

Director: Sue Cooke, Executive Head of Economic Services
Author: Jonathan Skinner, Henry Rigg



Report to: Business Innovation and Growth Panel

Date: 7 December 2017

Subject: Flexing Economic Services to Deliver Inclusive Growth Outcomes

1 Purpose

- 1.1 To agree for Economic Services to target inclusive growth outcomes by adding stretching and proportionate criteria to its grants. The report also describes the ongoing testing and consultation with private sector partners, including previous grant-recipients, to ensure desired impacts are achieved.

2 Information

- 2.1 The vision in the current Strategic Economic Plan includes good growth delivering high levels of prosperity, jobs and quality of life for everyone. The LEP and West Yorkshire Combined Authority (WYCA) established an inclusive growth project in November 2016 as the post-crash 'recovery' coincided with parts of society feeling economically insecure, that they had not benefitted from globalisation and vulnerable to further public sector austerity.
- 2.2 Inclusive growth is where everyone contributes to, and benefits from, growth. The WYCA received a report¹ in August 2017 on how the city region might more explicitly target its policy and programmes to inclusive growth outcomes – such as increase earnings of workers at the 20th percentile of the earnings distribution (i.e. £8.26 p/hr in the LCR) faster than those at the median (i.e. £14.83 p/hr in the LCR). Resolutions included:
 - a) Driving a single, bold top-level city region strategy owned by both the LEP and Combined Authority, with inclusive growth at its core. This will reflect the government's emerging approach to industrial strategy, and the particular challenges and opportunities in the Leeds City Region;
 - b) Agreeing in principle to review WYCA programmes to take account of inclusive growth, subject to the conditions on delegated funding.
- 2.3 Since then, the WYCA/LEP have:

¹ See <http://westyorkshire.moderngov.co.uk/documents/s3382/Item%207%20-%20City%20Region%20Policy%20and%20Funding%20Framework%20for%20Inclusive%20Growth.pdf>

- Set bold ambitions for a local inclusive industrial strategy to address four key challenges identified by the LEP Board's September awayday:
 - i. The productivity gap is widening;
 - ii. R&D activity and investment (particularly private sector) is too low;
 - iii. Improving living standards have stalled; and,
 - iv. Stubborn deprivation persists.
 - Reviewed existing programmes with a view to flexing them to make a bigger impact for those suffering the greatest disadvantage. This includes Economic Services, and its programme of grants, which is discussed further below.
- 2.4 Launched in July 2015, the LEP Growth Service (Growth Hub) is the access point for all publically-funded support in Leeds City Region that can help businesses to grow. To date, it has supported some 3,700 businesses, 1,400 of which have received ongoing intensive support from the team of 13 SME Growth Managers. The service diagnoses the needs of growing SMEs and then links them to the most appropriate support based on their position in the growth cycle. This is often access to finance and results in the firms submitting applications to the LEP Capital Grants programme.
- 2.5 The LEP/CA is working closely with BEIS and other LEPs/Growth Hubs on the future of the service. This includes setting principles about how Growth Hubs can more effectively engage with growth-oriented businesses and support them to be more productive. The blueprint builds upon the service's existing core offer of IDB (Information, Diagnosis and Brokerage) and our ambition to focus on drivers of productivity and competitiveness like Innovation/R&D, International Trade, Access to Finance and Skills.
- 2.6 The LEP Capital Grants programme was launched in February 2013 with a focus on job creation. Since then unemployment has fallen by 43% (from 125,000 people to 71,000), while there has been an increase in in-work poverty (JRF; Dec 2016²). There is, therefore, a need to focus on the *quality* of jobs created (skills levels, progression opportunities, wages) as well as the *quantity*. Part of the answer lies in using the leverage of the LEP's grants for businesses to create and safeguard better, as well as more, jobs.
- 2.7 The Panel has the opportunity to recommend a more stretching yet proportionate approach to the capital grants programme based on the detail in Appendix 1. Recalibrating the criteria and conditions for grants fits the inclusive industrial strategy policy framework, and the importance of addressing the growing productivity gap. For example, a more stretching threshold for higher paying jobs (i.e. those paying at least the Living Wage Foundation rate of £8.75 p/hr), incentivises businesses to create more productive roles – albeit there might be fewer of them compared to previous criteria.

² <https://www.jrf.org.uk/report/monitoring-poverty-and-social-exclusion-2016>

- 2.8 There will be a reduction in the amount of grant funding available from April 2018 onwards, meaning fewer businesses in the city region will be supported. Therefore, introducing revised inclusive growth criteria could be advantageous in terms of targeting reduced resources and realising better returns on our investments. The two main operational challenges from the revised approach will be continuing to deliver the programme in a business-friendly manner and ensuring systematic understanding of impact. For example, increasing skills and wage levels of existing employees are important impacts, but can be less identifiable as new jobs.
- 2.9 It is important to strike the right balance between incentivising ‘inclusive growth’ decisions from businesses without being disproportionate. Three operational factors can help with this situation:
- first, informal testing with businesses who use the Hub and discussion via the Business Communications Group;
 - second, it is proposed that all recipients of capital grants worth over £10K will deliver some inclusive growth outcomes, but that the level of contribution will increase in proportion to the amount of grant awarded i.e. a progressive approach with more expected from those receiving over £50K; and,
 - third, making sure that businesses are supported to access products and services to help deliver the required inclusive growth outcomes. The LEP/WYCA is well-placed to support businesses with the latter e.g. Apprenticeships, Enterprise Education and Travel Plan Network.
- 2.10 Views are sought from BIG Panel on the proposed new criteria (**Appendix 1**).
- 2.11 A survey has been produced by WYCA’s consultation team to send to those businesses that have received larger grants from the LEP in recent times. This will seek feedback from the businesses on the proposed new criteria and policy approach, whilst also presenting the opportunity to influence their future activities i.e. the connection between increased pay/career progression and increased profits/productivity. A pilot of the survey will be conducted in late November 2017 with five of the grant-recipients.
- 2.12 Following feedback from BIG Panel and the pilot survey, the survey will then be rolled out to other businesses in December with a view to engaging thirty businesses. Findings will be used to refine the proposed criteria ahead of the recommended implementation in April.

3 Recommendations

- 3.1 The Panel agrees to recommend to the WYCA and the LEP Board that, subject to further testing with businesses and funders, more stretching inclusive growth conditions are set for the programme of grants to ensure jobs created and/or safeguarded are of a better quality, and can support career progression within businesses. There should be evaluation to understand if this leads to more

productive businesses, as well as understanding the impact on the number of jobs created and safeguarded.

- 3.2 That a broader range of inclusive growth outcomes are requested from businesses in receipt of larger grants, including working with schools, providing local supply chain opportunities.