

AGENDA ITEM 7**REPORT TO THE TEES VALLEY
COMBINED
AUTHORITY CABINET****25 OCTOBER 2019****REPORT OF THE
BUSINESS FINANCE MANAGER****INVESTMENT PLAN – £30M BUSINESS GROWTH PROGRAMME****SUMMARY**

In line with the Tees Valley Combined Authority Investment Plan 2019-2029, an ambitious programme of business support and funding measures is being developed commencing from January 2020. The core of the offer will be the establishment of a new “Business Gateway” service, which will provide local businesses with a single point of entry to the range of business support, funding and finance options available to them regardless of business size, sector or nature of need.

Alongside the Business Gateway the Combined Authority is proposing to establish a £20m flexible fund to provide capital grants and working capital loans to business and to allocate £14.7m of funding to future business support programmes. This will ensure continuity of existing programmes whilst further developing the offer in line with emerging regional strategic priorities. Funding has also been earmarked to promote Tees Valley both nationally and internationally as a location for businesses to invest and grow.

Funding for the Business Growth Programme will come from a combination of funds allocated in the Combined Authority Investment Plan 2019-2029, external funding sources and other TVCA funding already earmarked to support business growth.

The purpose of this paper is to present the outline proposals to cabinet and receive approval to allocate the £30m of Investment Plan funding to a number of proposed activity streams. Once allocations are agreed, development of detailed operational plans will be completed for each sub-programme and programme activity will commence subject to approval of individual business cases, appraisal/due diligence and approval via delegated decision in accordance with the Tees Valley Combined Authority Assurance Framework.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

- i. Approve the allocation of the £30m Business Growth Programme as follows:

	Indicative Allocation
Activity	£'m
Business Gateway Service	2.3
Capital grants and working capital support	15.0
Other business support programmes	11.0
Inward investment promotion	1.7
	30.0

- ii. Approve that, in line with the Assurance Framework, decisions on the individual schemes within the programme and approval of their businesses cases are delegated to the Combined Authority Chief Executive in consultation with the S73 Officer, the Monitoring Officer and Tees Valley Management Group. Performance will be reported through the quarterly Investment Plan performance report.

