

Cabinet

11 July 2023

Name of Cabinet Member:

Cabinet Member for Jobs, Regeneration and Climate Change - Councillor J O'Boyle

Director approving submission of the report:

Director of Business, Investment and Culture

Ward(s) affected:

All

Title:

Reorganisation of Coventry and Warwickshire Growth Hub

Is this a key decision?

No

Executive summary:

Coventry and Warwickshire Growth Hub (CWGH) was established in 2014 using City Deal funding provided by Government. It was one of the first Growth Hubs to be formed in England, before every Local Enterprise Partnership (LEP) area was subsequently given funding to establish a Growth Hub as a central co-ordination point for publicly funded business support to try and simplify businesses' understanding of which business support products were appropriate to their individual needs. It has been nationally recognised as a leading Growth Hub in the UK.

CWGH was established as a subsidiary of Coventry and Warwickshire Local Enterprise Partnership (CWLEP), which itself is a company limited by guarantee. Coventry City Council (CCC) has a seat on the CWGH Subsidiary Board, along with Warwickshire County Council (WCC). The CWGH has been funded by the Department for Business & Trade, European Regional Development Fund, and equal contributions from Coventry & Warwickshire's Local Authorities since its inception

Given the strategic importance of the CWGH in delivering business support in Coventry & Warwickshire, its success to date and its collaboration with all the Coventry & Warwickshire Local Authorities, it has been agreed by the CWLEP board to transition residual funds from the closure of CWLEP to the CWGH, enabling the Growth Hub to continue as a stand-alone entity as a going concern.

Under this arrangement, and building on legal advice, it is proposed that Coventry City Council and Warwickshire County Council become the joint shareholders of the new company to also ensure the democratic accountability required. It is proposed that CWGH is governed by a Board consisting of both public and private sector representatives, with CCC having a representative on the Board.

CCC has also made provision in its budgets to continue to support the CWGH at the current level of £130,560 under the current Medium Term Financial Strategy (MTFS). Subject to formal approvals, WCC is planning to fund CWGH to the same level this financial year and committed to continuing to provide funding for this purpose, with CWGH's remaining funding being derived from other Local Authority sources, external funding, and commercial income.

This report requests Cabinet to approve the reorganisation of CWGH and Coventry City Council's role as Joint Shareholder and participant on the new CWGH Board. WCC will be taking a similar report and recommendations to their Cabinet meeting on 13th July 2023.

Recommendations:

Cabinet is requested to: -

- 1) Approve the use of its powers under Section 12 of Local Government Act 2003 and Section 1 of the Localism Act 2011 to become a shareholder in the Growth Hub. This is subject to the transfer of CWLEP residual funds of circa £0.9m to the Growth Hub.
- 2) Delegate authority to the Head of Economic Development, following consultation with the Chief Operating Officer (Section 151 Officer) and Chief Legal Officer and the Cabinet Member for Jobs, Regeneration and Climate Change, to enter into the relevant legal agreements as well as any associated documents deemed necessary to complete the transaction.
- 3) Approve the implementation of the governance structure and utilise the existing Shareholder Committee terms of reference as per the constitution.
- 4) Delegate authority to the Head of Economic Development, following consultation with the Chief Operating Officer (Section 151 Officer) and Chief Legal Officer and the Cabinet Member for Jobs, Regeneration and Climate Change to approve the issue by CWGH of one share to WCC on the same terms as CCC to become joint shareholders.
- 5) Delegate Authority to appoint CCC's representative for the new CWGH Board on behalf of the Coventry City Council to the Chief Operating (Section 151 Officer) and Chief Legal Officer following consultation with the Cabinet Member for Jobs, Regeneration and Climate Change.

List of Appendices included:

None

Background papers:

None

Other useful documents:

None

Has it or will it be considered by Scrutiny?

