

AGENDA ITEM 11

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

27TH JULY 2017

REPORT OF THE BUSINESS DIRECTOR

PORTFOLIO: INVESTMENT AND BUSINESS GROWTH

BUSINESS COMPASS GROWTH SPECIALIST PROVISION

SUMMARY

Tees Valley Business Compass is the primary vehicle for the delivery of business support in the Tees Valley, using ERDF funding.

Tees Valley Combined Authority is now in a position to submit a final ERDF application (as agreed at the ESIF committee on 28th March 2017) with the overall aim to invest in the development of an improved business support infrastructure in the Tees Valley to improve the local economy by stimulating and supporting business growth, aligned to Tees Valley SEP.

The Specialist Support Service will form part of Tees Valley Business Compass and be complementary to the existing Tees Valley Business Compass Growth Service (“the Growth Service”), which itself includes the Tees Valley Business Fund.

Funding is being sought from the 2014 to 2020 European Structural and Investment Funds Growth Programme to support the delivery of a SME Specialist Support Service in Tees Valley. This funding will deliver both elements of the Specialist Support Service, comprising:

- A ring fenced additional financial resource to be added to the Tees Valley Business Fund. The current fund is held by Business Enterprise Group and the original procurement enables us to extend the existing fund.
- Delivery of four elements of a programme of work which will provide SMEs in Tees Valley with specialist support. This element of the Specialist Support Service is the subject of OJEU procurement.

As part of Tees Valley Business Compass, the Specialist Support Service will seek to improve local, national and international supply chains, provide investor readiness support for Tees Valley businesses, contribute to businesses’ product and process improvement and

increase the support in their entry to, and establishment in, new domestic and international markets.

If successful Tees Valley Combined Authority will procure the delivery and management of the programmes of work.

The programme has an overall budget of c.£4.130m, of which c.£1.75m of ERDF is sought. The balance of the funding is proposed to be c.£1.869m from the private sector and c.£511k from the Combined Authority. The delivery period would be c.1/1/18 to 31/12/20.

The c.£511k is the Combined Authorities match to unlock the ERDF funding and has previously been allocated within the investment plan. There may be the opportunity to reduce the level of match from the Combined Authority if we could secure funding from the legacy funds currently held by NEA2F.

Note: All of the figures quoted - financial and otherwise - are subject to change as part of the iterative development of the business case. However it is not expected to see them vary significantly.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

- i. Recognises that the Combined Authority has submitted a final ERDF application for the enhanced business compass specialist advice service. **Deadline for the full ERDF application was 11th July 2017.**
- ii. Agrees that the Combined Authority makes the case to NEA2F and DCLG to unlock legacy funds allocated to the Tees Valley, to help reduce our contribution to the match.
- iii. Agrees that if successful with the ERDF application and using existing procurement rules, the Combined Authority place an additional c. £1m (including fund management costs) of ERDF funds in to the existing business compass investment fund, currently held by Business Enterprise Group.
- iv. Agrees that if successful with the final ERDF application the Combined Authority procure the specialist growth advice service.

DETAIL

Tees Valley Business Compass Growth

1. Within Tees Valley Business Compass Growth, priority is given to sectors which have been identified in the Tees Valley Strategic Economic Plan (SEP). The aspiration of the SEP remains to grow and create jobs, therefore priority is given to businesses that are able to grow and create jobs, with support, and which are eligible to receive support funded through the ERDF funds.
2. Tees Valley Business Compass Growth is geared to activating the growth potential of existing Tees Valley businesses. It does so by deploying a team of Growth Consultants who proactively engage with Tees Valley businesses with growth aspirations, to qualify their barriers to growth and identify growth opportunities, and then enable businesses to access whatever support, introductions and resources they need to activate growth as quickly as possible.
3. Once the barriers and opportunities have been identified, Tees Valley Business Compass Growth Consultants support the businesses to access the support and resources they need to remove those barriers and take advantage of opportunities. This involves signposting and introductions to sources of support, including the Tees Valley Business Fund.

Tees Valley Business Fund

4. The Tees Valley Business Fund is an amalgam of grants, vouchers (e.g. innovation and broadband vouchers) and revenue based funding for services to businesses which can be accessed by them to contribute towards the cost of removing their barriers to growth and taking advantage of their opportunities.
5. The Tees Valley Business Fund is managed entirely separately from the other elements of the Business Compass model, with “Chinese Walls” in place to protect all parties against conflicts of interest. Although the Business Compass Growth Consultants signpost businesses to the Fund, they are not in a position to influence the evaluation and decision making process.

Business Compass Growth Specialist Support

6. There is an opportunity, utilising c.£1.75m ERDF funding to enhance the existing business compass SME support offer.

The Specialist Support Service will:

7. Complement the current activities of the Growth Service by deploying an additional specialist programme of activity which will provide specialisms in the areas of supply chain development, manufacturing and productivity improvement and investor readiness. This will include the provision of advice and support for local, national and international supply chain interventions; provision of investor readiness support, support for investment in product and process improvement

(particularly in the manufacturing sector) and advice and support for SMEs to enter, establish and expand into new domestic and international markets.

8. Whilst the existing Growth Service team are experienced in working with SMEs, they have not been recruited on the basis of specific technical abilities, and the Specialist Support Service will therefore complement, not duplicate, that activity.
9. This new activity will also provide additional resources to the Tees Valley Business Fund to enable investment to be made by companies in these specific business disciplines. This is deemed to be appropriate since the current level of investment in the Tees Valley Business Fund is predicated on the existing number of Growth Consultants deployed.
10. The addition of further capacity to engage with businesses on specific sectoral and technical activities will result in further demand on the Fund.

