

## Business Growth Service

To: Business Board

Meeting Date: 16 March 2021

Public report: This report contains an appendix which is exempt from publication under Part 1 of Schedule 12A of the Local Government Act 1972, as amended, in that it would not be in the public interest for this information to be disclosed (information relating to the financial or business affairs of any particular person (including the authority holding that information)). The public interest in maintaining the exemption outweighs the public interest in publishing the appendix.

Lead Member: Chair of the Business Board, Austen Adams

From: Director of Business and Skills, John T Hill

Key decision: Key Decision for Combined Authority Board on 24<sup>th</sup> March 2021

Forward Plan ref: 2021/006

Recommendations: The Business Board is invited to:

- a) Recommend the Combined Authority Board approve raising the maximum grant limit from £150,000 to £500,000 on the Business Growth Service Capital Grant scheme, for the applicant as set out in the exempt Appendix 4;
- b) Note the Business Board Urgency Procedure Decision;
- c) Note the Mayoral Decision Notice; and
- d) Note the Business Growth Service contractual and financial position.

### 1. Purpose

1.1 Recommend to the Combined Authority Board approval to raise the maximum grant limit from £150,000 to £500,000 on the Business Growth Service Capital Grant scheme as an exception for this one application.

1.2 Note the Business Board Urgency Procedure and Mayoral Decision Notice.

1.3 Note the Business Growth Service contractual and financial position.

## 2. Background

### 2.1 As an exception to increase the Capital grant from £150k to £500k

At the Business Board on 10<sup>th</sup> November 2020 under item 2.2 'Local Growth Fund Programme Management Review - November 2020' the Business Board recommended to the Combined Authority the proposed grant scheme into which to allocate the remaining £2,043,178 of Local Growth Fund (LGF).

The recommendation was to allocate the remaining Local Growth Funding of £2,043,178 into the Growth Grants strand of the new Business Growth Service which will be targeting companies with rebound and regrowth potential, seeking to create higher value sustainable jobs and this service is contracted to achieve a target value for money ratio on new jobs created per grant given of £6,000 per output. The delivery of these grants would be negotiated as a contract variation for the new Business Growth Service contractor to award the grants out to businesses in the Combined Authority area and those grants claimed before end of March 2021. The contractor would be asked to manage the targeting of the relevant businesses in the key sectors that have the highest potential for rebound and regrowth.

The Business Board recommendation was subsequently approved at the Combined Authority Board on 25<sup>th</sup> November 2020. The Business Growth Service contract was signed on 12<sup>th</sup> February 2021 and service commenced on 15<sup>th</sup> February 2021. The terms on the grant limit within the contract for the Business Growth Service (BGS) were set as per the BGS Full Business Case (FBC) approved by the Business Board and Combined Authority Board, at a maximum of £150,000 per business application.

Since commencement on 15<sup>th</sup> February Gateley's, the BGS contractor, has been working on several 'hot' business inward investment enquiries for the Cambridgeshire and Peterborough area and one particular business has now moved into an advanced investment decision making position. The business has provided feedback that the current maximum grant of £150,000 as an incentive would not shortlist Cambridgeshire and Peterborough in their UK site options but should they be allocated a significantly higher grant of £499,000 then Peterborough would become the only UK site under consideration for the investment. The detail of the business investment proposal is in the confidential appendix 4 attached.

The business is investing in new production methods and a new manufacturing facility of energy storage batteries for several sectors. This would be new to the UK. This represents a fantastic opportunity for the creation of new high value R&D and manufacturing jobs in Peterborough and represents great value for money with a job ratio of £3.5k per job in the first year rising to less than £1k per job over 5 years - well above the hurdle rate of £6k per job. The business has formally confirmed to Gateley's that they would commit very quickly to a site in Peterborough if the grant of £500,000 was made available.

This recommendation is a request to raise the maximum grant amount for this application only based on the merits of the applicant's business proposal and this recommendation is not seeking to raise the maximum limit of the whole BGS capital grants scheme beyond the £150,000 limit as per the approved BGS Full Business Case.

