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**Report to:** Business Innovation and Growth Panel

**Date:** 28 May 2019

**Subject:** **Business Productivity Activity**

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

- 1.1 To provide the Panel with an update on activity being undertaken to improve productivity and promote key characteristics of high performing firms, including the Local Enterprise Partnership's business basics project and productivity pilot.

## **2. Information**

### Background

- 2.1 As evidenced in its central position within the Local Inclusive Industrial Strategy, productivity is seen as both a key challenge and an opportunity for the Leeds City Region. The productivity gap between the City Region and the UK average, which is both significant and growing, was the first of four structural challenges identified by the LEP Board in 2017. Closing this gap could deliver £10bn to the region's economy.
- 2.2 The evidence base for Leeds City Region suggests that arguably the most significant productivity challenge for the region is in relation to the long-tail of low productivity businesses. Whilst there are significant pockets of highly productive businesses, compared to the UK as a whole, the City Region has a much greater number of businesses, regardless of sector or size, which underperform in terms of productivity. In this context, the work led by Sir Charlie Mayfield and the Productivity Leadership Council has also illustrated that the UK lags behind international comparators<sup>1</sup>. As the resilience of businesses post-Brexit will depend to a great extent on their ability to continue to compete in a new business environment, addressing this particular

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<sup>1</sup> <https://www.bethebusiness.com/wp-content/uploads/2018/04/how-good-is-your-business-really.pdf>

productivity challenge is key to future business growth and also living standards.

### Business basics

- 2.3 As previously discussed at the BIG Panel meeting in September 2018, the Combined Authority/LEP submitted a project bid to the Business Basics competition, funded by the Department for Business, Energy and Industrial Strategy (BEIS) and run by Innovate UK. The aim is 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. The submitted bid was focussed on testing how a data-led approach to targeting messages at low-mid productivity firms could increase awareness of relative productivity performance and of the support available to firms in the City Region to address this.
- 2.4 The project application was successful with delivery commencing in December 2018. The main focus of the project has been:
- Refining the existing data-led model that identifies firm-level productivity and characteristics to provide intelligence for targeting low to mid productivity firms
  - Designing a tailored marketing offer using behavioural insights (“nudge theory”), and firm-level relative productivity data identified through the data-led model, that can be emailed directly to businesses to encourage behaviour change.
  - Evaluating the effectiveness of the data-led model and tailored marketing with a small scale trial, utilising a sample of the identified low productivity firms and testing click-through rates to a minimum of two variants of the tailored marketing.
- 2.5 A number of important stages of the project have been completed to date as follows:
- Secured subcontractors with expertise in data analysis and behavioural insights
  - Refined the existing data model and provided new insights into firm level productivity characteristics
  - Workshop with behavioural insights team to develop initial messaging ideas.
  - Developed an outline approach to running the trial in line with control trial principles
- 2.6 Include more details on progress – including numbers from data

### Productivity pilot

- 2.7 The productivity pilot originates from a discussion at BIG Panel in March 2018, at which members expressed a strong view that more should be done to incentivise improved productivity as a condition of awarding capital grants, as opposed to purely job creation.

- 2.8 Following development by a working group, which included private sector members of the Panel, a senior representative of the Government's Cities and Local Growth Team and officers of the Combined Authority, it was agreed to trial a different approach with a £500,000 budget from within the Business Growth Programme (BGP) budget. This would be a pilot project following more of a competition model (akin to the Innovate UK approach) to incentivise productivity improvements within a small cohort of businesses, rather than requiring projects to lead to the creation of new jobs.

*Objectives of the pilot*

- 2.9 The key objectives for the pilot are to:

1. Improve productivity within a cohort of businesses in the City Region.
2. Gain a better understanding of the key productivity drivers for businesses and of effective ways to measure productivity at the firm-level.
3. Identify robust and meaningful interventions to boost productivity that could replace, and/or, supplement job creation as a condition for future support from the public purse.
4. Incentivise and support businesses to adopt a more proactive approach to improving productivity, including meaningful interventions and measurements tailored to their business needs.
5. Capture practical learning to directly inform future interventions to improve business productivity, understanding the different approaches depending on business size or sector.
6. Better meet the needs of businesses in the current economic climate, particularly manufacturers.
7. Build close working relationships with a cohort of businesses and monitor their productivity over a longer period.
8. Position the City Region at the forefront of developing policies and evidence-led interventions on business productivity.

