

4.0 BETADEN SUSTAINABILITY REPORT

FAR COMMITTEE RECOMMENDATION

That the Committee :

1. Notes the progress update on the BetaDen Investment Funding Manager's objectives;
2. Notes the financial information regarding BetaDen's Business Plan targets for private sector investment year on year and BetaDen's management accounts;
3. Notes the progress for BetaDen to obtain specialist advisory support around commercial transition and proposed ITT for a Market Broker test;
4. Notes the progress made on reducing public sector funding into BetaDen model; and
5. Notes the quantitative metrics on Return on Investment (ROI) to date

4.1 Context

4.1.1 In May 2020 the BetaDen project presented a progress report to FAR Committee, at their request, to undertake a scrutiny exercise into the long-term sustainability plan for BetaDen, recognising the WLEP Board's recommendation to transition from a fully public funded model into a shared public/private commercial entity within the next five years.

4.1.2 The FAR Committee were advised that, following approval by BetaDen's Advisory Board, an Investment Funding Manager role was recruited on a 10-month fixed term contract until March 2021 to provide additional specific resource to the project team to develop an investment strategy, which includes – value propositions for sponsorship FY 2020/21, intrapreneurship options, partner development, cohort membership to include potential investment and equity options and pathway for private/corporate investment dependent on BetaDen's future legal status.

4.1.3 FAR Committee is keen to ensure that benefits-realisation of the project to date are fully understood, so that a Return on Investment (ROI) and Value for Money (VfM) assessment can be undertaken.

4.1.4 This report sets out to provide more detailed information to address each of the points raised at the May 2020 FAR Committee Meeting.

1. Progress update on Investment Funding Manager objectives
2. Financial information on BetaDen Business Plan targets for private sector investment year on year and Management Accounts
3. Progress on reducing public sector funding into BetaDen model
4. Quantitative metrics on Return on Investment (ROI) benefits where available

Headlines on Progress Since May 2020

- MHSP Board have agreed to transition BetaDen into MHSP remaining as a business unit for this next phase (August 2020 MHSP Board) subject to specific terms being agreed.
- WLEP through the BetaDen Advisory Board are guiding the undertaking of a market test to seek external professional corporate investment advice from the market to

support future commercial transition and develop the future investment strategy for BetaDen.

- With the support of Worcestershire County Council, the Management Accounts are attached (**Appendix 1**) to show a true cost of operation of the BetaDen model and available operational funding using ERDF and WLEP Growing Places Grant (GPG). This shows funding until June 2023. This includes Cohort 4 sponsorship for current FY 2020/21 a revenue target of £45K.
- The development of an investment strategy finalised for March 2021 – with additional revenue sources yet to be added/confirmed in the management accounts into future financial years.
- The BetaDen Business Plan agreed by WLEP Board outlines the following financial “income/revenue” targets year on year as follows:
 - 2020/21 - £45K
 - 2021/22 - £87K
 - 2022/23 - £131K
 - 2023/24 - £175K

4.2 Progress Update on Investment Manager Objectives

4.2.1 Matt Thomas, BetaDen’s Investment Funding Manager, has been in post since 11th May and has 3- and 6-months objectives (**Appendix 2**) aligned to the required development and delivery of BetaDen’s Business Plan. His activity to date includes :

- To develop a proposal and present to the MHSP Board that positions BetaDen as part of the future MHSP offer and supports the future expansion plans. The intention being that BetaDen would support the commercial marketing and development at MHSP and develop a potential pipeline of future tenants into the science park. Variations on this arrangement are detailed in Table 1 below. MHSP Board confirmed its agreement to transition BetaDen into its organisation in August 2020 and further clarification is now in progress.
- Preparation of an (EOI) Expression of Interest paper on the options for a future commercial structure (entity) to enable investment management for BetaDen. An invitation to respond was sent to eight leading investment advisory contacts. These interviews are intended to provide feedback/material to issue an Invitation to tender (ITT) based on a market test exercise to contract specialist advisory support to define and deliver the structure and investment market platform for BetaDen’s future commercial transition.
- Provided regular progress reports to BetaDen’s Advisory Board on the objectives and progression on private investment/revenue development opportunities

4.3 Investment Broker Market Test Progress

4.3.1 The process/progress timeline to date:

- End June – First draft of ‘Expression of Interest’ paper written and reviewed (by Linda Smith, Gary Woodman)
- First week July – Second draft written and circulated to Betaden Advisory Board for comment and amends
- 13th July – Third/final document circulated to nine investment finance advisors – Three responses received:

1. Jerroms Corporate Finance
2. Price Pearson Accountants
3. Bishop Fleming Accountants

- 5th Aug to 12th Aug – ‘Interviews’ held with the three responders via Zoom. Concluded that the project/ITT would be delivered as a two-phase approach
 1. Structure and Governance
 2. Fundraising and Investment

Main Points from Stage 1 of Market Test Interviews :

- All three interviewee co’s provided evidence on background experience in development of investor relations and emphasised the importance of offering the “investor relationship and ROI benefits to all parties”
- The most usual investment involvement would be direct access to the cohort founders
- By reputation and association MHSP was not seen as a known investment opportunity but this could be positioned in partnership with BetaDen to promote and grow this opportunity (and reputation)
- The interviewees saw the specialist investment advisory element as important to develop the proposition to achieve the future fee earning element of securing investment for BetaDen “the business”
- 14th Aug – Conversation with WCC Procurement Team regarding preparation for completing the Work Request, prior to drafting an Invitation to Tender (ITT) proforma
- ITT will proceed when clarity from MHSP/Betaden discussions is forthcoming, for review at WLEP September Board meeting
- The BetaDen business model, structure and proposition have been benchmarked against existing models in operation to inform the focus for the market testing exercise.

