
Report to: Business, Innovation and Growth Panel

Date: 13 September 2018

Subject: **Business Basics Fund**

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1. Purpose of this report

- 1.1 To inform Panel Members of the City Region's response to a competition, funded by the Department for Business, Energy and Industrial Strategy (BEIS) and run by Innovate UK to improve productivity in low-to-mid productivity firms by encouraging adoption of existing technologies and business practices associated with more productive firms in similar sectors.

2. Information

Context

- 2.1 Following a commitment in its Industrial Strategy White Paper (November 2017), BEIS has initiated a review into low-to-mid productivity firms¹. This corresponds with the LEP identifying the City Region's significant and growing productivity gap as an 'inconvenient truth' that needs to be addressed, and recent discussions among the BIG Panel Members about:
- how productivity becomes tangible at the firm-level
 - the City Region having some highly innovative and productive businesses, but the City Region also has a high proportion of firms across all sectors that are less productive than their sector average
 - the vital importance of using trusted intermediaries and innovative channels to help inform business leaders about productivity and options to take action.

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/712342/Business_Productivity_Review_call_for_evidence_.pdf

2.2 Government's review seeks to understand how firm-level interventions by public and private partners can support growth and improve productivity for the long tail of low productivity businesses. It aims to:

- improve understanding of high and low productivity businesses, and the practices driving the performance of each
- improve understanding of the market in which interventions operate
- explore which interventions by the public sector and private sector are effective in improving the practices that drive business productivity, including the ways in which information is communicated.

2.3 An important point recognised by Government relates to a firm's understanding of its relative productivity (i.e. whether it's in the low-to-mid category). This point was originally highlighted in 2016 by Sir Charlie Mayfield in his report *How Good Is Your Business Really?*

First: *We need businesses across the country to have an informed view on how good they are. Surveys indicate most businesses believe (wrongly) they have above average productivity.*

Second: *Getting a handle on how well the business is run and how well it performs is far from straightforward*

And: *Measuring productivity isn't about navel-gazing – it's about understanding how well a business is doing, how and where it could be better, and ideally, what paths there could be to improve. In this way, measurement needs to cover practice and performance: it's not enough to know how well your business is doing – you also want to know what the practical reasons are, so that you can do something to address them*

Source: How Good Is Your Business Really (2016)

2.4 The long tail review will report its findings to the Secretary of State for Business, Energy and Industrial Strategy and the Chancellor of the Exchequer in autumn 2018.

Business Basics Fund

2.5 In the meantime, Innovate UK has launched the business basics fund with the objective of stimulating innovative ways of encouraging micro, small and medium-sized enterprises (SMEs) with mid-to-low productivity to adopt existing technologies and business practices that can boost their productivity. The fund uses BEIS funding, and opened on 26 June, with a deadline for submissions of 4 September.

2.6 The Fund is split into two parts:

- Proof of concept: grants of up to £60,000 to test new approaches
- Full scale trial: grants of up to £400,000 to rollout proven interventions

City Region proposal

2.7 This competition provides an opportunity to bring together strands of work across the City Region and involve other partners:

- The Combined Authority's research and intelligence team has developed a model to estimate firm-level productivity using publicly-available data. Using an ONS comparator tool², this means it's possible to establish an indicative productivity position relatively quickly.
- The LEP's Growth Service has been exploring ways in which to target its offer to improve productivity based on previous reports to the BIG Panel explaining the role impartial advice and brokerage can play to improve productivity (including the productivity pilot, described in more detail in item 12). In addition, the Growth Service continues to develop its offer on issues like marketing and communications, as per the funding agreement with Government reached in early 2018. It is thought that firm-level analytics helps (i) understand the Growth Service's current penetration across low-to-mid productivity firms and (ii) proactively target firms that have not historically accessed services.
- Using links with intermediaries like accountants, banks, ICT providers and business networks to identify how behavioural insights (otherwise known as "nudge theory") can establish how different types of contact can trigger different behaviours amongst business leaders.
- Potentially explore the role of other analytical tools like webscraping can enrich the contact with businesses, reflecting the degree to which firms display 'high productivity characteristics'.

2.8 Based on the ingredients above, it is proposed to develop a trial of between 500 to 1,000 City Region firms with low-to-mid productivity to assess the most cost-effective approaches to:

- Increase awareness amongst those businesses of their relative performance and the extent to which they reflect high productivity characteristics.
- Increase take-up of practical (publicly and non-publicly-funded) support to increase the number of characteristics associated with high-productivity businesses and thereby improve productivity.

²<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/articles/howproductiveisyourbusiness/2018-07-06>

- 2.9 The City Region’s proposal for a business basics fund proof of concept project is currently being designed with partners and has identified a number of risks that need to be mitigated/managed. These are described briefly below, and Panel Members are asked for views about the mitigation (particularly on concerns about telling businesses about how firms should be run):

Risk	Mitigation / Management
The data collected is not sufficiently robust	Incorporating expert support and challenge should mitigate this, but part of the project is also to understand the firm level data that it is possible to assess. Discovering those limitations would also be a useful outcome of the project.
It comes across as the public sector telling businesses how they should be run	This would need to be addressed through careful wording of the approach and using trusted communication channels. Part of the project is to test which approaches elicit the greatest impact, so it’s considered an acceptable risk that some firms will respond negatively or not respond as a result
Poor response rates of the various contacted groups	Using trusted communication channels and behavioural insights to tailor communications. Part of the project is to test response rates of various approaches so a poor response rate (at least for some cohorts) would be acceptable
Do not secure involvement from business partners	Preliminary discussions with business groups and intermediaries indicate there is interest in doing this.
Increase demand for public support beyond capacity to supply	Increased growth manager resource is currently being progressed through ERDF funding which could help meet any additional demand

3. Financial Implications

- 3.1 There are no direct financial implications directly arising from this report.

4. Legal Implications

- 4.1 There are no legal implications directly arising from this report.

5. Staffing Implications

- 5.1 There are no direct staffing implications directly arising from this report.
- 5.2 Should the proposal be successful, it’s likely to mean more firms coming seeking information about public and private business support provision. It is expected that this demand can be managed through established processes,

including seeking further European funds for a project to improve resilience across the business base.

6. External Consultees

6.1 No external consultations have been undertaken.

7. Recommendations

7.1 It is recommended that the Panel notes the City Region's proposal for Innovate UK's business basics fund and discusses how this might be refined/targeted to meet the needs of the City Region's low-to-mid productivity firms.

8. Background Documents

None.

9. Appendices

None.