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To: Growth, Economic Development and Communities Cabinet Committee –
13 September 2019

Subject: Inward Investment Services

Key Decision No

Classification: Unrestricted

Past Pathway of Paper: None

Future Pathway of Paper: None

Electoral Division: Countywide

Summary: Following an OJEU compliant process a three-year inward investment services contract was awarded to Locate in Kent (LIK) in August 2016. Medway Council and the European Structural and Investment Funds (ESIF) Growth Programme contributed to the costs of the contract between the County Council and LIK. A bid to extend the ESIF funding has been submitted to the Ministry of Housing, Communities and Local Government (MHCLG), and the County Council has extended the current contract to August 2020.

This report describes how the inward investment services contract has performed since August 2016 and sets out the intended commissioning and procurement process for a new inward investment service contract that will commence in April 2020.

Recommendation: The Cabinet Committee is asked to note the contents of this report.

1. Introduction

1.1 As part of the commissioning process we are working with the Strategic Commissioning team to:

- Review and evaluate overall performance of the current inward investment services contract, based on the findings from monthly monitoring reports provided by Locate in Kent and from the client and user led insights (completed August 2019);
- Analyse and summarise findings: draw up specifications for a new inward investment services commission (completed August 2019);
- Submit ESIF Outline Application (September 2019);
- Draw up Commissioning and Procurement Plan for consideration by the Service Commissioning Board (October 2019);
- Publish Invitation to Tender (October 2019);

- Report outcome of tendering process to Growth, Economic Development and Communities Cabinet Committee (January 2020);
- Award commission (February 2020).

2. Policy context

2.1 The inward investment service supports KCC Strategic Outcome 2 (Kent communities feel the benefits of economic growth by being in work, healthy and enjoying a good quality of life). It also supports the following themes that influence the achievement of Outcome 2: Planning for Growth, Investing in our Infrastructure, Standing up for Kent and Smart Places.

2.2 The project is consistent with the main aims of the draft Kent Enterprise and Productivity Strategy, which will set the long-term ambition for growth in the county and supports the delivery of SELEP's Strategic Economic Plan and the Government's Industrial Strategy agenda.

2.3 The UK Industrial Strategy sets out the Government's aspiration to be the best place in the world to attract and grow investment in business, and to enhance its global reputation as a good place to do business. The Strategy also sets out several key challenges for business development, which include:

- The need to address the persistent productivity gap with our international competitors, which is exacerbated by the UK's "productivity puzzle" – our unusually weak productivity growth since the financial crisis;
- There is also a productivity gap between small and medium sized businesses (SMEs) and larger firms – in 2014, SMEs contributed 45% of total gross value in Great Britain, despite representing 57% of total employment;
- While many SMEs say that they want to grow in the next 2 to 3 years, most will not show growth in any given year;
- Face to face, tailored and intensive support is effective in helping businesses to grow and boost productivity. Despite this, the take-up and use of external advice by businesses has declined from 46% in 2010 to 29% in 2017.

2.4 The South East's overarching objectives for enhancing the competitiveness of SMEs are articulated in the South East Local Enterprise Partnership's (SELEP) Strategic Economic Plan, which acknowledges that:

- SMEs have been shown to play a vital role in stimulating innovation, improving productivity in existing businesses and supporting job creation;
- While businesses report significant benefits from using specialist business information and advice services, less than half of the UK's SME employers currently use such services;
- The provision of support, mentoring and coaching services to SMEs have been shown to deliver benefits across a range of areas, including leadership skills and business planning.

2.5 It is proposed that a new inward investment services contract will run for 5 years from April 2020 to March 2025. This would be initially for 3 years and will be extendable by up to 2 years depending on satisfactory performance by the

service provider. This would mean that the existing contract with Locate in Kent, which currently runs until August 2020, would be terminated at the end of March 2020. This will enable the service to focus more specifically on the opportunities and challenges for Kent and Medway in a post-Brexit economy.

3. The current inward investment services contract with Locate in Kent

3.1 The inward investment service contract requires the current provider, Locate in Kent, to develop innovative and creative solutions to secure domestic and foreign investment in Kent and Medway, the key features of which are:

- Securing external investment into Kent and Medway that creates new jobs;
- Promoting Kent and Medway to overseas markets;
- Maintaining close contact with investing businesses through an aftercare programme.

