting with the preferred delivery consortium would be delayed until that confirmation was received. To date the MHCLG have not confirmed approval of the £1.815m Inward Investment element of the ERDF funding. Given the delays in approval there is now a significant likelihood that approval will not be forthcoming for the ERDF inward investment funding. The purpose of this report is for the approval of the project change request, namely asking the Business Board whether it wishes to proceed with its investment into the Business Growth Service, given that any loss of ERDF funding would reduce the scope of the Business Growth Service.

2. Background

- 2.1 The issue for consideration is whether the Business Board wish to proceed with its investment of £5.4m of LFG equity, £9.5m of recycled growth funding, £997k of Enterprise Zone receipts and £2.0m of LGF grants, in advance of confirmation of whether the ERDF inward investment funding will be approved. This would involve agreeing to proceed on the assumption that the ERDF inward investment funding will not be forthcoming, and the project scope reduced accordingly.
- 2.2 Of the not yet confirmed ERDF funding £1,815,305 is for the inward investment service and £135,600 top sliced for part-funding 2 FTE Growth Co staff. Both these lines of funding would be lost if the bid were not to be approved.
- 2.5 The situation is urgent in that the Growth Service provider wishes to proceed to execute the main contracts for the Business Growth Service as soon as possible and requires certainty as to whether the ERDF inward investment funding is to be part of the contract. They are open to the option of the ERDF element of the inward investment funding being removed from the contractual documents at this time with the option of a change control process being used to add the funding back in to the contract if approval is ultimately forthcoming. This means removing c.£1.96m of funding for inward investment from the contract, leaving a reduced budget of c.£1.66m for the inward investment service line.
- 2.6 While it is now considered highly likely that the ERDF inward investment funding in question will not be approved, this is not yet certain; if it is approved the Business Growth Service could scale up its inward investment service, back to the original specification.

3. Reason for Change

- 3.1 The Full Application for £1.9m of European Regional Development Fund (ERDF) to part-fund the BGS Inward Investment Service was submitted to MHCLG on 17th March 2020. From April 20 to August 20, the CPCA went out to market, to procure a delivery partner to deliver the Business Growth Service using a procurement process compliant with EU regulations. On 22nd September 2020 we were advised that the appraisal was complete but that MHCLG had decided to undertake a compliance review of the CPCA's procurement process for the Business Growth Service. During the SSQ (Standard Selection Questionnaire) stage of the process, one potential candidate encountered a technical issue with the procurement portal and was unable to submit their response by the deadline. The potential bidder raised the issue with the CPCA and the portal provider. In response the CPCA fully investigated the issue, took both internal and external legal advice, and allowed an extension so that the SSQ stage response could be submitted. To ensure a level playing field, the extension period was notified to all potential candidates. The CPCA provided a full set of procurement documents to MHCLG in September 2020 and have subsequently provided additional evidence on the specific technical issue at SSQ stage and its response. This has been backed up by internal and external legal advice.
- 3.2 MHCLG have raised a concern relating to the evidence that a technical fault occurred. The CPCA have now carried out a further investigation and provided them with a report and additional evidence of the sequence of events and the CPCA's response. This further response was submitted to MHCLG on 1st February 2021 and an urgent decision requested. MHCLG agree that the CPCA acted in good faith but have a concern that a future European Commission audit of the process may raise the issue again. The risk to

MHCLG is that the independent Audit Authority may take the view that the issue compromised the procurement process which would lead to identification of a financial irregularity and possible claw back of funds. This would negatively impact the MHCLG Programme error rate. The CPCA's position is that the strong evidence supplied mitigates this risk and provides the basis for satisfying any future audit process. A decision is awaited from MHCLG, but no deadline has been given for when the decision will be made.

3.3 The CPCA has considered the option of continuing to pause the project until the ERDF inward investment bid is formally rejected or accepted. This would add further delay to the commencement of the BGS service which was due to be launched in October 2020 and has been delayed since September 2020 due to this procurement issue.

3.4 Approval of the material change to the Business Growth Service project is being sought, to enable the Service to be commenced without the ERDF contribution to the inward investment service line funding. If the ERDF funding is subsequently approved then this could be reincorporated into the contract, following approval of a subsequent change request.

4. Changes to the project.

4.1 With no confirmation of the ERDF contribution to the inward investment service line, it is proposed that the forecast £1,950,905 of ERDF funding is removed from it, leaving £1,667,205 of non-EU funding for the inward investment service line. The commensurate changes to the inward investment outputs, are a reduction in new jobs from 1,283 to 600, a loss of 683 new jobs. Table 1 shows the cost effectiveness calculation across the whole project.

4.2 Despite, the reduction in job numbers, there is a good case that continuing to support the inward investment element of the Service would still be a good use of Business Board funding, as it will create an excellent inward investment service to attract firms across the world and the UK to relocate into our economy and better connected into overseas investor networks to promote our strategic investments in transport infrastructure and higher education.