Business Engagement

11. It is widely recognised that businesses that seek support are more likely to succeed, however businesses frequently face barriers that prevent, or delay, them from doing so:
 - i. lack of awareness of available support;
 - ii. lack of clarity with respect to the type of support required;
 - iii. lack of resources to access support (capacity, knowledge, networks and/or finance).
12. Effective business engagement across Tees Valley is key to the success of the Tees Valley Business Compass Growth Specialist Support, and therefore critical to Tees Valley economic development, because it will:
 - i. enable businesses to enter the 'business support system' through which they will have access to the full extent of business support available in Tees Valley;
 - ii. facilitate businesses being more aware of the support available to them;
 - iii. lead to businesses becoming clearer about what support they require and to being able to access the resources they need for growth;
 - iv. play a key role in delivering business intelligence associated with the challenges being faced by local businesses individually and collectively.
13. Tees Valley Business Compass Growth Specialist Support will be required to be easy to access but proactive business engagement will also be required. The service will be required to market the services to potential beneficiary companies, including through, but not restricted to, the use of marketing materials and events.

Diagnosics

14. Diagnostics has been defined as “working with a business to identify what help/support it needs – through a detailed diagnostic”.
15. One of the core delivery principles of the Business Compass is that it will adopt a ‘needs-driven’ business support model i.e. it will be geared to delivering support which responds to the specific needs and state of readiness of a business rather than because it is in ready supply. Therefore working with a business to identify what help/support it needs - defining the need - is central to the ultimate success of the model, as only then can the appropriate support be delivered.
16. Tees Valley Business Compass Growth Specialist Support will be required to deliver, as a minimum, the diagnostic element of the Service to c.332 eligible companies in Tees Valley.
17. Tees Valley Business Compass Growth Specialist Support will be required to result in, as a minimum, c.230 businesses receiving support.
18. Of these, a minimum of c.156 businesses will be required to receive non-financial support directly from the Specialist Growth Consultants as well as a minimum of c.74 eligible companies in Tees Valley receiving support through the Tees Valley Business Support Fund, fully utilising the fund of c.£935,000 (excluding fund management costs).
19. The Fund requires a company contribution ratio of 2:1 private: fund. Furthermore a minimum of c.25 businesses will be required to introduce “new to firm” products.
20. Finally, the Service will be required to demonstrate the achievement of growth, measured through job creation, of c.295 new jobs.

Role of Specialist Growth Consultants

21. This improved support will involve mobilising a number of “Specialist Growth Consultants” - whose responsibility will be to work with Tees Valley businesses that aspire to grow, and who have specific challenges or opportunities in the programmes of activity outlined above. i.e.
 - Supply chain development
 - Investor readiness
 - Product and process improvement
 - Entering into new markets
22. The Specialist Growth Consultant will determine the aspiration of the business to grow (in a manner that will normally lead to increased employment), and then through a detailed diagnosis will work with the business to understand the barriers that are currently preventing the growth aspirations from being achieved, and, as importantly to identify growth opportunities.

23. Once the barriers and opportunities have been identified, the Specialist Growth Consultant will support the business to access the support and resources they need to remove those barriers and take advantage of opportunities. This will involve signposting and introductions to sources of support, including the Tees Valley Specialist Support Business Fund.

FINANCIAL IMPLICATIONS

24. The Tees Valley Business Compass – Specialist Growth contract will total c.£2.261m (excluding private sector match) over the three year period January 2018 – December 2020.
25. The ERDF element will be c.£1.75m with c.£510,842 match from the Combined Authority.
26. The c.£1m of the ERDF element will be allocated to the existing Tees Valley Business Fund, over the same period. Therefore, the total additional level of financial risks would be c.£2.261m.

LEGAL IMPLICATIONS

27. The Combined Authority has confirmed that we have read and understand the European Structural & Investment Funds requirement, as set out in ESIF Compliance Guidance note ESIF-GN-1-001- Procurement Law
28. The Combined Authority has confirmed our understanding that ERDF funding is subject to State Aid rules and State Aid Law.

RISK ASSESSMENT

29. The risks associated with being the successful applicant for the Tees Valley Business Compass Growth and the Tees Valley Business Fund are principally:
- a. Risk of clawback of funding on the basis of:
 - i. Underperformance
 - ii. Audit irregularities
30. Underperformance:
In practice very few projects have had clawback on the basis of underperformance. In the event that underperformance was anticipated the Combined Authority would submit a variation to the project and as long as there are valid reasons for the underperformance such as changing business environment (this was the case for some ERDF funded business support activities during the recession) the variation will be accepted. Additionally, the risk of underperformance will be addressed when designing the proposal with a realistic view taken on the performance that would be achieved within the vfm parameters.
31. Audit irregularities:
In practice many applicants including the Tees Valley local authorities and partners have had varying levels of clawback on ERDF funded activities

under the past programme. This has ranged from the activities not being eligible at all through to, and in the majority of cases, a different interpretation of the regulations taken by an auditor. The main areas of clawback have occurred in relation to eligible costs for back office, overheads and internal provision of goods and services rather than procured goods and services. This is an ongoing issue for the UK in part down to the Government approach to excessive auditing of European funding. Other member states do not have the same levels of clawback as they don't undertake the same levels of audit.

32. The Combined Authority has developed significant experience and expertise over several years' involvement in European funding and would seek clarification on any "grey" areas from the Managing Authority.
33. Of course it is impossible to remove all risks of clawback due to a different interpretation of the regulations by an auditor but we are very aware of the potential areas for concern and can ensure that all risks are minimised.

CONSULTATION

34. Following a market engagement event held on 7.6.15 which was advertised in OJEU via a Prior Information Notice (PIN) (reference 2017/S 097-191535), it was determined that the market for the services required to be provided is not thought to be extensive and is quite specialised. Therefore an OPEN tender procurement procedure was deemed to be most appropriate.

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