3.2 The supplier was also expected to deliver the following service outcomes that contribute to economic development in the county:

- More investment opportunities from overseas markets;
- Increased supply chain benefits for local businesses;
- More inward investment into Kent and Medway;
- Raised profile for the county as a destination for domestic and foreign investment.

3.3 The inward investment service contract with Locate in Kent was awarded by the County Council in spring 2016 on a three plus one year basis, starting in August 2016. The contract was extended by 12 months from August 2019 and is scheduled to end in August 2020.

3.4 The anticipated cost of the inward investment service contract with Locate in Kent over the period August 2016 to August 2020 is £3,858,663. Funding partners for the contract are KCC (£1,915,999 to August 2020), Medway Council (£280,000 to August 2020) and the European Structural and Investment Funds Growth Programme (ESIF - £1,662,664 to August 2019). The funding breakdown by financial year is shown below:

£ (by financial year)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
KCC	322,814	484,222	484,222	454,741	170,000	1,915,999
Medway Council	46,667	70,000	70,000	70,000	23,333	280,000
ESIF	369,481	554,221	554,221	184,741		1,662,664
Total	738,962	1,108,443	1,108,443	709,482	193,333	3,858,663

3.5 The contract with KCC has targets of 4,800 new jobs created by SMEs and 120 successful SME projects. Included within the job target is a requirement under the terms of the ESIF Grant Funding Agreement between the County Council and Ministry of Housing Communities and Local Government for 350 validated SME jobs and 45 SMEs in receipt of a minimum of 12 hours consultancy support from Locate in Kent.

- 3.6** Between August 2016 and July 2019, Locate in Kent had provided specialised and intensive support to 126 SMEs. This has resulted in a total of 1,483 new jobs created at a cost of £2,242 per job. The European Commission uses an average unit cost of £36,871 per job to evaluate the impact of enterprise support projects co-financed by ESIF funding. Locate in Kent also has, based on performance monitoring figures supplied to the end of July 2019, an active pipeline of a further 143 SMEs which could potentially deliver an additional 1,632 new jobs.
- 3.7** The Office for National Statistics (ONS) has calculated that the Gross Value added (GVA) per workforce job in the South East in 2016 (the most recent figure) was £44,994. On this basis an estimate of the value to the local economy of new SME jobs already created and expected to be created through Locate in Kent's activities would be £140.2 million.
- 3.8** The services provided through Locate in Kent have also safeguarded a further 1,877 SME jobs; and have supported 72 non-SMEs in Kent and Medway which have resulted in a further 3,612 new jobs and 3,216 safeguarded jobs.
- 3.9** Also included within the current service contract are the following outcomes for Locate in Kent to support and deliver:
- Assist KCC and other public and private stakeholders in developing an economic strategy for Kent – work on the Enterprise and Productivity Strategy is underway and is expected to be completed during autumn 2019;
 - Work with KCC, Medway Council and other stakeholders in identifying priority sites with employment potential and to promote these to prospective inward investors – Locate in Kent continues to work closely with local stakeholders, including the district councils, to promote key sites such as Discovery Park, Kent Science Park, Crossways, Ebbsfleet, Maidstone Medical Campus, Kingsnorth and Rochester Technology Park;
 - Engage with public and private sector stakeholders to identify priority target sectors for Kent and Medway – Locate in Kent's support has focused on the creative and digital, food and drink, manufacturing and life sciences sectors, although it continues to support other sectors where opportunities are identified.