4.3 For the first year of the three-year service, the contractor will target foreign and national relocating firms, as well as regional firms. These businesses are currently adapting to greater remote working and downsizing their premises requirements (in both terms of space and costs). This possibly permanent shift to more remote working, will create a large population of firms in transit, between premises and potentially towns and cities. These will include high potential firms, that we should engage and build tailored packages of support to overcome barriers to growth. The service will operate a tiered model to attract regional relocations into The Fens, national relocations into Greater Peterborough and global relocations into Greater Cambridge. Key specialist staff from the contractor, will bring both private and public sector experience with over 10-years' experience each covering the UKs largest inward investment markets of Americas, Asia Pacific and Europe.

4.4 The proposed Inward Investment Service within the wider BGS Service, will create the central role of coordinating Inward Investment support across the CPCA area. Pragmatic improvements will substantially improve CPCA impacts on growth, including the

attraction into our economy of high potential overseas companies as set-ups, as well as overseas investors to drive forward our start-ups and scale-ups.

4.5 With a cost reduction of 53% in the inward investment service line, the key features of the reduced service will still include:

- Targeting: A strategy for which type of investment is most desirable for the CPCA area (sectors; business, functions, company culture) and targeted outreach programmes to actively approach target companies
- Lead Generation: Prospecting of high potential inward investment opportunities both existing companies invested into UK (but not necessarily in CPCA area), Global Growth companies seeking to open up the UK market to their services and entrepreneurial scale-ups.
- A digital portal to provide efficiency, insight and data capture for the service.
- Sector Specialisms: Positioning a team of Inward Investment Specialists as trusted and impartial experts with a remit to help companies consider CPCA area for their location of UK investment, identify and develop packages of advice, direct support and solutions to land the companies investment and better realise their full growth potential.
- Strategic Account Management: Expert Account Managers with over 10 years expertise in FDI to invest more time with existing company investors with a presence in CPCA and also those already in UK/London with no presence in CPCA, understanding needs, encouraging, informing & connecting firms to sources of commercial advice and support to secure the investment. Developing longer-term relationships with the strategic target companies with whom the CPCA would want to see investing in the area.
- Place Offer: Leveraging the private sector advisory market much more effectively through Place based Specialists, like the Cambridge & able to deliver deeper, broader and bespoke Inward Investment support services to each individual firm.
- Excellent Client handling: A sales process to capture and nurture all leads, building links to multiple individuals in target companies and managing them through evaluation and decision phases to investment commitment with a follow-up facilitation service to help companies install and get connected quickly.

4.6 Cost effectiveness

- Table 1 below, shows the jobs outcomes per £ invested by the Business Board of the Business Growth Service project at various stages in its development. The project was originally approved in November 2019 based on the Outline Business Case, A procurement was undertaken, and there was a net reduction of £0.5m of capital grants approved by the Business Board across two decisions, which results in the post-procurement figures in the table.
- The table shows that, while the average cost per job of the project without the ERDF is higher than what was projected when the project was approved, based on the Outline Business Case, the revised project is still significantly more cost effective for jobs outcomes

than the average local LGF project, and well above the hurdle rate of £5k per job set in the 2019 prospectus.

	Jobs forecast	Total BB funds (£)	£ per job
Approved in Outline Business Case	5,890	18,404,000	3,125
Post-Procurement with ERDF	5,961	17,947,000	3,011
Post-Procurement without ERDF*	5,278	17,947,000	3,400

Comparators

Overall LGF project average	24,143	136,669,484	5,661
LGF average excl. transport, enabling and health projects	15,181	71,477,036	4,708
Benchmark per 2019 prospectus	1	5,000	5,000

*this represents the project as-of February 2021.

Table 1 – Cost effectiveness calculation at stages throughout the Business Growth Service development and comparators

Significant Implications

5.0 Financial Implications

- 5.1 The options for the Business Board are to either approve or reject the project change. Rejection would release all the funds currently allocated to the project to be reallocated to other endeavours. In total this would release £7.45m of Local Growth Funds, £9.5m of recycled growth funding and £997k of Enterprise Zone receipts.
- 5.3 Approving the change request does not have any direct financial implications for the Business Board, as the funding requested has not changed. The comparison in Table 1 shows that the project still provides sufficient value for money in terms of the jobs outputs forecast and the strategic fit of the project is unchanged.
- 5.3 Rejecting the revised project would significantly impact the deliverables that could be badged against the LGF programme in the short term, which may have a detrimental impact on BEIS' view of the performance of the Business Board. That said, our current understanding is that this would not have a direct impact on any current funding in terms of claw-back so does not present a financial risk, and public funding should be used in the most effective way, not the most expedient.

6. Legal Implications

6.1 None

5.

6. Appendices

Exempt Appendix removed

7. Background Papers

7.1 [Meeting papers for Business Board 25 November 2019](#)