

# Appendix 11

## Business Case - Centre of Excellence (CoE) for Food and Drink Industry & general growth in engineering and manufacturing



The proposal submitted by the project promoter is based on information and consultation available at this early stage. Further research, consultation and development will follow before funds are allocated. NB There is no guaranteed funding for the project until this has been secured from Government by GFirst LEP and the project has been through an appraisal and due diligence process.



## Business Case - Centre of Excellence for Food and Drink

### The Proposal

The main Project aim is to develop the Engineering provision within the Food and Drink (FD) Sector, enabling GET to sustain and grow its existing delivery and to diversify into new markets. This will further enable GET to develop new programmes generating growth, attract young people into engineering and manufacturing and meet our customer and industry needs. To achieve this, we are seeking an investment of £1M, and expect to deliver Outcomes of 11 jobs created, Apprenticeships - 137 and Traineeships - 47, over a 5-year period. The aims of the Project will be delivered through the following distinct areas:

**Centre of Excellence (CoE) for Food and Drink Provision.** As part of the trailblazer activity, employers have identified a need to develop centres which specialise in engineering provision tailored for the food and drink industry to offer provision against the newly developed apprenticeship standards. GET have been selected as a CoE for the South West but will need to invest in more machinery, equipment and resources in order to deliver the requirements. There are specific elements to this project. **Additional space in the workshop to house more machinery and additional classrooms for the academic provision** – GET already has the knowledge and skills to deliver the practical training but its average intake of 108 apprentices (engineering and manufacturing) each year means that the workshop is at capacity. To accommodate the additional food and drink (FD) apprentices, more space is required on the workshop and additional machinery will need to be purchased to meet the demand. From an academic perspective, at least one extra class daily will need to be delivered with additional classes to be delivered covering the specific food and hygiene elements. All 10 classrooms are utilised daily, even our conference room. In order to make space on the workshop, certain activity areas (such as welding, fitting etc) will need to be re-located – we do not have any additional space in the building so we would need to either

construct a first floor mezzanine or lease an additional unit. Further, we will need to develop an area to house a miniature food packaging line to enable us to place the learners in a simulated work environment.

**Sustain and grow existing delivery.** Increase in learner starts, the need to provide more commercial courses, together with higher level programmes being delivered means that we have more learners on site daily. On average we have about 108 full time first years on site with classes running FE/HE programmes to 2nd, 3rd and 4th year apprentices. With the recent introduction of the HND we now have 5th years on site daily. In September 2017, even without any further growth, additional classrooms are required in order to honour our delivery commitments. The Project is much needed in order to resolve both current and future growth requirements. With the introduction of the apprenticeship levy, we will see our numbers in engineering and manufacturing increase. We have been in discussions with our large employers who will be liable for paying the levy who have all stated that their apprentice intake will increase by 10%. For example, Renishaw anticipate their increase will be from 30 to 40. We will need even more classrooms to cope with this additional demand. Therefore we are anticipating further growth on top of sustaining current delivery demands and the additional FD apprentices.

**Re-introduce commercial skills programmes and introduce traineeships.** Historically, GET has delivered adult skills programmes but due to capacity issues and growth in the apprenticeship programme, we have not been able to deliver this in recent years. This year we have delivered this provision on our customers' sites but unfortunately this is not sustainable as not all employers have the resources to support this. The FD apprentices' require 4 months practical training - we will be able to offer this provision in the remaining 6-7 months of the year. Many of our employers have expressed an interest in us introducing a 6-month government funded traineeship programme. This provides high quality work experience and improves

## Business Case - Centre of Excellence for Food and Drink

the young persons' employability. We would add value to the programme by offering some basic practical training - valuable to our employers. Our employers will have the opportunity to work with potential apprentices before offering them employment. The additional space on the workshop would enable us to deliver these programmes.

**Expand into new delivery areas** – electrical/electronic training for installation of security and heating and cooling systems as well as providing commercial training for domestic Electricians. If GET commits to taking on another unit, additional revenue will need to be generated to cover this cost. In addition to the new programmes mentioned above, we strongly believe that we could also utilise our electrical/electronic knowledge into different market segments e.g. installation of heating, cooling and security systems and domestic electrician training.

**Opportunities to maximise employer apprentice levy contributions.** The introduction of this levy will not only see employers recruit more people onto apprenticeships, but also presents the opportunity for employers to engage their current employees onto apprenticeship programmes, thereby increasing the skills of their workforce. With such a variety of programmes on offer through this project, GET will be better equipped to offer current and new employers more of an opportunity to maximise their contributions.