4. 2020 and beyond

- 4.1** Draft target outcomes and outputs for a new inward investment services contract will be drawn up for the period April 2020 to March 2023, based on an analysis of the economic challenges for the local economy and on client and user-led insights gathered in relation to the existing service. Target outcomes and outputs for the remaining 2 years from April 2023 will be based on an evaluation of performance during the period 2020-23 and on the availability of funding.
- 4.2** During April 2019, we undertook a survey of Locate in Kent client businesses to provide insights into the current service and business needs. The outcomes of the survey are summarised below, and will help to inform the development of the new commission:

- Client businesses, especially SMEs, have indicated that they value the provision of targeted and specialised support services, particularly in planning future activities and sourcing different funding options;
- Over the past few years, both large companies and SMEs have expressed a need for higher quality, serviced industrial and commercial floorspace in the right locations to meet businesses' expansion and relocation requirements;
- There is a need to build capacity to influence the investment decisions of overseas businesses with the right types of information and support from local agencies and government departments;
- Businesses both local and external to Kent have indicated that they continue to experience difficulties in recruitment and retention of appropriately skilled staff, and would welcome specialised advice and support delivered locally alongside existing HE/FE institutions;
- Business under scrutiny from owners based either overseas or elsewhere in the UK would welcome specialised support delivered locally to safeguard existing jobs as well as attract additional investment to create new jobs.

4.3 The commission will also directly address the known market failures in the inward investment arena, which are essentially related to the level of information available to target companies, by increasing marketing and promotion activity, coordinating account management, developing stronger local propositions and increasing investor development activity.

4.4 The proposed inward investment contract for Kent and Medway for the period 2020 to 2025 would require the service provider to support both large companies and SMEs.

5. Financial implications

5.1 The cost of the inward investment services contract will be £4,340,000 over the period April 2020 to March 2025.

5.2 We propose to make available for the new service commission £510,000 annually from the Economic Development budget for a period of up to 5 years from April 2020 to March 2025. It is proposed that this will be supplemented by £70,000 per annum from Medway Council for an initial period of three years (from April 2020 to March 2023). These are at comparable levels of financial support by the two councils for the current contract over the past three years.

5.3 The commission will be funded by the ESIF Growth Programme as well as financial contributions from KCC and Medway Council. An outline application for funding under the ESIF Programme to March 2023 was made to MHCLG in August 2019. We expect to find out the outcome of the application to MHCLG before the end of this year.

5.4 The proposed commission for Kent and Medway for the period April 2020 to March 2025 would require the service provider to support both large companies and SMEs. An annual amount of £100,000 would be set aside each year for large company support, and the service provider will be expected to supplement

this from other external funding sources. The remaining funding for the commission will be allocated for support for SMEs. This is set out below:

£ (by financial year)	2020-21	2021-22	2022-23	2023-24 ²	2024-25 ²	Total
SME support	960,000 ¹	960,000 ¹	960,000 ¹	480,000	480,000	3,840,000
Large company support	100,000	100,000	100,000	100,000	100,000	500,000
Total Kent and Medway contract costs	1,060,000	1,060,000	1,060,000	580,000	580,000	4,340,000

Notes: (1) SME support Includes ESIF funding at £480,000 per year alongside KCC and Medway contributions

(2) Medway Council funding for 2023-24 and 2024-25 to be confirmed

- 5.5** The inward investment services contract will be awarded to the successful supplier over five years, with the final two years (2023-24 and 2024-25) dependent on satisfactory performance and availability of funding. We will ask prospective bidders for the commission to indicate how they will seek additional funding beyond March 2023, when the ESIF funding (and, potentially, funding from Medway Council) would cease. We will also explore other options for future public funding, including the Government's proposed UK Shared Prosperity Fund.

6. Legal implications

- 6.1** The new contract will be extendable and would be drawn up by Invicta Law on behalf of the County Council.

- 6.2** It is proposed that the Approval to Award would be signed by the Leader.

7. Equalities implications

- 7.1** The new commission will contain provisions for ensuring compliance with the County Council's equalities and diversity policies. An Equalities Impact Assessment (EQIA) was carried out as part of the commissioning of the current contract with Locate in Kent. A further EQIA will be available when the Cabinet Member for Economic Development is being asked to take the decision on awarding the new contract.

8. Conclusion

- 8.1** The current inward investment services contract, delivered by Locate in Kent, has made a significant contribution to the economic development of Kent and Medway. The proposed new commission from April 2020 will maintain the impressive momentum that has been achieved over the past few years.

9. Recommendation

The Cabinet Committee is asked to note the contents of this report.

Background Documents - None

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