DETAIL

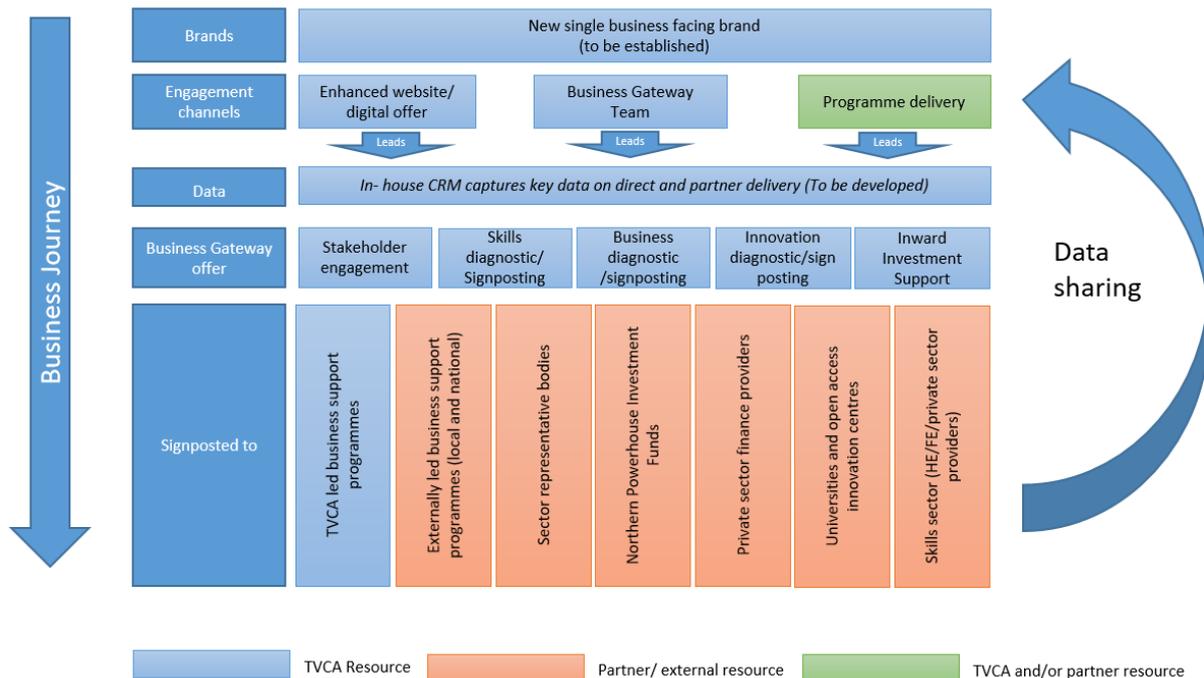
Purpose of this paper

1. The Tees Valley Combined Authority Investment Plan 2019 to 2029 allocates a total of £146.5m to business growth activity which is split as follows:
 - **Unlock Sites for Business £116.5m** – Fully allocated to four priority projects
 - **Support Business Growth - £30m** – To date unallocated
2. The purpose of this paper is to allocate the £30m business growth element of the Investment Plan which, combined with existing funding allocations and programmes in development, will contribute to funding of the Business Gateway service and associated strands of programme support to business.

Background to Tees Valley Business Growth Programme

3. After three years of successful delivery of business growth support through the “Business Compass” ERDF project (which has provided advice and grant support to SME businesses), accompanied by capital grant support funded from central government in the wake of SSI, ambitious plans are being developed to enhance and further develop TVCA’s offer to support business growth.
4. At the heart of the proposals is a new “Business Gateway” service which will provide a single access point to the full range of business support that is available to Tees Valley businesses. The new Business Gateway will provide information and brokerage into specific programmes of support based on a tailored needs assessment, supporting businesses as they move forward through their development journey. The gateway will incorporate and enhance “Growth Hub” activities currently funded by BEIS. The service will build upon the current grant focussed model working with businesses looking to start-up; grow/scale up; access grant funding; raise repayable finance; develop the skills of employees and management; access innovation support and diversify into export markets.
5. The core Business Gateway service will act as TVCA’s interface with the business community providing a link between businesses and external providers of support (both public and private sector) and simplifying the process of accessing support. In addition, TVCA will deliver and/or directly fund a number of strategically important programmes where gaps exist in market provision. This includes the planned continuation of a general “Growth Fund” grant designed to incentivise businesses to invest in growth, by part funding the costs of external consultancy and related capital investment.

6. The anticipated journey through the Business Gateway is presented below:



7. Partners supported by TVCA will be required to share data on their provision, and details of businesses supported, allowing the Business Gateway to move businesses forward through the business support journey and also for the Business Gateway to introduce businesses that engage direct with delivery partners to any other support that may be appropriate for their needs. The data gathered will also be valuable to TVCA in understanding the needs of the local business community and designing future interventions and programmes of support.

Proposed allocation of £30m Business Growth funding

8. The core themes underpinning business growth investment priorities are to:

- Attract and support new businesses to Tees Valley;
- Support companies to introduce new products or processes;
- Support start-ups and the growth of new and existing businesses;
- Offer consistent support in Tees Valley for SMEs and large companies; and
- Extend or complement Tees Valley Business Compass services, particularly through sector specific support.

- 9 An analysis of the current planned pipeline of business support activity is provided below (Investment Plan allocations to be approved are shown in the left column of values):

Programme activity	2019-29 Investment Plan	Other potential sources of funding (a)				Proposed
	Business Growth £'m	ESIF resources £'m	Other TVCA £'m	Legacy ERDF £'m	Other £'m	Total £'m
Business Gateway service	2.3	-	-	-	2.2	4.5
Capital grants and working capital support	15.0	-	5.0	-	-	20.0
Other business support programmes	11.0	1.6	-	3.8	-	16.4
Inward investment promotion	1.7	-	-	-	-	1.7
ERDF "Growth Fund"	-	6.7	-	-	-	6.7
Business Compass ERDF programme (b)	-	0.8	-	-	-	0.8
Skills support and engagement	-	1.9	0.9	-	0.3	3.1
SME collaboration/ innovation	-	-	1.4	-	-	1.4
	30.0	11.0	7.3	3.8	2.5	54.6

(a) - ESIF resources and "Other" potential sources of funding are subject to final application and approval from MHCLG and BEIS but represent current best estimate of programme funding. Legacy ERDF available is based on current estimates of returns attributable to Tees Valley.