No

Has it or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

No

Report title: Reorganisation of Coventry and Warwickshire Growth Hub

1. Context (or background)

- 1.1. Coventry and Warwickshire Growth Hub (CWGH) was established in 2014 using City Deal funding provided by Government. Every Local Enterprise Partnership (LEP) area was given funding to establish a Growth Hub as “one stop shop” for business support. At any one time, there are hundreds of different business support products available, and the Growth Hub’s role has been to simplify things for local businesses providing a single point of contact to access whichever support was most relevant to that business at the time.
- 1.2. CWGH was established as subsidiary of Coventry and Warwickshire Local Enterprise Partnership (CWLEP), which itself is a company limited by guarantee. Coventry City Council (CCC) has a seat on the CWGH Subsidiary Board, along with Warwickshire County Council (WCC). CWLEP ceased its activities on 31st March 2023; a reduced CWLEP Board remains in place in order to approve the transfer of shares in CWGH and complete the reorganisation outlined in this paper.
- 1.3. CWGH has been funded using a mix of core funding from Local Authorities, funding from the Department for Business and Trade and other grants such as from the European Regional Development Fund. Its current projected annual operating budget is £726,454, of which CCC’s contribution is £130,560. CCC has made budgetary provision to continue to support the CWGH at this level. WCC is funding CWGH to the same level this financial year and is committed to continuing to provide funding for this purpose subject to formal approval.
- 1.4. It should be noted that the recommendation is for CCC and WCC to take on the shareholding for CWGH, and its two subsidiaries, CW Growth Hub Solutions Ltd (CWGHS) and CW Champions. CWGHS currently delivers a grant-funded manufacturing advice programme called Made Smarter, and also generates commercial income from recruitment services etc. CW Champions is a local professional network which generates income on a membership model.
- 1.5. These subsidiaries generate their own income in order to cover costs, and in the event that they are unable to generate sufficient income, their activities will not continue. Reserves are available to cover the closure costs of all activities, including the subsidiaries, reducing any financial risk associated with such a situation.
- 1.6. In early 2022, Government concluded a review of LEPs and the functions they carry out on behalf of local areas, with the outcome set out in the Levelling Up White Paper (February 2022) and a letter to LEP Chairs (31st March 2022). The conclusion was that LEP functions, including Growth Hubs, made critical contributions to local economies. However, the review concluded that these functions should be “integrated” into democratically accountable institutions in areas which had a devolution deal in place. These institutions are identified as being combined authorities, county councils and unitary authorities, this includes CCC, which is a member of the West Midlands Combined Authority (WMCA), whereas WCC is currently a non-constituent member of the WMCA and is not covered by its devolved powers.
- 1.7. In other areas without devolution deals, the review called for LEPs to continue to operate until a suitable approach to devolution of powers from Government to local areas could be agreed, such as a “County Deal”.
- 1.8. As CWLEP covered areas with and without a devolution deal, CWLEP’s functions cannot be simply transferred from CWLEP to WMCA. Instead, a bespoke approach has been agreed which will maintain a strong voice for Coventry and Warwickshire.

- 1.9. In September 2022, the CWLEP board approved a paper responding to the LEP review, which set out plans to close the CWLEP parent company, and restructure CWGH as a standalone entity, that will continue to act as the main central co-ordination point for publicly funded business support across Coventry and Warwickshire. In order to provide the democratic accountability called for in the review, Coventry City Council and Warwickshire County Council would need to become the shareholders of the new company. In doing so the CWLEP residual funds of circa £0.9m would be transferred to the Growth Hub.