*The pilot*

- 2.10 The pilot was run as a competition, with an Open Call inviting businesses to apply between 17 September and 14 December 2018. Applications were invited from businesses for grants of between £25,000 and £100,000 (with corresponding total project costs of between £125,000 and £1 million) to support capital investments leading to clearly-evidenced productivity improvements that will be undertaken between 1 February and 31 July 2019.
- 2.11 Applicants were asked to complete a 'Productivity Plan' which demonstrated how they currently measure productivity and what improvements will be achieved, and evidenced, within a 12-month period following the investment. Applicants were also asked to also set out other firm-level productivity interventions that will complement the capital investment and be delivered within an agreed period of up to 12 months. Examples could include commitment to achieve an industry or technical accreditation, undertake a

productivity-improvement activity, such as Lean Manufacturing or Six Sigma, or, upskill key employees to gain maximum benefit from the capital investment.

- 2.12 A total of 11 applications were received, with a total grant request of £687,050. Four were from Leeds-based businesses, two each from Barnsley, Bradford and Kirklees and one from Craven. Six applications were from small enterprises (fewer than 50 employees), three from medium enterprises (50-249 employees) and two from large businesses (250 or more employees). All applicant businesses were in the manufacturing/engineering sectors.
- 2.13 After initial screening by officers to confirm eligibility for the programme, the applications were considered by the Productivity Pilot Technical Appraisal Group (same as the Working Group membership referenced at 2.8) on 14 January 2019. Applications were scored based on the Productivity Plans submitted as part of their applications. Those scoring highest, and consequently being recommended for approval, were those best able to demonstrate how the investment(s) would lead to clearly measurable improvements in productivity, and then also set out a clear approach to capturing and reporting those improvements in the short and longer term.
- 2.14 Seven applications were recommended for approved (with a total grant value of £500,165), and four were recommended for rejection (with a total grant value of £186,885).
- 2.15 The recommendations of the appraisal panel were subsequently formally endorsed by the Combined Authority's Executive Head of Economic Services in February 2019.

#### *Early stage findings*

- 2.16 More detailed findings will be reported to the Panel when the majority of the investments are complete by the end of this summer. However, there are some initial common findings across the supported projects as follows :
- There is a demand for a product of this nature with applicants, and the wider manufacturing sector, welcoming the opportunity for grant support linked to productivity improvements, rather than job creation. In addition to the 11 applications received, there was significantly higher interest in the pilot, but not all projects met the defined timescales required for the pilot and therefore did not come forward as applications.
  - All applications were from businesses in the manufacturing / engineering sector, and most related to the development of new automated 'production 'cells' that aim to reduce waste and/or save time e.g. reduce / eliminate bottlenecks.
  - Applicant businesses all measure productivity in different ways which makes capturing outputs / outcomes at a programme level more challenging.

- At a project level, applicants have contracted to deliver operational and financial key performance indicators.
- All successful applicants were able to clearly identify additional firm-level productivity interventions to be delivered within an agreed period alongside, or shortly after, the capital investment e.g. training of specific employees and gaining industry supplier accreditation.
- Applicants receiving grant awards of £50,000 or above have also committed to additional Inclusive Growth commitments (as per the policy at the time of application), such as undertaking an energy audit, working with local schools, undertaking more sustainable green travel for employees, or, offering employment opportunities for those furthest from the labour market.

2.17 More detail on the projects supported is provided at Appendix 1.

### **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 staffing implications directly arising from this report.

### **6. External Consultees**

6.1 No external consultations have been undertaken.

### **7. Recommendations**

7.1 That the Panel notes progress on activity to improve business productivity, specifically the Business Basics Fund project and the Productivity Pilot.

### **8. Background Documents**

None.

### **9. Appendices**

Appendix 1 – Productivity Pilot Projects Summary