

---

<b>Report to:</b>	Business Investment Panel
<b>Date:</b>	12 June 2018
<b>Subject:</b>	<b>Implementation of Inclusive Growth outcomes from the Business Growth Programme</b>

---

<b>Director:</b>	Sue Cooke, Executive Head of Economic Services
<b>Author(s):</b>	Henry Rigg

---

## **1. Purpose of this report**

- 1.1 To update, and seek input from, the Business Investment Panel on implementation of the new inclusive growth criteria, and associated conditions, for recipients of capital grants on the Business Growth Programme (BGP).

## **2. Information**

- 2.1 The City Region's approach to a local inclusive industrial strategy aims to tackle the growing productivity gap and sustainably improve living standards for all. This extends to using the Combined Authority's economic services – including the BGP – to incentivise businesses to grow in a way that delivers inclusive growth.
- 2.2 The aim of introducing inclusive growth outcomes for the BGP, is to better target limited public support at those businesses seeking to 'get ahead of the curve' on matters such as in-work progression, apprenticeship opportunities, supporting employees with disabilities, introducing more sustainable travel and boosting productivity.

### Consultation

- 2.3 The LEP and Combined Authority have been mindful of the need to ensure that the new measures are acceptable to small businesses and will not place an undue burden on their operations. To this end, a workshop was hosted in November 2017 with representatives of prominent private sector intermediaries in the City Region, including accountants, banks and legal companies (known as the 'Professionals' Perspective'). Attendees were consulted on the proposed changes to the grant criteria, and also provided valuable feedback from their own perspectives and those of their clients and

customers. There was strong consensus amongst attendees of the importance of prompt payment to small businesses.

- 2.4 To gather direct feedback on the proposals from SMEs, a survey of businesses in the Leeds City Region that had previously been awarded grants was undertaken in late 2017/early 2018. 25 businesses responded by completing a detailed questionnaire on the revised draft criteria and associated conditions. One specific question was whether the revised criteria would have deterred businesses from applying for the grant.
- 2.5 The LEP Board's January 2018 meeting provided feedback on the revised criteria and associated conditions, which were noted subject to further consultation. The same documents were previously considered by this Panel in December 2017, and by the Business, Innovation and Growth (BIG) Panel in December 2017 and March 2018, with feedback also noted.
- 2.6 Following the above meetings, a final version of the revised criteria and associated conditions was again considered by the LEP Board at its meeting on 27 March 2018. This meeting approved the new approach, whilst emphasising the importance of making the application, appraisal and monitoring processes as straightforward and business-friendly as possible. The Combined Authority then endorsed the LEP Board's decision at its meeting on 10<sup>th</sup> May 2018.
- 2.7 As an extension of its appraisal function on large capital grant applications of £100k plus, it is proposed that this Panel advises the LEP/Combined Authority on the application of the revised criteria and associated conditions from July 2018 onwards.

#### Consultation Findings

- 2.8 The main findings from the above consultation and business engagement were that there is strong support for the inclusive growth agenda and its underpinning principles, and for encouraging employers of all sizes to invest in their lower-paid staff and facilitate career progression.
- 2.9 There was also consensus that the LEP and the Combined Authority should better realise increased inclusive growth outcomes and benefits from the grants awarded to businesses in the City Region. However, there was also a clear view that support for the new approach should be proportionate depending on the size of the business and of the grant i.e. businesses in receipt of larger grants should deliver the most inclusive growth outcomes.
- 2.10 Paying the 'real living wage' was regarded as the main barrier for businesses in terms of implementing all of the proposed changes. This was primarily because of the cost implications in sectors with typically low margins. Furthermore, there was strong support for incentivising businesses to deliver more inclusive growth outcomes, but without excluding certain sectors or sub-sectors. This panel, in particular, stressed the importance of including all parts of the City Region's business population.

- 2.11 Other common views from the consultation included the importance of grant-recipients making a commitment to prompt payment of their small business suppliers, and the need to improve the link between grants and increased productivity. This is particularly important for manufacturers that may be investing in productivity measures without necessarily increasing headcount in the business.

#### Business Productivity

- 2.12 A common response from the consultation was the need to identify an effective, robust and deliverable way to support businesses with grant-funding for capital investment projects that are improving their productivity, without necessarily creating new jobs. To this end, the LEP has established a small working group, with representation from businesses in the City Region, to take it work forward at the local level. The group will report progress to the LEP Board, the BIG Panel and this Panel, and an update paper will come to the Panel in July 2018.
- 2.13 Further consideration will be undertaken into how the new criteria and associated conditions approach might be applied to strategic inward investment projects. This will include more detailed analysis of projects supported to date and those in the pipeline.

#### Consultation conclusions and revised criteria

- 2.14 The overall conclusion of the consultation and business engagement activity was that there is strong support for introducing the proposed new criteria and conditions.
- 2.15 One main issue for consideration, which was raised by some members of this Panel, was the original proposal to pay the Real Living Wage for all new jobs created as a result of investment projects supported by grants. This was primarily because of the potential for certain sectors, sub-sectors and parts of the City Region to be excluded from grant-funding and from engaging meaningfully with the LEP/Combined Authority.
- 2.16 Therefore, the revised criteria incorporates an 'incentive element' that provides more funding per new job paying the Real Living Wage, and less funding per new job paying the National Minimum Wage. This revised approach is set out in more detail within **Appendix 1** and addresses the feedback to ensure that small businesses in lower wage sectors can continue to apply for business grants, whilst incentivising those who pay more to their staff.
- 2.17 It is important to stress that for jobs paying the Real Living Wage or above, the maximum amount of grant funding per new job is £12,500. This does not mean that every job that pays £8.75 will receive £12,500 as there will remain an element of discretion within the appraisal process, including the views of this Panel where the applications of £100k plus are appraised. In addition, the existing State Aid rules for grant investment will remain i.e. 10-20% of eligible

expenditure on the overall value of the capital investment. This is the effective starting point and primary factor for determining the amount of grant that could be awarded, as opposed to the number, and salary levels, of new jobs.