4.3.2 In terms of the market testing activity referenced above, the tasks and original associated timeline are now subject to a revised timeframe as further discussion and agreement with MHSP is required on the terms offered. The legal framework required to make BetaDen a viable investable model whilst positioned as a business unit of MHSP is the challenge now being addressed.

4.4 Financial Information and Management Accounts

4.4.1 The Management Accounts, prepared by Laura Roberts, Worcestershire County Council Senior Finance Manager, are attached at **Appendix 1**.

4.4.2 The BetaDen financial information has been reprofiled and updated to reflect the anticipated contributions from MHSP and other commercial investments. The resulting Management Accounts and Forecast now show the anticipated income streams for BetaDen and the impact this will have on public sector funding.

4.4.3 The ERDF funding is set to end in June 2023 and without ERDF approval, cannot be changed or compromised by additional funding scenarios. For simplicity any external income (including MHSP) will be offset against the Growing Places Grant(GPG) funding, thereby extending the life of this grant to fund the BetaDen running costs and future cohort activities post-June 2023.

4.4.4 Similarly, the expenditure has been reviewed and includes the Investment Manager role and a potential Investment Broker in 20/21.

4.5 Progress on Reducing Public Sector Funding into BetaDen Model

4.5.1 As BetaDen commences its transition towards generating an increasing proportion of its income from the private sector, and transitioning its operating model into MHSP, the following will be agreed with the advisory board and put in place before the end of this financial year:

- Adoption of a stakeholder/investor focused approach to financial reporting
- The implementation of a 5-year commercial plan, including projected costs, measurable financial objectives and a breakdown of proposed revenue streams, including:
 - Sponsorship income
 - Cohort member income (equity or revenue %)
 - Innovation partner income
 - Cohort membership fees (for IP fast-track development proposition)
 - Consultancy fees

4.6 BetaDen FAR Committee ROI Metrics

4.6.1 An agreed set of value metrics for joint BetaDen-MHSP promotional and commercial activity has been agreed.

4.7 Quantitative Metrics on ROI Benefits

4.7.1 Pilot Acceleration Programme 2018-2021 (Three cohorts each of 9 months duration)

	Number of Co's Commenced Programme	Number of Co's Completing Programme	Number of Co's Actively Seeking Investment	ERDF Value £ Grants Value Secured	Value £ of Private Investment Secured	Number of New Jobs Created
Cohort 1	6	5	3	£58.9K	£100K	3
Cohort 2	8	6	4	£67.9K	Tbc	0
Cohort 3	8	n/a	4	£30.0K	Tbc	2

4.7.2 Cohort 1 (Sept 2018- May 2019)

- Five of the six founders completed the BetaDen programme (83%)
- £58.9K of grant funding was collectively secured by founders during their time on the BetaDen programme
- One founder has sought and secured investment to the value of £100K
- Three founders are seeking investment
- Three jobs have been created

4.7.3 Cohort 2 (Sept 2019-May 2020)

- Six of the eight founders completed the BetaDen programme (75%)
- £67.9K of grant funding was collectively secured by founders during their time on the BetaDen programme
- Four founders are now seeking investment to the value of £1M+
- 0 jobs have been created

4.7.4 Cohort 3 (June 2020-Planned Completion February 2021)

- Eight founders joined the programme in June 2020; one has since left but the place was immediately backfilled from the waiting list
- £30K of Proof of Concept grant funding has collectively secured to date by two founders since joining the BetaDen programme (1 x Innovate UK grant awarded £50K to BlockMark Technologies Ltd)
- To date two new jobs have been created by Heteronomics Ltd

4.8 MHSP-BetaDen Development Update

- 17th Aug – Response received from Alan White, CEO, MHSP to the submitted BetaDen proposal submitted to MHSP Board regarding the transferral of the BetaDen project to MHSP.
- 26th Aug – Response to questions raised by MHSP returned for consideration:
 - MHSP/Betaden agreement still to be discussed and agreed – structure and governance model not yet concluded.
 - Outcome of discussions will dictate whether Phase I is required
 - Once MHSP/Betaden structure and governance model is agreed then a decision can be made on when/how to pursue Phase II.

Table 1: Key Details and Timescales with MHSP

	Structure	Funding	Governance
2020	Project within WLEP	Via WCC/WLEP (Growing Places)	BetaDen Advisory Board and WLEP
2021	Transfer to MHSP Business Unit	Private funding via MHSP, including sponsorship for Cohort 4.0	BetaDen Advisory Board, MHSP Board with BetaDen representative
2022+	Incorporate as BetaDen Ltd Co. wholly owned by MHSP	Private investment can be received directly into Ltd Co.	BetaDen Ltd board with MHSP representative
Future Options	1. Remain with MHSP as wholly owned Ltd Co. 2. Spin-out company	1. As before 2. Broader access to investment capital	1. As before 2. TBC

4.9 Next Steps

- FAR are requested to note the progress made and provide feedback on the planned ITT
- FAR Feedback will be incorporated into a report to WLEP Board Meeting on 25/09/20 where BetaDen intend to seek approval to progress ITT for the Investment Market Broker support required.
- To note continued progress with BetaDen’s tech ecosystem event programme development with virtual **Tech Tuesday** series delivering to an audience of 250 contacts for the first three sessions delivered in 2020.

Linda Smith
CEO BetaDen
August 2020