2. Options considered and recommended proposal

- 2.1. It would be possible to wind up the activities of CWGH now that CWLEP itself has ceased its activities. However, this option has been discounted for a number of reasons. CWGH has been an important part of the Coventry and Warwickshire business support partnership since 2014 and has a considerable reach into local businesses. If CWGH was to close this route for businesses to access support would be lost, and this would also mean that the area would lose access to any funding for Growth Hub activities made available by central government. It would not be in line with the conclusions of Government's LEP review which sets out to maintain Growth Hubs. Therefore, this option will not be pursued.
- 2.2. Maintaining the current structure, with CWGH as a subsidiary of CWLEP is not an option, because the parent company ceased its activities at the end of March 2023 and only maintains a reduced board to oversee the transfer of CWGH. CWLEP currently owns the shareholding in CWGH, therefore any course of action must involve a change to the legal structure of CWGH if it is to continue operating.
- 2.3. Another potential approach would be to allow the activities of CWGH to be absorbed into a larger, regional function operated by the WMCA. Whilst this would achieve some of Government's objectives set out in the LEP review by passing responsibility for this function to WMCA, it would not be acceptable in Coventry and Warwickshire; because Warwickshire sits outside the WMCA area, and this approach would likely require the establishment of a separate Warwickshire Growth Hub, splitting up the established Coventry and Warwickshire business support landscape and introducing inefficiencies. This option is therefore not recommended.
- 2.4. The recommended option is for CCC and WCC to acquire the shareholding in CWGH which will maintain its current role serving Coventry and Warwickshire businesses. This will achieve the aims of the LEP review and give Coventry City Council and Warwickshire County Council the appropriate oversight of CWGH's activities through a new shareholding and board structure set out below.
- 2.5. The existing company limited by shares will continue to operate with a new shareholding, which will avoid the need for transferring staff, novating contracts, and opening new bank accounts etc.
- 2.6. It is proposed that CCC and WCC will be the equal shareholders of CWGH. This will be achieved as follows:
 - CWLEP's existing single share in CWGH will be transferred to CCC
 - CCC will allot an additional share to WCC.
- 2.7. This will leave the two Councils as joint (50/50) shareholders of the CWGH.
- 2.8. A Shareholders agreement will be put in place, which will set out the structure of a new board for CWGH. CCC and WCC will each have the right to appoint a Director. The shareholders

agreement will also require CWGH to submit a business plan to CCC and WCC for approval every year.

- 2.9. As shareholders, CCC and WCC would have the ability to amend the company's articles, including those dealing with board representation.

3. Results of consultation undertaken

- 3.1. The continuation of Coventry & Warwickshire Growth Hub will play a vital role in delivering the One Coventry Plan's objective of "Increasing the Economic Prosperity of the City and Region". The development of this Plan has been subject to extensive consultation of both Council staff and external stakeholders, with some 485 people completing surveys and 433 individuals attending 23 workshops up to September 2022. This consultation process determined that a key objective needs to be to support local businesses to innovate, grow and scale up, and create new jobs. As the central co-ordination point for publicly funded business support across Coventry & Warwickshire since 2014, the Growth Hub has played a crucial role in ensuring the highest possible number of businesses are engaging with local business support services and are accessing the support services that are most appropriate to their needs.
- 3.2. The consultation process of the Coventry Economic Development Strategy 2022-2027 (one of the foremost strategies for delivering the One Coventry Plan) featured input from over 100 stakeholders both internal and external to the Authority between October 2021 and July 2022, including local business support bodies and universities. Again, through this process, it was agreed that a key objective needs to be to provide a first-class business support ecosystem that is responsive to the needs and opportunities faced by the city's 10,200 businesses, the majority of which are micro, small or medium sized firms. Having a strong Growth Hub, working closely with the other public and private bodies delivering business support in Coventry & Warwickshire, will play a crucial role in supporting more local businesses to expand their markets and raise awareness of new supply opportunities.

4. Timetable for implementing this decision

- 4.1. The new ownership structure for CWGH will be established as soon as possible to allow the current CWLEP company, limited by guarantee to be dissolved once the shareholding has transferred. Due diligence will continue to ensure costs and risks to shareholders are acceptable following which the proposed delegated authorities would be exercised

5. Comments from Chief Operating Officer (Section 151 Officer) and Chief Legal Officer

5.1. Financial Implications

- 5.1.1. CCC and WCC have carried out due diligence checks to determine what historic, and forward-looking information is available to inform an assessment of financial risk and sustainability of the CWGH. This has confirmed that for year-1 (2023/24) of trading there is sufficient income to cover expected costs. For year 2 and part of year 3, without further income there are sufficient reserves to fund the balance of the Financial Business Plan although further income is expected.
- 5.1.2. Alongside this, the Company is limited by shares which restricts the risk level to the authorities, particularly because CWGH has established a Reserves Policy in its business plan. The policy states that the closure costs, including redundancy payments etc of all CWGH business units, including the two subsidiaries CW Growth Hub Business Solutions and CW Champions will be regularly reviewed and updated. The overall reserve position for CWGH will be maintained at a level that will allow the closure costs to be met from reserves. CWGH will be required to provide

quarterly management accounts to CCC and WCC which will allow the two LAs to monitor the cash flow and reserves position.