(b) - Proposed extension of existing programme to provide continuity of grants up to new project approval

- 10 Historically, the Combined Authority's predecessor organisation used European Structural and Investment Funds ("ESIF") to fund its business support activity through the European Regional Development Fund ("ERDF") as it did not have access to other revenue funding streams. The Combined Authority has also used residual funds allocated to the region following the collapse of SSI, to provide incentives to support capital investment in and into the region.
- 11 ESIF funds will cease to be available beyond December 2023 as a result of the UK's exit from the EU. Against this backdrop, indicative allocations of Investment Plan funds assume as far as possible that the Combined Authority (and its partners) will utilise ESIF resources through to 2023. Investment Plan resources will be used to fund programmes of support that are either ineligible or not suitable for European funding prior to the 2023 deadline. Thereafter it will be necessary to use Investment Plan resources to fund activity, alongside any funding allocated to the region by central government through the proposed "Shared Prosperity Fund" which is expected to replace the ESIF programme.
- 12 It is hoped that, in practice, the region will be able to access, at a minimum, the equivalent to the ESIF funds from the UK Shared Prosperity Fund and planned strands of delivery in this paper should therefore be considered as a "baseline offer".

Business Gateway - £2.3m

- 13 Local Enterprise Partnerships across the country offer a "Growth Hub" service with a broad remit to link businesses to appropriate support to help enable their growth plans. Since the beginning of 2017 the Combined Authority has subcontracted its Growth Hub partnering with Umi (Formerly BE Group) on an ERDF funded programme branded as "Business Compass".
- 14 Business Compass incorporates a core team of Growth Advisors, providing triage and signposting of businesses to appropriate support and includes four grant pots that provide financial support (equivalent to 33% of project value) for capital and revenue business growth projects. Support (advisory and grant) is restricted to ERDF eligible SME businesses.

- 15 Over the 2017-2019 delivery period Business Compass Business Fund will have had a significant impact, advising and signposting c1,400 businesses with 535 of these accessing a £7m grant pot. The programme is expected to leverage £14m of additional private sector investment and lead to a net employment increase in supported entities of 750 jobs.
- 16 From 2019 onwards it is proposed that the business advice and support aspects of this service will be brought in-house and the offer will be widened in scope to form the Business Gateway (as described above). The benefits of an in-house delivery model, separated from ERDF funding will be to increase flexibility to respond to emerging market needs/strategic priorities and to allow advice and support to be offered to all businesses regardless of ERDF eligibility criteria. Thus widening the reach and impact of the service.
- 17 A separate application is under way with MHCLG to secure further ERDF funding to provide continuation of the grant aspects of this service which will be delivered as part of the wider programme activity supported by the Business Gateway.
- 18 It is assumed that the Business Gateway will require around £0.5m of funding per annum (£4.5m over the nine years from 2020/21) to support staff costs, marketing/promotion, events and IT infrastructure. Plans assume that half of this requirement (£2.25m) will be funded by the Investment Plan with the remainder being supported by an annual grant received from BEIS.
- 19 A further £50,000 allowance has been included to cover professional fees and other costs of the transition to an in-house delivery model.

Capital grants and working capital support £15m (total programme value £20m incorporating £5m of existing approved TVCA funding)

- 20 TVCA currently offers a capital grant scheme to business of all sizes to support investment in capital projects that will contribute to growth and either create or safeguard sustainable jobs. Funding for this programme was secured in the immediate aftermath of the SSI closure to support companies most affected and initially the programme also offered working capital support to those businesses exposed directly to bad debts as a result of SSI's closure.
- 21 To date the business grants and working capital funding available through the SSI Task Force has supported 228 Tees Valley companies with grant offers over £13.8m, contracting with the private sector to deliver £64.4m of capital investment and supporting the creation and safeguarding of over 1,179 jobs. Over £2.3m of projects are currently in the pipeline including almost £1m of projects currently in due diligence.
- 22 The balance of uncommitted funds now available to support companies has reduced to below £1m. Given the success of the SSI Task Force programme, it is proposed that a total of £20m is allocated to create a new "flexible fund" to continue offering capital grants and also provide working capital loans to business. This fund will provide continuity of grant support whilst increasing TVCA's flexibility to support businesses to cope with the impacts of external economic factors (such as the UK's exit from the EU) by providing loans to support short term liquidity.