In summary, this project enables GET to continue to meet the needs of its growing customer base and also engage with new businesses who require provision specific to the FD sector whilst also providing a variety of programmes to employers who want to maximise their levy contributions. With limited CoE in operation, this provision has the opportunity to engage with out-of-county employers, plus enable GET to expand its provision and diversify into new market segments. GET firmly believe that this Project represents good value for money for Gloucestershire and aids significantly in assisting the Government in reaching its Apprenticeship objectives.

### Demand

**Food and drink delivery** – GET were specifically approached by the NSA-FD who are responding to a demand identified by employers in their membership. A group of employers (KP Snacks, Nestle, Unilever etc) have been developing new apprenticeship standards and now require providers to deliver these new standards. They will be expecting all supply chain organisations to conform to the new apprenticeship standards in addition to a range of standards they already have to adhere to (ISO14001, BRC standards etc).

**Maximising Apprenticeship Levy** - our current customers are already talking to us about increasing their intake and Campden BRI have also received a number of enquiries from their members about apprenticeship provision. Campden BRI do not currently offer apprenticeships and can see the value in partnering with us on the delivery of FD apprenticeships so that they can support their members in maximising their levy contributions.

**Skills Programmes** - this year we have had enquiries for skills programmes from a number of high profile local businesses. We are struggling to deliver this programme due to lack of space and equipment and are having to turn business away.

**Traineeship programmes** - other major employers have enquired about us running Traineeship programmes in fact some are already working with Bridge Training to offer a similar programme.

**New segments** - Two significant local employers have enquired about us offering Electrical/Electronic installation apprenticeships.

# Business Case - Centre of Excellence for Food and Drink

## Rationale for intervention

The aim of this project is to offer a better variety of programmes that either aren't available in the county or are not currently to the required standards. FD provision is not available but is required and will grow year on year. This project will enable us to engage with and support businesses who are either not currently training or are using providers outside of the county, by offering a better range of general engineering programmes, allowing them to maximise their levy contributions.

We are constantly having to turn business away or are forced to make employers wait far too long to access training because of our capacity issues. The investment in space, machinery and resources will enable us to meet our customers' demands with apprenticeships, skills training and FE/HE requirements.

GET has been recognised as one of the top 25 fastest growing businesses in Gloucestershire and this investment will give us the opportunity to continue to grow to higher levels. Appendix B shows a forecast of how our turnover will increase over a 5 years showing a great return on investment.

This project will also generate employment opportunities and GET will restructure in order to provide a quality service to our customers. Appendix C is an example of the new structure indicating the new posts that will be created.

The provision on offer from the investment will also create new apprenticeship vacancies thus reducing youth unemployment and increasing recruitment in a priority sector which has significant skills gap issues.

## Options appraisal

Options	Description	Issues	Impact
RGF/GIF Funding	Government funding	High levels of co-investment 70:30	GET doesn't have any funds due to prior investment £750k in 2012 in current building
Independent investment	Bank loan, Crowd Funding	High risk lender i.e. no assets	Prohibitive repayment rates
Asset Finance	Bank funding	Only access £100k	Substantially short of what's required
Lottery Funding	Investment opportunity	Small capped amounts Community based	As above
Landlord Contribution	Leasing new unit with £70k contribution and reduced rental	Ongoing rental costs Fit out cost £800k Lease renewal on 3 units for 10 years	As above Further incurred costs Only 5 years left on current lease
Refurbishment to existing units	Additional Mezzanines	No contribution from landlord	Higher rental cost Disruption to current delivery – feasibility?
Levy Contribution	Using employer excess to fund capital investment	Unknown if Levy contributions can be used in this manner	Potentially not viable, too many unknowns.

## Business Case - Centre of Excellence for Food and Drink

We believe we have explored all options open to us and our biggest barrier is accessing capital for investment due to the fact that we do not own any significant assets and therefore we are considered to be a higher risk lender. We have already spoken to our current bank and they have informed us that it would be highly unlikely that they would be willing to lend us anything in excess of £250k. If we were to co-invest, we would need approximately £800k as a minimum – if we were to fully fund we would need approximately £1.2m.

### Strategic Growth

The SEP and Growth Deal states that the challenge is to ensure a supply of skilled workers in high growth sectors.

We have developed a strategic partnership with Campden BRI, who also see this project as a way of being able to offer a solution to their members and would further provide them with the ability to offer apprenticeships and up-skill their workforce. Discussions are also underway with Hartpury College and a number of local employers.

We are also working with our current employers to identify businesses within their supply chains who will be affected by these new standards.