5.1.3. The transfer of the c.£0.9m reserve from CWLEP to CWGH is therefore essential to making the financial risk acceptable to CCC and WCC.

5.1.4. Each year CWGH will be required to agree a business plan with its two LA shareholders. In the case of CCC, this will be reviewed by the existing members Shareholder Committee as set out in the legal implications section below.

5.1.5. The Growth Hub 3-year financial business plan is shown in the table below.

Growth Hub Financial Planning			
	Year 1	Year 2	Year 3
	2023/24	2024/25	2025/26
	£	£	£
<u>Expenditure</u>			
Staffing	636,454	661,912	688,389
Running Costs	90,000	93,600	97,344
	<u>726,454</u>	<u>755,512</u>	<u>785,733</u>
<u>Income</u>			
Local Authority Contributions (WCC&CCC)	261,120	261,120	261,120
Other Local Authority	105,000	80,000	80,000
Commercial Income	100,000	140,000	100,000
BEIS Grant Funding	<u>271,000</u>	<u>271,000</u>	<u>271,000</u>
	<u>737,120</u> *	<u>752,120</u>	<u>712,120</u>
Forecast (Surplus)/Deficit)	-10,666	3,392	73,613
* Secured			
	2023/24	2024/25	2025/26
	£	£	£
<u>Memorandum (Reserves)</u>			
Opening Balance	-892,183	-902,849	-899,457
In year (Surplus)/Deficit	<u>-10,666</u>	<u>3,392</u>	<u>73,613</u>
Closing Balance	<u><u>-902,849</u></u>	<u><u>-899,457</u></u>	<u><u>-540,858</u></u>
Estimated Ringfenced Exit Costs			<u>284,986</u>
Estimated Reserve Closing Balance			<u><u>-255,872</u></u>

5.2. Legal Implications

5.2.1.CCC will become a shareholder by virtue of Part 1 Localism Act 2011 (general power of competence) but on the basis that the company will be undertaking activities that are not principally for a commercial purpose.

5.2.2.The Council is working with Anthony Collins, its external solicitors. Legal services have undertaken due diligence with the benefit of various legal advice received.

5.2.3.*Governance and Constitution* - in addition to the new Articles, CCC will enter into a shareholders' agreement with WCC which will govern how decisions are made about the Growth Hub. The shareholders agreement will have reserved matters for approval by both shareholders that are consistent with the Terms of Reference set out in the Constitution for Shareholders Committee. CCC's Shareholder Committee will form part of the governance for CWGH going forward which deals with how decisions are made for the Council's wholly owned and joint venture companies.

5.2.4.As soon as the LEP's share is transferred to CCC resolutions will be passed by the company including the issue of one share to WCC and the adoption of the Shareholders' Agreement.

Subsidy Control - with the Subsidy Control Act (the "SCA") fully in force since the beginning of 2023, the UK's subsidy control regime now captures financial assistance which has, or is capable of, having an effect on "competition or investment within the United Kingdom".

5.2.5.Overall, any funding should be a lawful subsidy in the hands of CWGH as it should be capable of complying with the relevant principles under the SCA. A detailed analysis is being undertaken to establish this with legal services. Any subsidy will have to be notified to the Department for Business and Trade within 3 months should the funding be regarded as a Subsidy. The threshold for reporting is £100,000.00.

6. Other implications

6.1. How will this contribute to the One Coventry Plan?

6.1.1.Having a strong and reorganised Growth Hub that can effectively engage, support and appropriately refer a significant number of Coventry & Warwickshire businesses, will make a very important contribution to the achievement of the Council's core aims. It will be fundamental to delivering the One Coventry Plan's objective of Improving the Economic Prosperity of the City and Region by helping businesses to grow, take on new staff, expand into new premises and also improving Coventry as a place to invest.