- 23 It is proposed that £15m of this is allocated from the 2019 to 2019 Investment Plan with the remaining £5m being taken from funds already approved to support business growth and it is anticipated that this level of funding will support delivery for around six years at current demand levels generating private sector leverage of at least £2 for every pound invested.

Business Support Programmes - £11m (total earmarked value £14.7m incorporating £3.7m uncommitted Legacy ERDF funding)

- 24 Our strategy is to maximise utilisation of ESIF resources through to the end of the current operational programme of funding in 2023. Beyond 2023, funding for business support activity will shift predominantly to Investment Plan resources and it is proposed that £11m is earmarked to support this activity in addition to any central government funding that may become available through the Shared Prosperity Fund.

		Investment Plan	Tees Valley ESIF	Legacy ERDF	Total
Programme	Timing	£'000	£'000	£'000	£'000
Transitional provision - Growth Fund Grant	2019/20	750	-	-	750
Scaleup support programmes	2020/21 - 2025/6	600	-	-	600
Continuation of Growth Fund Grant	2023/4 - 2025/6	6,722	-	-	6,722
Continuation of Start up programme	2023/4 - 2025/6	1,890	-	-	1,890
Energy efficiency	2020/21 - 2023/4	253	1,617	-	1,870
Other programmes	2019/20 - 2028/29	785	-	3,779	4,564
Total Business Support Programme allocation	2019/20-2028/9	11,000	1,617	3,779	16,396

Note: the above allocations are indicative only and are subject to change dependent on market demand. All expenditure will be approved subject to compliance with the Assurance Framework and development of a full business case.

- 25 **General** – Expenditure has been front loaded across the first seven years of the plan through to 2025/26 to ensure impact is focussed and realised as early as possible in the plan cycle. It is also anticipated that further funding may become available as the plan develops which can be deployed in later years.
- 26 **Growth Fund Grant** – is currently part of the Business Compass Project. An application is in progress with MHCLG to replace the grant with a successor scheme through to the end of the ESIF operational programme in 2023. However, due to approval timescales for the current programme and a high level of commitment of current grant funds, additional funds (estimate c £750,000) may be needed to ensure continuity of the grant offer through to implementation of the successor fund. Discussions are under way with MHCLG around the extension of existing ERDF funding through the transition, however if this cannot be achieved Investment Plan funds will need to be deployed.
- 27 **Start-up Programme** – Tees Valley’s Start-up Programme is currently delivered by a third party funded by ESIF resources. This programme will be extended through to the end of the operational programme in 2023. It is assumed however that funding will be required from the Investment Plan resources from 2023/24 onwards.
- 28 **Scale-up Support** – In addition to growth support the Combined Authority has supported complementary, focussed scale-up programme activity at a cost of £50,000 to £100,000 per annum. It is assumed that support continues at this level in the Investment Plan period. Due to the relatively small size of these programmes they are

not typically suitable for ESIF resources and are assumed to be funded from Investment Plan resources throughout.

- 29 **Digital City** – Takes a lead on the strategic local priority of digital sector development and industrial digitalisation. Digital City is currently awaiting approval of an extension to its project activity through to the end of the ESIF operational programme in 2023, match funding has also been sourced with support from the Combined Authority. Accordingly, no budget is assumed in relation to Digital City in the above allocations as plans for the structure and financing for the Digital City offer beyond the latest funding cycle are yet to be developed.
- 30 **Other Programmes** – The Combined Authority is currently in the process of assessing market delivery gaps in areas of key strategic focus and where appropriate will look to develop programmes of support utilising ESIF resources through to 2023. These may include support for businesses around access to finance/investment readiness, productivity, supply chain development, and trade/export amongst others. The Investment Plan allocation for other programmes is likely to be utilised in providing match funding where necessary for these programmes.
- 31 **Energy Efficiency** – An ERDF funded programme is currently being developed to deliver advice, guidance and grant support to SME's based across the Tees Valley, focussing upon lowering energy costs and carbon output leading to increased business resilience to rising energy prices. It is proposed that the programme will offer fully funded on-site audits and recommendation reports for qualifying applicants, with the potential for 50% grant support for subsequent capital investment and improvement works.