The NSA-FD and the employer trailblazer group will work very closely with us as a provider to support curriculum development and staff CPD as well as providing regular updates on the progress of new apprenticeship standards.

### Context: Local

This project links into the skills and promotion areas within the Growth Statement. It will contribute towards generating highly employable and economically productive individuals in a high value sector which is critical to the economic development of Gloucestershire as a County. The introduction of a CoE will undoubtedly attract new businesses to train and employ from within the county as there will only be a limited number of CoEs in this specific niche of the market. We appreciate that investment has already been committed to funding the development of young people for the nuclear sector, but engineering and manufacturing will still continue to grow and without increased delivery in manufacturing, we will all be fighting for the same pool of skilled labour. The introduction of the Apprenticeship Levy will also increase demand for our provision.

If we do not have a FD CoE in Gloucestershire, there is a real risk that we could lose provision to other providers from outside the county such as HGTA and MGTS. It has already been proven that employers will send employees a distance to access training that isn't available within the County. I do not see these other providers as competitors if we were to deliver provision for the FD sector, but I do see the opportunity for us to draw businesses into our County for this provision if it is not available in neighbouring counties.

Both the Gloucester and Stroud MPs see this as great initiative for the County – Letters of support are attached at Appendix D & E. We have also been invited to discuss our initiative with the Junction 21 Project to see how we can support the development of this provision in their local area and potentially leverage additional funding as part of that project.

# Business Case - Centre of Excellence for Food and Drink

## Context : Regional / National

GET were approached by the NSA-FD who are responding to a demand identified by employers in their membership nationally. An employer group, which include KP Snacks, Nestle and Unilever have been developing new apprenticeship standards. They will be expecting all supply chain organisations to conform to the new standards in addition to a range of standards they already have to adhere to (ISO14001, BRC standards etc).

Our initial discussions with the NSA-FD and employer trailblazer group identified Bristol as a key area to develop a centre, however, they do not currently have the confidence in the providers in this area to deliver to the quality levels required. The aim is to develop a number of main centres by 2017/18, with future development of additional centres nationally over a period of time. These centres will be satellites of the main centres. This provides the opportunity to generate more investment into the County by providing a hub and spoke model.

This project is our local way of responding to National Government policy with regards to the Apprenticeship reforms and the Levy. These new standards have been developed by employers and will service their needs far more than historic apprenticeship provision. Through the growth in our programmes, it will have a knock on affect to government targets to increase the number of apprentices in the system to 3 million by 2020 and our traineeship programme will help to reduce the number of young people who are unemployed.

## Outputs

Category	Description	Year 1	Year 2	Year 3	Year 4	Year 5
Jobs created	Delivery - Tutors/ assessors	1	3	1	2	1
Jobs created	Business Development	3	0	1	0	1
Jobs created	Business Support	0	0	3	0	0
Apprenticeships	Food and Drink Level 3	8	12	15	18	20
Apprenticeships	Electrical/ Electronics Level 3	0	5	5	8	10
Apprenticeships	Mech/Electrical Level 2	5	5	8	8	10
Traineeships	Entry to apprenticeships	5	10	10	10	12
Training Floor Space/ Refurbished:	Workshop Classroom (659.8Sqm Unit 2.2)					
Machinery/ Equipment	Approx 12					

## Narrative/assumptions

**Jobs created: Tutors/Assessors/Business Development** - based on the increase in general engineering numbers and the introduction of the Intermediate apprenticeship we would need to recruit additional staff to ensure staff to learner ratios in both practical and academic delivery. Also with the introduction of the FD programme, we may need to recruit new staff. We would create a new business development team to account manage and develop new business opportunities.

# Business Case - Centre of Excellence for Food and Drink

**Apprenticeships Food and Drink** - we have been provided these anticipated numbers from the NSA-FD. We have been told to expect smaller numbers in the initial years whilst the programme takes shape but they have asked us to plan for up to 30 additional apprentices within 5-7 years. The providers' ability to grow to respond to demand was one of the key features of the approval process.

