

Report to: LEP Board

Date: 26 March 2019

Subject: **Review of Inclusive Growth for Business Grants**

Director(s): Sue Cooke, Executive Head of Economic Services

Author(s): Henry Rigg and Lorna Holroyd

1 Purpose of this report

- 1.1 To update the Board on the effectiveness to date of the new approach to securing inclusive growth commitments from recipients of business grants from the LEP's Business Growth Programme (BGP).
- 1.2 To seek direction from the Board on the future approach to inclusive growth commitments from recipients of business grants, recognising the feedback from recent consultation with the Business, Innovation and Growth Panel, the Inclusive Growth and Public Policy Panel and the Overview and Scrutiny Committee.

2 Information

Background

- 2.1 In early 2018, the LEP Board and the Combined Authority agreed that work should begin on the development of a Policy Framework and Local Inclusive Industrial Strategy (LIIS) for Leeds City Region. The Policy Framework will be an agile, long-term strategic approach aimed at driving growth, boosting productivity and earning power, for a post-2030 economy. The Policy Framework will provide room for bold, long-term planning with a focus on tackling the key challenges the City Region faces:
 - Productivity gap is increasing;
 - Investment in innovation and research and development is very low;
 - Living standards have stalled; and
 - Stubborn deprivation persists.
- 2.2 Inclusive growth is embedded as an enabler of the Policy Framework and will act as a strategic driver for strategies aligned to the Policy Framework¹.

¹The latest version of the Policy Framework is provided in **Appendix 1** of this report.

- 2.3 As initial discussions around the Policy Framework and the LIIS progressed, it was identified that an opportunity existed to promote inclusive growth through the delivery of business grant programmes. In the first instance, it was recommended that inclusive growth outcomes be introduced for BGP, to ask capital grant recipients to contribute more proportionately on a range of social value commitments, as well as incentivise payment of the Real Living Wage for jobs supported by the grant awards.
- 2.4 The Business, Innovation and Growth Panel considered a paper on the introduction of inclusive growth conditions for BGP recipients at its meeting on 7 March 2018. The revised criteria and associated conditions were then approved by the LEP Board at its meeting on 27 March 2018 and Combined Authority on 10 May 2018. The new criteria were implemented for business applicants to BGP from July 2018.
- 2.5 The Combined Authority asked for a review to be undertaken after six months to assess the initial effectiveness of the approach, and to inform decisions as to whether to continue and/or expand the approach further.

Review of Initial Effectiveness

- 2.6 Prior to the introduction of the revised criteria, analysis of BGP grants awarded in the previous 12 months (June 2017 to June 2018) showed that **58% of the jobs created** were paying the Real Living Wage or above.
- 2.7 Since the introduction of the new criteria in July 2018, 62 BGP applications have been approved. These applications are linked to the creation of 321 new jobs, 216 of which are proposed to pay above the Real Living Wage. This represents **67% of all of the jobs to be created** via the investment projects to be supported on BGP. So far, 15 of these jobs have been created, 10 of which are paying at least the Real Living Wage, and this will continue to be closely monitored as the supported projects progress and the associated jobs are filled.
- 2.8 13 BGP applications of above £50,000 have been approved since the introduction of the new approach. Applicants at this grant level are required to commit to additional inclusive growth interventions, as well as creating new jobs, and so far, 30 such commitments have been secured. A list of inclusive growth commitments has been developed, and support is available from the LEP/Combined Authority, and its partners, such as Jobcentre Plus and Local Authorities, to implement them.
- 2.9 The current commitments include: - Inspire the next generation by working with schools and/or colleges; Develop a Skills Plan including apprenticeships; Offer training to low paid staff to help them progress; Offer work opportunities to local people with disabilities or health issues; Offer more sustainable 'green travel' options to employees; Undertake an energy audit to identify ways to reduce energy consumption; Undertake a supply chain audit to identify opportunities to buy more from local suppliers; Pay small business suppliers in accordance with the Prompt Payment Code -

<http://www.promptpaymentcode.org.uk/> - including a commitment to pay all suppliers within 60 days and to commit to 30 days as the norm; Commit to paying staff the Real Living Wage within an agreed timescale.

- 2.10 Of commitments agreed with businesses to date, the highest number are for undertaking an energy audit (20%), followed by offering more sustainable green travel options for employees, developing a skills plan and working with schools and colleges (all 17%). All commitments have had at least one adoption, except for undertaking a supply chain audit to identify opportunities to buy more from local suppliers, but the new Supply Chain Development Programme at the University of Huddersfield will support businesses with this commitment in due course.
- 2.11 Informal feedback from businesses has been positive to date, with the majority being receptive to the new approach. As perhaps expected, the smaller businesses have been those that have expressed some concern related to their more limited resources to implement the commitments.
- 2.12 Payment of the Real Living Wage has been the main challenge reported for businesses since the new approach has been implemented, in particular for those operating in lower value sectors, and/or, in geographical areas where wages are lower than the City Region average. These are often more disadvantaged areas, so the decision to adopt a two-tier grant rate has been beneficial to avoid an outright exclusion of certain firms in these locations from grant support.
- 2.13 LEP Board is, therefore, asked to comment on the effectiveness of the approach thus far and consider whether the inclusive growth criteria and commitments for the BGP should be continued and potentially extended.