## **2.2 Business Board Emergency Procedure and Mayoral Decision Notice**

On 18<sup>th</sup> October 2019 an LGF application was made to the Business Board and duly accepted. A copy was attached to the Business Board Urgency procedure documentation of 10<sup>th</sup> February 2021.

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.

On Wednesday, 10<sup>th</sup> February 2021 a report was made to the Business Board, seeking a recommendation to the Mayor, to approve the project change request and proceed with the contract for the Business Growth Service, given that the loss of ERDF funding would reduce the scope of the Inward Investment service line. That report, and change request form, are attached to Appendices 1 and 2 respectively. The Business Board, through the urgency procedure, made that recommendation. As a result, the Mayor approved the recommendation via Mayoral Decision Notice (Appendix 3) and made the decision to remove the condition set out in the Full Business Case of having all the ERDF and ESF funding approved before the Business Growth service contract could be signed. This outcome allowed the Business Growth Service contract to be signed and the whole programme to commence delivery as of Monday, 15<sup>th</sup> February 2021.

## **2.3 Contractual and Financial Plan**

### **Allowance for Omission of Costs in the FBC Financial Tables**

Subsequent to approval of the Full Business Case, an oversight in the financial tables was identified relating to the omission of £1.5m of costs associated with the provision of grants, to be used to 50% fund local firms to purchase Business Growth Coaching. These grants were designed to “Nudge” smaller firms, where it is needed, to encourage them to take-up commercially available services from the private sector, which they would otherwise not normally use.

To correct this omission, and allow for the cost of these grants, the available funding to the contractor to deliver the wider Business Growth Service was reduced by an equivalent £1.5m. This in turn reduced the jobs outcomes forecast at FBC by 5.7% (365 jobs) compared to the 6,326 forecast. The impact of this was negotiated with Gateley's and felt to be an immaterial change to the overall programme.

### **Allowance for Removal of the ERDF Funding Contribution into the Inward Investment Service Line**

The impact of reducing the inward investment service line by £1.96m, reduces the service line to £1,729,205 which is a reduction of 53%. This gives a commensurate reduction from 1,283 new jobs down to 600 new jobs as a result – refer to table 2 below.

## Overall impact to the programme

Reducing the overall programme by c.£3.5m required considerable commercial negotiations with Gateley's to ensure the impact on new jobs and apprenticeships was kept to an absolute minimum and they remained on-side. This meant discussions with Gateley's had to be focused on reducing and rebalancing the funding across service lines holistically, which resulted in some service lines reducing by less than others, or even increasing, to ensure value and maintain 5,278 new jobs and 1,400 apprenticeships refer to table 2.

## Financial table – income and expenditure

	FBC Board paper 30/09/20	Post Nudge Grant Rework 12/01/21	Post ERDF Non Agreement 05/02/21
<b>Income</b>			
LGF Equity Investment	£ 5,407,000	£ 5,407,000	£ 5,407,000
BEIS Growth Hub	£ 738,000	£ 738,000	£ 738,000
CA Skills Implementation	£ 150,000	£ 150,000	£ 150,000
CA LIS Implementation	£ 150,000	£ 150,000	£ 150,000
CA Contract with CEC	£ 240,000	£ 240,000	£ 240,000
CA Enterprise Zone Receipts	£ 927,000	£ 927,000	£ 927,000
ERDF Funding	£ 2,291,061	£ 2,063,673	£ -
ERDF Nudge Grants	£ 3,000,000	£ 3,000,000	£ 3,000,000
ESF Funding	£ 2,035,547	£ 2,035,547	£ 2,035,547
LGF Investment Fund (Capital & Revenue Combined)	£ 9,499,995	£ 11,543,000 **	£ 11,543,000
Business & Skills Funding	£ -	£ -	£ 267,000
<b>Total Income</b>	<b>£ 24,438,603</b>	<b>£ 26,254,220</b>	<b>£ 24,457,547</b>
<b>Expenditure</b>			
Staffing	£ 786,573	£ 866,136	£ 791,936
Administration (see tab for details)	£ 435,444	£ 336,218	£ 327,106
Capital Growth Fund Administration	£ 666,469	£ 770,000	£ 780,000
Capital Growth Grants	£ 8,450,000	£ 10,150,000 **	£ 10,270,000
Innovation & Relocation Grants	£ 394,611	£ 100,000	£ 93,000
Skills Brokerage Operational Budget	£ 2,822,314	£ 3,250,000	£ 3,308,569
Inward Investment Service Budget	£ 3,444,467	£ 3,650,000	£ 1,729,205
Growth Coaching Business Engagement Budget	£ 2,689,723	£ 2,729,179	£ 3,140,000
Prime contractor fees	£ 1,301,905	£ -	£ -
BGS Nudge Grants (matched SMEs)	£ -	£ 1,400,000	£ 1,000,000
ERDF Nudge Grants (matched SMEs)	£ 3,000,004	£ 3,000,000	£ 3,000,000
<b>Balance</b>	<b>£ 23,991,510</b>	<b>£ 26,251,533</b>	<b>£ 24,439,816</b>
<b>Balance at end of Project</b>	<b>£ 447,093.00</b>	<b>£ 2,687.00</b>	<b>£ 17,731.00</b>
** As per November Business Board an additional £2.043m			