## Outcomes

Category	Description	Year 1	Year 2	Year 3	Year 4	Year 5
Jobs created	Skilled and knowledgeable staff. Staff to learner ratio appropriate.	4	3	5	2	2
Apprenticeships	Food and Drink Level 3 – following successful intake, numbers increase Years 5-7 to 30 new apprenticeship start.	8	12	15	18	20
Apprenticeships	Electrical/Electronics Level 3	0	5	5	8	10
Apprenticeships	Mech/Electrical Level 2	5	5	8	8	10
Traineeships	Entry to apprenticeships	5	10	10	10	12
Increased Customer Base	We would anticipate that with the newly developed programmes in place, our client base would increase by at least 10% each year	5	6	6	6	7

### Narrative outcomes/assumptions

**Apprenticeships: Electrical/Electronic (L3)/Mech/Electrical (L2)/Traineeships:** Good expansion opportunities into other sub

sectors (heating, cooling, security and domestic installation). Many of our employers have started enquiring about L2 Apprenticeships, especially with the introduction of the Levy, we anticipate that these numbers will continue to grow as a result of the investment, particularly with the creation of the Business Development Team, the marketing potential for increasing our client base and the increased workspace providing the opportunities for increased numbers of Apprenticeships and Traineeships, thereby ensuring quality, sustainable growth year on year, which can be measured to monitor the impact of the investment.

## Financial: Capital and Revenue

Amount	Description
£550,000.00	Construction of Mezzanine or fit out of new unit (incl. design, building regs etc)
£125,000.00	Additional machinery for the workshop (Mills, Lathes, Fitting benches)
£ 50,000.00	Electrical/Electronic equipment
£ 75,000.00	Miniature packaging line
£ 200,000.00	Teaching resources (furniture, whiteboards, PCs etc)
£ 50,000.00	Advertising
£ 30,000.00	Recruitment
£ 40,000.00	Staff Development

- We have quotes for the construction of a mezzanine but are awaiting costs of a fit out of an empty unit
- We have already researched the cost of additional machinery and equipment and do not plan to buy brand new, we will buy good quality used machines.
- We have been given the estimated cost of a miniature food production line by Leeways Packaging (they have large food packaging lines in their factory).
- Teaching resources, software and Awarding body fees are all estimated as is Advertising, Recruitment and Staff development.

## Funding request for Growth Deal 3

Of the £1,120,000.00 stated above, we are asking for £1,000,000.00 from the Single Growth Fund. There are other technology requirements such as simulations, 3D printing machinery etc which could also be incorporated into the project but these are nice to have rather than essentials.

In order to solve our immediate space issue and to respond to the FD demand, we would need the mezzanine or new building to be up and running by September 2017. As the £1m we are asking for from the Single Growth Fund is all capital, this would be required asap in order to meet our dates.

## Financial: Capital and / or Revenue leveraged in to the project

As a charity we do not have cash to invest in further development. We have difficulty accessing funding/loan from the banks because we don't own any significant assets meaning loans would be on an unsecured basis making the repayment rates prohibitive. Buildings are leased and the machinery we own is dated. Asset finance would only raise up to £100k.

We have considered alternative funds e.g. RGF/GIF, however, all rely on a large contribution from the applicant, in our case approximately £600-£800K, accessed via a loan.

We have investigated bank loans to either fully or partially finance the project but have been informed that accessing more than £250k is unlikely.

If we were to take on a new unit, there is a possible contribution from the Landlord of approximately £70,000.00 to contribute towards the fit out - this is instead of a rent free period as negotiated on our existing units.

## Project viability with reduced funding

The reality is that without investment or a reduced amount of investment, the expansion of GET into the FD Sector and the development of other programmes will not proceed. In fact, we would have serious difficulty in honouring our current commitments and would be at risk of losing business and damaging our reputation for failing to deliver. If we have to turn business away, there isn't any guarantee that we would regain it again in the future and I believe this would then leave the business at significant risk.

If capital funding isn't available, we will have to investigate alternative ideas/locations for classroom space to see out the programmes we have committed to deliver and cap numbers halting business growth. This could also result in us losing staff due to lack of confidence in the future of the business. One of the main factors which new employees have stated as a reason for joining GET is the fact that they can buy into the vision and growth of the business and they are excited about being part of that. If we capped our numbers, our vision of growth would not exist.

## Sustainability

Revenue funding isn't an issue for us as we already have the staff with the knowledge and skills to develop and deliver the programmes. We have partner organisations who are willing to provide the specific elements of the programme where we do not have the knowledge/skills. The cost of this delivery will be built into our programme fees and charges. Again we already have awarding body accreditation with 2 different organisations and adding additional programmes onto the remit is not expensive. The cost of the development of the programme and CPD is what will be the biggest cost but this is more time rather than cash. As a business who delivers education to others, we are heavily committed to enhancing the knowledge and skills within

# Business Case - Centre of Excellence for Food and Drink

our own business and will continue to invest more money into the ongoing professional development of our staff.

All our programmes are currently charged out on a commercial basis and this will continue. The introduction of the apprenticeship levy will enable us to reduce our charges to customers providing more scope and flexibility in our charging model to allow for the development costs.

This investment is a way of actually securing the long term sustainability of the business and failure to access investment could result in the start of a decline in the business.

