

Report to: West Yorkshire Combined Authority

Date: 25 April 2019

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

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Is this a key decision?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in by Scrutiny?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the report contain confidential or exempt information or appendices?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, state paragraph number of Schedule 12A, Local Government Act 1972, Part 1:	

1. Purpose of this report

- 1.1 To update the Combined Authority 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 implement the decision of the LEP 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

- 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.
- 2.2 As initial discussions around the Policy Framework and the LIIS progressed, it was identified that an opportunity existed to secure increased inclusive growth commitments from recipients of capital grants on the Business Growth

programme (BGP), including an incentive to pay the Real Living Wage for jobs created as a condition of the grant awards.

- 2.3 The Business, Innovation and Growth (BIG) 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.
- 2.4 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

- 2.5 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.
- 2.6 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.
- 2.7 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.
- 2.8 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.

- 2.9 Informal feedback from businesses has been positive to date, with the majority being receptive to the new approach. As perhaps expected, smaller businesses have expressed some concern related to their more limited resources to implement the commitments, and the financial pressure of paying the Real Living Wage.

Broadening the inclusive growth approach

- 2.10 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.
- 2.11 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.
- 2.12 The LEP currently manages eight grant programmes for businesses (and has contributed match funding to a further two managed by Leeds City Council on behalf of the City Region). LEP grant programmes are listed in Appendix 2. 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.
- 2.13 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 thinks 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.
- 2.14 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.

- 2.15 The Overview and Scrutiny Committee (OSC) met on 22 March 2019 and considered the progress to date as well as the proposals for extending inclusive growth criteria and commitments ahead of the LEP Board. The Committee's recommendations were that commitments around the Prompt Payment Code should be strengthened, particularly for larger businesses, and that priority should be given to commitments related to the employment of people with disabilities and those that have been out of the employment market for longer periods. Furthermore, the OSC reiterated its view that the criteria and commitments should be applied to all business support programmes with grant elements, and also stressed the importance of businesses offering higher-level apprenticeships.
- 2.16 LEP Board duly considered the proposals and consultation feedback above, including the benefits and risks of extending/adapting the approach to other grant programmes in the LEP's portfolio. Members of the LEP Board advocated an ambitious approach to inclusive growth which actively seeks appropriate levels of commitment from businesses in receipt of grants whilst also balancing the risk of added bureaucracy and unnecessary hurdles which might prevent businesses from engaging with the LEP.
- 2.17 LEP Board members suggested the use of case studies, awards and peer-to-peer influence as good methods of raising the profile of companies reaping the business benefits of employing inclusive growth practices, as also highlighted in the anchor institutions field. It was agreed to promote the commitments relating to employment opportunities for people with disabilities and/or health issues more strongly, and to ensure that the skills plan commitment includes workforce learning. Looking ahead, the Board considered the remit of grant programmes in supporting employment objectives and acknowledged the continued need for incentivising jobs growth in areas of high unemployment, whilst also testing out more productivity-led approaches linked to job quality in the current LEP Productivity Pilot.
- 2.18 A revised model for extending the principle of Inclusive Growth criteria and commitments to all LEP business grants was agreed by the LEP Board taking 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.
- 2.19 Those businesses receiving grants of between £10,000 and £24,999 will be expected, and supported, to deliver one commitment, albeit not as a grant condition, and commitments will be voluntary for 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. The proposals agreed by the LEP Board are set out at Appendix 1 and their application is summarised by grant programme at Appendix 2.

3. Inclusive Growth Implications

- 3.1 This policy makes a direct contribution to the inclusive growth agenda by seeking additional commitments from businesses to a range of inclusive growth actions, as well as incentivising payment of the real living wage, and extends its reach to more businesses than previously in scope.

4. Financial Implications

- 4.1 There will be financial implications arising from the recommendation to extend inclusive growth commitments more widely, such as the need for additional resource to monitor the delivery of the commitments to a much larger cohort of businesses.
- 4.2 Financial penalties could also be incurred from grant funding bodies if outputs, outcomes and expenditure targets are not met in the event of fewer businesses engaging with programmes, if the additional commitments act as a disincentive to participation to significant numbers of businesses.

5. Legal Implications

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

6. Staffing Implications

- 6.1 There will be additional staffing implications in a number of teams involved in promoting, contracting and monitoring the proposed approach across a larger range of grants, which would need to be monitored as the volume of grant commitments increases and resources would have to be reallocated from within existing programme budgets to address this.

7. External Consultees

- 7.1 No external consultations have taken place since the original market testing with businesses prior to the introduction of the approach. The report's recommendations were, however, previously considered by the BIG Panel on 26 February 2019, with members of the Inclusive Growth & Public Policy Panel on 1 March 2019 and Overview and Scrutiny Committee on 22 March, prior to the LEP Board decision on 26 March.

8. Recommendations

- 8.1 That the Combined Authority considers the progress to date on the implementation of the new Inclusive Growth criteria and commitments to the Business Growth Programme (BGP).

- 8.2 That the Combined Authority endorses the proposal to continue the approach to inclusive growth for recipients of business grants.
- 8.3 That the Combined Authority adopts the LEP Board's decision to extend the Inclusive Growth criteria and commitments to the full range of LEP business grants as set out in Appendices 1 and 2.
- 8.4 That the Combined Authority notes that the approach should be closely monitored for another six-month period.

9. Background Documents

None.

10. Appendices

Appendix 1 – Proposed inclusive growth criteria and commitments

Appendix 2 – List of LEP grant programmes and their contribution to Inclusive Growth