- 2.18 The LEP Board and Combined Authority are keen to review the new approach after the first six months to check its effectiveness and impact on SMEs, including grant take-up rates amongst smaller businesses.

Implementation Plan

- 2.19 The new changes will be implemented from July 2018 by teams at the Combined Authority and Leeds City Council (LCC), and the table below sets out the proposed implementation plan:-

**Table 1 - Draft Implementation Plan**

<b>Milestone</b>	<b>Date</b>
Grant delivery teams at LCC and the Combined Authority hold implementation workshop	June 2018
Application form, guidance and legal documentation revised, including a one-page fact sheet setting out the changes in Plain English	June 2018
Key public and private sector stakeholders are informed about the changes e.g. LAs, SME Growth Managers, Chambers and other business membership groups (via the LEP Business Communications Group), private sector intermediaries (banks, accountants etc), other business support products and providers in the City Region	June and July 2018
Press and marketing activity to promote the changes undertaken	June and July 2018
Offers of support from those services capable of supporting businesses with the associated conditions are confirmed, including referral routes	June and July 2018
New criteria and conditions are introduced for all new enquiries to the programme, including clear and tested links to services to support meeting the conditions	Monday 30 July 2018
Businesses that had commenced the application process prior to 30 <sup>th</sup> July 2018 informed that the deadline for submitting their applications on the previous criteria is the end of September 2018.	June to end of September 2018
Deadline for businesses that had commenced the application process prior to 30 <sup>th</sup> July 2018 to submit their final applications on the previous criteria.	Friday 29 September 2018
New criteria applied to businesses in the above category that did not submit final applications by end of September 2018	October 2018 onwards

Review of the new approach undertaken with feedback to LEP Panels, Board and Combined Authority	February 2019
---	---------------

- 2.22 As the above table highlights, those businesses that have actively engaged with the application process (e.g. have submitted an enquiry and held detailed discussions with the teams at LCC and the Combined Authority) prior to the new criteria being launched (30 July 2018), will be given two months to submit their full applications based on the previous criteria. If the applications are not received by 29 September 2018, the revised criteria will be applied to their applications. All businesses in this category will be informed of the changes and the associated timeline.
- 2.23 Supporting businesses to meet the required conditions will be a key priority for the LEP/Combined Authority, and all applicants will be able to directly access the range of products and services that can help with this via the LEP Growth Service. Work will continue over the coming weeks to ensure that clear and robust referrals routes are in place with the providers of products and services that can help meet the required conditions. The majority of these are actually delivered by the LEP/Combined Authority, which will make the process more straightforward for businesses.
- 2.24 Raising awareness of the revised criteria, and ensuring that the messaging is clear and consistent, is also clearly a priority within the implementation plan. This is reflected in the number of actions in the above table related to marketing, communications and stakeholder engagement.
- 2.25 The review referenced in the table will include consultation with businesses, key public and private sector stakeholders (including via the LEP Panels) and the delivery teams at LCC and the Combined Authority. This will feed into a wider impact evaluation of the BGP to be undertaken in early 2019.

### **3. Inclusive Growth Implications**

- 3.1 The new approach aims to improve inclusive growth within the City Region by encouraging, incentivising and supporting businesses to pay higher wages and invest in their current and future employees.

### **4. Financial Implications**

- 4.1 Implementation of the revised criteria may reduce the amount of Local Growth Fund expenditure via the BGP in coming years. However, this should be balanced by the reduced amount of available funding within the BGP up to 2021, compared to the previous three years.

## **5. Legal Implications**

- 5.1 Implementation of the revised criteria will require additional legal resource due to the inclusion of new clauses in funding agreements with the grant-recipients related to the inclusive growth outcomes.

## **6. Staffing Implications**

- 6.1 Implementation of the revised criteria will require a modest level of additional staff time within the Combined Authority to ensure that the proposed inclusive growth outcomes are appraised, monitored and reported for each grant award over the £50k threshold, i.e. circa 20-25 grants per annum.
- 6.2 For the smaller awards up to £50k, the delivery teams at Leeds City Council and the Combined Authority will continue to track the wage rates of jobs created with the grant funding, as they do currently, to check that they are in line with the grant conditions stipulated, prior to final payment.

## **7. External Consultees**

- 7.1 Please see paragraphs 2.4 to 2.13 above for detail of the consultation undertaken to date.

## **8. Recommendations**

- 8.1 That the Panel notes the forthcoming changes to the criteria for awarding BGP grants related to inclusive growth outcomes (as set out with **Appendix 1**), and provides feedback and advice on the proposed implementation plan.

## **9 Background Documents**

None.

## **10 Appendices**

Appendix 1 - Revised criteria for the Business Growth Programme