Appendix 1

BUSINESS GROWTH PROGRAMME

PROPOSED CHANGES TO CRITERIA AND GUIDANCE

1. Background

The Business Growth Programme (BGP) provides grant support of between £10,000 and £250,000 to eligible businesses towards capital related investment (plant, equipment, machinery and premises fit out/refurbishment) that leads to job creation. The programme provides a contribution of up to 20% of cost for small businesses (less than 50 employees) and 10% for both medium sized (50 - 249 employees) and large businesses (250 employees and above).

Since April 2015, the programme has been funded through the Local Growth Fund and currently runs until March 2021, with a total budget of £44.3 million. As of February 2019, £31.8 million had been offered to approximately 600 businesses, with 5,280 new jobs contracted for, against a programme target of 4,100 by March 2021. Actual expenditure as of February 2019 was £27.5 million, with 3,607 new jobs created. The Leeds City Region Enterprise Partnership's (LEP) Inclusive Growth principles have also been embedded in the programme since July 2018.

With demand for the programme still at a high level, budgets reducing and an increasing number of borderline applications being received, it is felt pertinent to review criteria and programme guidance to inform delivery for the remainder of the programme.

2. Sector Eligibility

Priority in terms of applications to the programme is given to companies operating in the LEP's key growth sectors and/or their direct supply chains, specifically:

- Healthcare and life sciences;
- Digital and creative;
- Low carbon and environmental;
- Manufacturing;
- Financial and professional services;
- Business to business services.

Applications from companies operating outside these sectors are currently considered on a case by case basis. As of February 2019 applications from businesses operating outside the key growth sectors represented 1.5% of all those received and awarded.

The highest volume of applications received from businesses operating outside the key growth sectors are from on-line retailers. To date, these have been considered on the basis that they have the ability to serve both national and international markets and where they will be creating a significant number of new jobs. Applications have also been accepted from companies operating outside the key growth sectors where there are significant regeneration benefits, for example, bringing a vacant or derelict building back into use, especially in a deprived ward within the City Region. Applications are not accepted from high street retailers or localised business to consumer services on the grounds of potential displacement.

At present, it is not proposed to make any changes to sector criteria, however this will be reviewed following the conclusion of the new Local Industrial Strategy. Until then, it is proposed that applications from on-line retailers will continue to be accepted where significant levels of new employment will be created, significant being defined as more than 50 new jobs.

3. Additionality/Added Value

The most common reason for the rejection of applications is around additionality/added value. All applications to the programme are appraised in line with Her Majesty's Treasury Green Book. This includes demonstrating additionality/added value, which is tested by one or more of the following:-

- The grant fills a funding gap;
- The grant accelerates an investment;
- The grant enables an investment to be made on a larger scale;
- The grant influences the location of an investment (where companies are considering competing locations outside the City Region).

All of the above incorporate an element of financial need. During financial year 2018/19 there has been an increasing number of applications being rejected in comparison to previous years on the grounds of lack of additionality/need for support. The key reasons for this being levels of cash at bank held by applicants and the amount of directors' remuneration and dividends taken.

There can be no prescriptive ceiling in terms of what is deemed to be reasonable in terms of levels of cash at bank held, as this will differ greatly by size of business, payment terms to which a business works and levels of working capital required. However, in terms of directors' remuneration and dividends, current guidelines limit it to a maximum of £150,000 per director/shareholder, per annum, averaged over a three year financial period. The average over three years is felt to be fair and is in place to reflect fluctuations a business may experience in trading performance, which normally has a consequent 'knock on' effect in terms of the levels of remuneration and dividends taken.

At present, programme guidance issued to applicants doesn't formally highlight the fact that levels of remuneration and dividends taken (in line with the threshold outlined above), along with levels of cash at bank held, could adversely affect the outcome of an application. **It is therefore proposed that programme guidance is updated to incorporate this and that the £150,000 pa remuneration/dividend threshold be adopted as policy going forward. The primary rationale behind this is to make businesses clearly aware of the policy at pre-application stage, which may**

influence their decision to submit an application, which in turn should lead to a lower number of rejections and subsequent appeals.

4. **Applications from Large Businesses**

Related to additionality/added value, an increasing number of enquiries and applications to the programme were received in 2018/19 from large businesses (over 250 employees) or businesses owned by a larger group. Whilst applications are accepted from large businesses, grant awards are capped at a maximum of 10% of eligible capital costs, in line with state aid regulations. In a number of cases in 2018/19 the grant request was below £50,000, which brings into question additionality.

It is therefore proposed that applications from large businesses continue to be accepted, but only where minimum total project costs are £750,000 or above, which equates to a minimum grant request of £75,000 and proposed new job numbers are at least 20.

5. **Productivity Focus**

With the City Region's productivity (Gross Value Added per hour worked) 86% of the national average, closing this gap would add £10 billion to the economy, which, at individual business level predominantly means investing in more technologically advanced equipment, not always requiring additional staff to generate greater levels of output.

In view of the strong presence of manufacturing firms in the city region's economy, the LEP's economic policy has increasingly focused on how to support those firms to become more productive, especially by investment in new technology, adopting the practices of Industrie 4.0 across supply chains and though increasing skill levels of workers in those firms.

Within the grant programme, increasing number of applications are from businesses requesting support towards fit out and refurbishment of new premises. As this has a lower alignment with the productivity agenda it brings into question the added value of continuing to support fit out and refurbishment works when grant availability is reducing. On that basis, a number of options are open, namely:

a) Make fit-out/refurbishment of premises ineligible for support on the grounds of limited additionality and lesser alignment with productivity drivers.
b) Only allow fit-out/refurbishment works as an eligible cost when they form part of a wider package of investment that also incorporates purchase of new plant and machinery, and where the latter represents at least 75% of total investment costs.
c) Continue to support fit-out/refurbishment works, but at a reduced contribution rate. For example, a 10% contribution as opposed to 20% (this could also be combined with option b above).

The recommendation is option a) for the reasons highlighted.

6. Multiple Applications

In September 2017, a multiple applications policy was introduced, which restricts businesses to the submission of three successful applications within a three-year period or receipt of a maximum of £250,000 over the same period. The primary rationale behind this was to encourage businesses to think more strategically about capital related investments planned over a 12 to 18 month period, rather than submitting multiple ad-hoc applications, and to facilitate take-up of the programme by a wider client group.

This policy has worked well and the options are to leave it unchanged or extend to four years in order to further limit the potential for multiple applications.

7. Appeals

Businesses who have their application rejected currently have the right to appeal in writing within two weeks of the decision being made. Appeals against decisions to reject applications up to and including £25,000 are considered by the Executive Head of Economic Services, with appeals from £25,001 to £250,000 considered by the Combined Authority's Managing Director.

It is proposed to work up a more explicit policy for appeals including specific grounds upon which they will be considered. It is recommended that officers will take forward this work with input from legal and governance colleagues and a further update will be provided in due course.

8. Next Steps

Following consultation with Business Investment Panel, the proposed changes will be considered by the Business Innovation and Growth Panel and LEP Board with a view to implementation by Autumn 2019.