## Financial Summary

Key: C - Capital R - Revenue

	2017 /18		2018 /19		2019 /20		2020 /21		Total
	C	R	C	R	C	R	C	R	
Growth Deal 3		n/a		n/a	1,000,000	n/a		n/a	1,000,000
Total Private match funding					120,000				120,000
Total <u>other</u> public funding									
Other									
Totals					1,120,000				1,120,000

## Financial: Follow on investment

All the investment we are asking for is for capital expenditure to put the infrastructure in place for us to be able to deliver the programmes required. GET will contribute £120,000 towards the cost of advertising, recruitment and staff CPD. There is also a possibility of £70,000 contribution from the Landlord but this is very much based on GET taking an additional unit on the estate not further construction within the current units – as this decision hasn't yet been taken, it has been excluded from the table above. Whilst there is an incentive to take an additional unit with regards to financial contribution from the landlord and less disruption to current delivery, it does increase our expenditure in the future. The table at Appendix B, clearly identifies that the £1m investment has the potential to be matched by an additional £1m of revenue within 3 years.

We do not anticipate any future investment requirements unless the business continues to grow at its current rate which is unlikely. The Apprenticeship reforms is likely to see an increase in the first 3-5 years after which we believe numbers will stabilise.

# Business Case - Centre of Excellence for Food and Drink

## Timeline

	Start	End
Refining Business Case	2018/19 – Q2	2018/19 – Q2
Project Planning & Development	2018/19 – Q3	2018/19 – Q3
Due Diligence and LEP Board Approval	2018/19 – Q4	2018/19 – Q4
Capital Investment	2019/20 – Q1	2019/20 – Q2
Implementation / Delivery	2019/20 – Q3	2019/20 – Q3
Project Completed	2019/20 – Q3	2019/20 – Q3

Please note this is based on the tax year April to March.

Capital Investment would need to be released in quarter 1 in order for the work to be complete to start delivery in the September.

Realistically we would like to be considered for funding in 2017/18 as there is a risk to our sustainability and delivery of current programmes. We are also concerned that if we do not set up the CoE before 19/20 an alternative provider on the outskirts of our boundary would have beaten us to it. We do not have the space to construct an extra few classrooms to see out the next 2 years in the interim.

Timescales are realistic and achievable based on previous experience whereby we had 2 units completed fitted out and ready to use within 10 months start to finish (including planning, design and construction and completion).

## Risks

Risks Description	Owner	Probability	Impact	Mitigation
Lower numbers on Food and Drink Programme than predicted	GET	Likely in the early years	Reduced income	Larger numbers on traineeship programme and commercial skills programmes
Higher numbers on Food and Drink programme than predicted	GET	Unlikely	2 intakes per year	Employers will have to wait a further 5 months to access skills provision
Decline in Engineering and Manufacturing numbers	GET	Likely	Reduced income	Introduction of Sales and Quality team to generate new business and/or cross sell to current customers
Increase in numbers across all programmes	GET	Possible	Lack of space and resources	Investigate more flexible delivery programmes/ purchase more resources
Not obtaining capital investment earlier than 19/20	LEP	Likely	Loss of business	Cap numbers and turn business away/invest in temporary terrapins for delivery

## Business Case - Centre of Excellence for Food and Drink

### Procurement and State Aid

We do not currently believe that any state aid issues will arise however, if our application is successful we will ask our solicitors to check the detail. We work with a number of GTA's within the Country who are structured and governed just like GET, a number of these businesses have been awarded Growth Deal money from their local LEP and there hasn't been any issues with State Aid.

### Governance and delivery arrangements

When we moved from Chancel Close to Barnwood Point, we introduced a working group who met weekly to review and oversee the progress of the project. As the CEO I took responsibility for the management of the legalities (lease on current building and new), planning permission, build contract etc. Each Team Leader (4) also took responsibility for specific parts of the project within their own area of authority (new machinery on the workshop – best prices, lead times etc). Two Directors from the Management Board also formed part of this working group to ensure that all was progressing well and on target. As mentioned above, the move and all the associated components were completed within a 10 month window and this included the physical move itself. This project is of a smaller scale with less complexities so a 10 month window is not unrealistic.

The involvement of the Senior Managers and Board Members ensured that everyone was aware of the progress of the project through the weekly update meetings with full updates being provided to the Board every other month via the Board Meetings. We now have a representative on our Board with expert financial knowledge (we didn't have that last time) so this will be really useful with this project to make sure that the project is delivered within the budgets.

### Appendices

Where there are appendices referenced but not included in this document, they are available on request from GFirst LEP.