6.1.2.Given that a high number of businesses supported are required to be operating in "clean growth" sectors, or applying clean technologies, we expect that the reorganised Hub will help to "Tackle the Causes and Consequences of Climate Change". The Growth Hub will also help to "Improve Outcomes and Tackle Inequalities in our Communities" through enabling Coventry residents to benefit from good quality employment and training opportunities. They should also improve the possibility of local businesses (particularly small and medium sized firms) benefiting from new supply opportunities, which will help to improve the standard of living of Coventry's residents and tackle longstanding inequalities.

6.2. How is risk being managed?

6.2.1.Coventry City Council has a long track record of managing business support services and programmes, and the risks associated with this area of work are well understood. There are

risks common to most types of business support activities, such as failure to deliver business engagement and output/outcome targets and failure to comply with rules of external funders, which can carry clawback penalties. All risks will therefore be monitored on an ongoing basis through the new CWGH Board, on which CCC will be represented, and through the Shareholders Agreement, for which CCC will have a 50% stake. A robust Risk Register will be developed and maintained for the reorganised Growth Hub operation to ensure that key emerging risks are mitigated at the earliest possible stage. Monitoring the requirement for CWGH to maintain enough reserves in order to cover the closure costs of CWGH and its subsidiaries should that be necessary by reviewing management accounts etc. will be an important risk mitigation for both LAs.

6.3. What is the impact on the organisation?

6.3.1. Although there will not be any Council staff employed directly through the CWGH, we expect that CCC's work with the reorganised CWGH will still require significant officer time. This will include time attending Board meetings, meetings as part of the Shareholders' Agreement, other work and meetings required to monitor the CWGH finances and performance in terms of business engagement and outputs, and officers from the Economic Development Service attending meetings with CWGH, where businesses are being cross-referred to CCC's business support and finance programmes.

6.4. Equalities / EIA?

6.4.1. Given that the Council will be a key funder of the reorganised Growth Hub's activities, we will require CWGH to undertake a detailed Equality Impact Assessment (EIA). The Assessment will need to consider the impact of the Hub's activities on all types of local communities, and how it will address barriers to accessing business support (for example whether people from different ethnic groups are less likely to benefit from the support we provide or whether some areas of the city are more difficult for projects to reach). Equalities impact work has also been completed for the Coventry Economic Development Strategy, which references the need to create a first-class business support ecosystem and will inform the approach to this work

6.4.2. In addition, the appointment to the various roles detailed in the report (notably the CWGH Board) will be undertaken in line with Section 149 of the Equality Act 2010, known as the Public Sector Equality Duty, which requires the Council to have due regards to eliminate discrimination, harassment and victimisation, advance equality of opportunity and foster good relations between people.

6.5. Implications for (or impact on) climate change and the environment?

6.5.1. As stated above, we expect the reorganised CWGH to deliver positive impacts on climate change and the environment and will contribute to achieving the One Coventry Plan's objective of "Tackling the Causes and Consequences of Climate Change". We also expect the work that CWGH will do in supporting businesses to positively position Coventry as a leader in the Green Industrial Revolution, particularly through supporting the growth of "green" sectors of the economy (e.g., low emission vehicles) and securing more investment into these sectors, which will ultimately create new good quality "green" jobs and training opportunities. We also expect that the Hub will refer small and medium sized businesses to specialist support activities to better understand the causes of climate change and be able to tackle these (including through improved energy efficiency and adoption of renewable energy).

6.6. Implications for partner organisations?

6.6.1. CWGH is already a key partner of CCC, in that it has acted as a central co-ordination point for publicly funded business support since 2014 and has played an important role in referring businesses to CCC's business support programmes, which has been an important enabler in ensuring our programmes have realised strong benefits for businesses and the local economy, particularly from the standpoint of growing small and medium sized firms and creating and safeguarding jobs. As such, having a strong reorganised CWGH will not only deliver a positive impact for CCC's Economic Development activities, but it will also have a strong impact on other local business support partners, such as Coventry & Warwickshire Chamber of Commerce, the Federation of Small Businesses, Coventry University and the University of Warwick, by ensuring a strong pipeline of local businesses continue to be referred to these organisations to then receive high quality impactful specialist support.

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