Inward Investment Promotion - £1.7m

- 32 The Tees Valley has been a successful recipient of inward investment with over £1.7billion of private investment committed in the region since 2011.
- 33 The Tees Valley Strategic Economic Plan identifies the need for targeted inward investment within high growth, internationally competitive key sectors such as chemicals, health, innovation, energy, advanced manufacturing, logistics, digital, creative and business and professional services.
- 34 Whilst the approach to date has been successful, it is proposed that a more proactive and expansive approach to all aspects of inward investment including marketing the region is developed to attract inward investment. It is proposed that funding of £1.7million be made available for a period of up to five years to promote Tees Valley as a preferred location for inward investment. An Inward Investment Strategy and associated Marketing Plan outlining how this funding will be utilised will be agreed with our local authority and private sector partners.
- 35 The marketing activity will raise awareness of the region, its benefits and reasons to invest, work, live and learn within Tees Valley, and to visit it. It will augment other marketing communications activities and campaigns by the Combined Authority and partner organisations to assist with changing perceptions of Tees Valley and to promote it to national and international audiences.

Accessing the Business Growth Programme

- 36 It is anticipated that the Business Growth Programme will be launched from January 2019 and all services will be accessed through the Business Gateway. Businesses will be able to approach the gateway through an improved digital offer and a dedicated team of specialist staff available to meet directly with businesses.
- 37 Profile of the service will be raised by promotional activity at launch, including events, marketing and press coverage. On an ongoing basis the Business Gateway will maintain market engagement by working closely with key market intermediaries including professional advisors and representative bodies who are able to introduce the service to a wide client base.
- 38 Resourcing for the programme activity delivered by TVCA will be considered on a business case by business case basis and is likely to be comprised of a combination of new posts created within TVCA and externally procured specialists where appropriate.

Assurance Framework

- 39 In line with the Combined Authority Assurance Framework, a detailed Business Case will be produced for each strand of the £30m Business Growth Programme. These will undergo an independent appraisal and due diligence will be undertaken. The Combined Authority is required to publish business cases for projects over £5m on its website.
- 40 The anticipated outputs and outcomes will be considered in these Business Cases for each strand of activity and value for money will be assessed at both a project and programme level.
- 41 The delivery mechanism for each strand will be detailed in these business cases and where a programme is being delivered a Programme Management Framework will be developed identifying delegated arrangements for the approval of grants / individual elements of the programme.
- 42 If the indicative allocations in this report are agreed by Cabinet, approval of these businesses cases will be delegated to the Combined Authority Chief Executive in consultation with the S73 Officer, the Monitoring Officer and Tees Valley Management Group.
- 43 Performance will be reported through the quarterly Investment Plan performance report and amendments to the programme of over 10% will be brought back to Cabinet for approval.

FINANCIAL IMPLICATIONS

- 44 Within the Investment Plan 2019-2029, £30m is already allocated to deliver a Business Growth Programme, therefore this is not a new entry into the Investment Plan and has no further financial implications. This report sets out in more detail the indicative allocations for the existing allocation of £30m.

LEGAL IMPLICATIONS

- 45 There are no legal implications at this stage. A detailed Business Case will be produced for each strand of the £30m Business Growth Programme and the legal issues surrounding the delivery of each Business Case will be assessed at that time including procurement and state aid issues. Appropriate legal agreements shall be prepared as outlined in each Business Case in order to deliver each strand of business growth activity.

RISK ASSESSMENT

- 46 Key risks associated with this proposal are either the failure of programmes to effectively address the needs of business or the failure of interventions to take place in a timely manner leading to a potential lost opportunity.
- 47 Risks will be mitigated by prompt development of robust business cases for all new activity in line with the TVCA Assurance Framework.

CONSULTATION

- 48 Proposals to develop the Business Gateway offer and outline plans in the context of programme activity were presented to Tees Valley Management Group in June 2019. Consultation has also taken place with key delivery partners, business representative bodies and stakeholders at the June 2019 Business Compass Steering Group. A subsequent follow up meeting has been held with representatives of each of the five Local Authority economic development teams in August 2019.

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