**Table 1 – Financial movement summary**

The table above plots out the financial expenditure originally set out in the Full Business Case, then adjusted for the £1.5m omission, shown as 'Post Nudge Grant rework 12/01/21'.

Then, to the current position where the £1.96m of ERDF funding has been removed from the inward investment service line (from both the income and expenditure) shown as 'Post ERDF non agreement 05/01/21'.

The prime contractor costs shown in the table above under the FBC on 30<sup>th</sup> Sept should have been apportioned across all the four service lines and this was reflected in further discussions on 12<sup>th</sup> Jan 21.

## Job Outcomes

Service Line	Full Business case 30th September 2020	BGS nudge grant 12th Jan 2021	Removal of ERDF inward investment 05th Feb 2021
Equity and grants investment service	1500	1455	1455
Growth Coaching	3498	3223	3223
Inward Investment	1328	1283	600
<b>Total new jobs</b>	<b>6326</b>	<b>5961</b>	<b>5278</b>
Skills Brokerage Apprenticeships	1600	1400	1400
<b>Total apprenticeships</b>	<b>1600</b>	<b>1400</b>	<b>1400</b>

**Table 2 – Job Outcomes**

Having adjusted the financial aspects of the programme, the table above plots the movement in jobs outcomes from the Full Business Case, then adjusting for £1.5m omission reducing jobs outcomes by 385 and then further adjusting for the removal of the ERDF funding for the inward investment service line, reducing jobs outcomes by a further 683.

## Next steps

A workshop will be set up to look at 'lessons learned' relating to the production and approval processes for Full Business Cases and how they might be improved to reduce or eradicate omissions and errors in the future, with a report back to Business Board in July 2021.

## Significant Implications

### 3. Financial Implications

- 3.1 Whilst there is no change to the funding sought from the Business Board, the changes to the project do reduce the overall outcomes achieved by the project, and thus reduce the efficiency of the Business Board's investment in terms of jobs per £ invested. As stated in the change request paper which preceded this report the project as a whole still achieves a satisfactory level of value for money.

### 4. Legal Implications

- 4.1 The contract with Gateley sets out the £150k limit on capital grants. A single departure to the capital grant maximum, for this application, by way agreement with Gateley does not present a risk to the CPCA and a formal process for agreement will be implemented.

### 5. Other Significant Implications

- 5.1 None

### 6. Appendices

- 6.1 Appendix 1 – Business Board Urgency Procedure
- 6.2 Appendix 2 – Project Change Request Form
- 6.3 Appendix 3 – Mayoral Decision Notice
- 6.4 Appendix 4 (Exempt) – Basic Information on Company and Potential Outcomes  
*(There is more information, although 0068 parties have had to sign NDAs)*