Broadening the inclusive growth approach

- 2.14 At its meeting on 14 September 2018, the Combined Authority's Overview and Scrutiny Committee considered a report on the business grants currently delivered by the Combined Authority/LEP. This covered an update on the outputs associated with each grant programme and the recent introduction of the inclusive growth approach for capital grants.
- 2.15 The Committee recommended that consideration be given to extending the inclusive growth approach to the grant elements of all business support programmes and also to grants of all values.
- 2.16 The LEP currently manages seven grant programmes for businesses, and has contributed match funding to a further two managed by Leeds City Council on behalf of the City Region. These are listed in Appendix 3. Across these programmes, 896 grants were approved in 2017/18, and 594 have been approved to date in 2018/19, which demonstrates the high volume of transactions and businesses supported.

- 2.17 The BIG Panel considered the outcome of the six-month review and the recommendations of the Overview and Scrutiny Committee at its meeting on 26 February 2019. A summary of its response is as follows: -
- The Panel remains committed to the importance of inclusive growth and of supporting businesses to develop their employees, increase wage rates, continually improve and contribute to the City Region's economic, social and environmental priorities. In this regard, it is supportive of continuing the approach.
 - The Panel believes that the approach needs to be proportionate in relation to the size of the business, and was specifically concerned about the impact on smaller businesses that are less likely to have the resources to meet additional commitments. This is particularly the case with grants of smaller values e.g. those under £25,000.
 - The Panel expressed concern that broadening the commitments to grants of all values across all programmes could cause the unintended consequence of a downturn in applications, resulting in less support for businesses and a negative impact on contractual targets with funding providers.
 - The Panel felt that the current £50,000 threshold for additional commitments to be delivered by grant-recipients remains appropriate, but that this could be reduced to recipients of grants over £25,000 as long as support was available from the LEP and its partners to put in place the required one commitment. It was suggested that this should be tested and closely monitored for a period to determine take-up and inform next steps.
 - The Panel also suggested that as part of the wider inclusive growth agenda, more activity should be undertaken to engage with businesses in sectors and locations where there is a lower take-up of LEP business support.
- 2.18 The above was also considered by members of the Inclusive Growth and Public Policy Panel on 1 March 2019. The members were similarly supportive of the criteria and commitments, welcomed the leadership role of the LEP in pioneering this approach and commended the good progress to date. They particularly stressed the inherent value from an inclusive growth perspective of supporting the low carbon agenda through encouraging businesses to adopt more holistic approaches to recycling and reuse, as well as continued support for employers to recruit apprentices. Panel members recognised the importance of proportionality in terms of commitment levels from smaller businesses, and acknowledged the risks of unintended consequences.
- 2.19 LEP Board is, therefore, also asked to consider the benefits and risks of extending/adapting the approach to other grant programmes in the LEP's portfolio. Considerations include the potential impact on smaller businesses arising from perceived bureaucracy; and therefore potential impact on the take-up of the grants; the proportionality of applying the criteria and commitments for all grant values, particularly where jobs creation is not a requirement of the grant (e.g. the Resource Efficiency Fund grant that targets carbon reduction as its primary output); and the additional cost of staffing resources required to monitor the delivery of the commitments and outcomes

across all grant awards, particularly the smaller £2,000 Apprenticeship Grant for Employers (AGE).

- 2.20 A revised model for extending the principle of Inclusive Growth criteria and commitments to all LEP business grants has been developed to take into account the feedback gathered to date. This incorporates incentive-based criteria linked to the Real Living Wage for all programmes which create jobs, thus building on the success of the BGP experience to date. It also extends the list of Inclusive Growth Commitments to the wider range of grant programmes and includes a lower threshold (£25,000 and above) at which grant recipients will be asked to make commitments as a condition of the grant.
- 2.21 Those businesses receiving grants of between £10,000 and £24,999 will be expected, and supported, to deliver one commitment, but it will not be mandatory, and there will no expectation on those receiving grants below £10,000. The effect on business behaviour and the take-up of support will be closely monitored to inform any required changes. This is set out at Appendix 2 for consideration and its potential application is summarised by grant programme at Appendix 3.

3 Financial Implications

- 3.1 There will be financial implications arising from the recommendation to extend inclusive growth commitments more widely, such as the need for additional staff to monitor the delivery of the commitments to a much larger cohort of businesses. Financial penalties could also be incurred if outputs, outcomes and expenditure targets are not met due to fewer businesses engaging with programmes.

4 Legal Implications

- 4.1 There are no legal implications directly arising from this report. However, there would be increased requirement for legal resources for contracting and compliance issues if the inclusive growth criteria were to be applied to grants on all programmes, and at all values.
- 4.2 In addition, if the criteria was applied to all business support projects with grant elements, this could result in fewer applications. In turn, this could have a negative impact on legal agreements with external funders.

5 Staffing Implications

- 5.1 There will be additional staffing implications relating to paragraph 3.1 and 4.1 above.

6 External Consultees

- 6.1 No external consultations have taken place. However, the report's recommendations were previously considered by the BIG Panel on 26 February 2019 and with members of the Inclusive Growth & Public Policy Panel on 1 March 2019.

7 Recommendations

- 7.1 That the Board considers the progress to date on the implementation of the new Inclusive Growth criteria and commitments to the Business Growth Programme (BGP).
- 7.2 That the Board endorses the proposal to continue the approach to inclusive growth for recipients of business grants.
- 7.3 That the Board considers and adopts the proposed extension of the Inclusive Growth criteria and commitments to the full range of LEP business grants as set out in Appendices 2 and 3.
- 7.4 That the approach should be closely monitored for another six-month period and progress then reported back to the Board.

8 Background Documents

None.

9 Appendices

Appendix 1 – Policy Framework for Inclusive Growth

Appendix 2 – Proposed criteria and commitments for future delivery

Appendix 3 – List of LEP grant programmes and their potential contribution to Inclusive Growth