
Report to: Business Innovation and Growth Panel

Date: 10 September 2019

Subject: **Business Productivity Pilot**

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1 Purpose of this report

- 1.1** For the Panel to endorse the recommendation to deliver a second round of the Productivity Pilot, focussed on improving the productivity of businesses in receipt of capital investment grants from the LEP's Business Growth Programme (BGP). If endorsement is secured from the Panel, officers in the Combined Authority's / LEP's Business Support Team will progress delivery and provide the Panel with regular progress reports.

2 Information

Context

- 2.1** BGP provides grants of between £10,000 and £250,000 to support capital investment by businesses. There is a current contractual requirement for the businesses awarded grants to create new jobs at between £7,500-£12,500 per new job created, depending on the salary level (with the higher grant only available for businesses paying at least the Real Living Wage).
- 2.2** At its meeting in March 2018, the Panel 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.
- 2.3** Following development by a working group, which included private sector members of this Panel, a senior representative of the Cities and Local Growth Unit, and officers of the Combined Authority/LEP, it was agreed to trial a different approach with a ring-fenced budget of £500,000 from BGP. A Productivity Pilot was developed to incentivise productivity improvements within a small cohort of businesses, rather than requiring projects to lead to

the creation of new jobs. This clearly aligns with the productivity agenda and its prominence within the emerging Local Industrial Strategy.

Objectives of the pilot

2.4 The key objectives for the pilot were 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.

Key features of the pilot

2.5 Key features of the pilot included:

- 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. It was expected that the projects would be undertaken between 1 February and 31 July 2019, with evidence of the productivity improvements to be demonstrated by 31 July 2020.
- As part of the application process, applicants were asked to demonstrate how they currently measure productivity and what improvements they will make and evidence within a 12-month period following the investment.
- Applicants were also asked to use an Office of National Statistics calculator that measures output per worker, so that a consistent measure for productivity could be applied across all applicants and tracked through monitoring of projects.
- Although not mandatory, applicants were asked to commit to other firm-level productivity interventions such as commitment to achieve an industry or technical accreditation, and/or, commitment to a productivity-improvement

activity, such as Lean Manufacturing, Six Sigma or implementing Industry 4.0 activity.

- Although not required to create any new jobs, applicants were all asked to commit to maintaining at least existing employment levels.
- In order to monitor the productivity improvements, applicants were asked to commit to taking part in a longitudinal survey that will track their productivity via an agreed metric(s), such as output per worker, over a three-year period.

Outcomes of the pilot

2.6 A total of 11 applications were received, with a total grant request of £687,050. Seven applications were approved (with a total grant value of £500,165), and four were rejected (with a total grant value of £186,885).

2.7 Early stage findings from the pilot are.

- 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.

Future delivery options

2.8 The Panel is now asked to consider whether the LEP should deliver a second round of the Productivity Pilot in late 2019. The following options have been identified:

One	Ring-fence a further £500,000 from BGP to deliver a second round of the Productivity Pilot in autumn 2019
Two	Change the criteria for BGP to enable the standard programme to support projects leading to productivity improvements, as well as those creating new jobs
Three	Defer a decision until after the outcome on exiting the European Union (EU) is known

Option One

- 2.9 The working group envisaged that a further round of the Productivity Pilot would be launched in 2019, with the evidence from the first two rounds used to inform future policy in relation to the delivery of business grants. Circa £7m is left in the BGP budget to commit to businesses, so there is headroom within the budget to ring-fence £500,000 for a second round of the pilot.
- 2.10 This would allow further evidence gathering to support a future decision, and would provide a small grant fund that could immediately be more flexible in responding to business needs in the event of a no deal exit from the EU.

Option Two

- 2.11 BGP is funded through two programmes; the Business Growth Programme and Access to Capital Grants (A2CG). A2CG also match funds a number of other programmes, namely the Strategic Business Growth Programme, Access Innovation, Digital Enterprise and Ad:venture. At programme level, BGP is contracted to deliver 3,660 jobs with A2CG contracted to deliver 1,500 new jobs. The table below shows committed jobs (the number of jobs existing approved projects are committed to deliver) and actual jobs to date (to 30 June 2019) against the contractual targets. This includes 1,682 jobs safeguarded through the Business Flood Recovery Fund, which was also funded from the BGP budget.

Scheme	Contracted target number of jobs	Committed jobs	Actual jobs
BGP	3,660	6,287	4,595
A2CG	1,500	2,024	1,606

- 2.12 As the contracted target number of jobs has already been achieved on both BGP and A2CG, there could be some flexibility on how the remaining funds are used, subject to agreement with the Department for Business, Energy and Industrial Strategy (BEIS). This would enable a more flexible grant fund, better able to deal with current uncertainties in markets. However, the evidence from the first pilot to support this decision is limited at this stage.

Option Three

- 2.13 Given uncertainties in the current economic climate and around the possibility of a 'no deal' exit from the EU, a decision on whether to undertake option one or two could be delayed until the implications of an exit are better known.

- 2.14 This could allow the LEP and Combined Authority to respond more flexibly to the outcome of the exit. However, incentivising ongoing business investment will be critical from November 2019 onwards and a second round of the Productivity Pilot would support this.
- 2.15 It is recommended that option one is undertaken, to gather further evidence on the effectiveness of using capital grant funding to deliver business productivity improvements. The learning from the first two rounds of the Productivity Pilot would then be used to inform the future delivery of business grant programmes.
- 2.16 If this recommendation is taken forward, the findings of both pilots will be used to gain a better understanding of firm-level productivity, to explore what types of improvements to productivity can be supported through a publically-funded programme and to inform future interventions to stimulate and measure productivity improvements within businesses.
- 2.17 In consideration of the Combined Authority's declaration of a climate emergency, the Panel is asked to consider the extent to which clean growth considerations and principles should be embedded in a second pilot. This could include, for example, the requirement for all applicants to undertake a detailed resource efficiency assessment to determine the environmental impact of the investment project. This could be linked to the current and future Resource Efficiency Fund programmes to also identify carbon reduction activities that the applicant could undertake outside of the particular investment project. A key principle to test would be the causal impact of resource efficiency on productivity improvements.
- 2.18 Continuing to encourage, support and incentivise business investment is a key priority in the light of current uncertainty around the post-Brexit business environment.

Governance and Delivery

- 2.19 As with the first round, it is proposed that the working group assesses applications and makes recommendations to the LEP and Combined Authority for grant awards.
- 2.20 The Combined Authority's Business Support Team would be responsible for the overall delivery and monitoring of the second round of the pilot, with support from the Policy, Strategy and Communications Directorate.

Indicative Timescale

- 2.21 Subject to approval, the following table gives indicative timescales for the implementation of the pilot project.

Activity	Date
Call opens	1 November 2019
Deadline for applications	31 January 2020

Decisions on awards	28 February 2020
Timeframe for projects supported to be undertaken	March 2020 to September 2020
Longitudinal survey of grant-recipients	March 2020 to March 2022

3 Financial Implications

- 3.1 As set out in the report, a budget of £500,000 would be made available as a ring-fenced amount from the existing BGP budget. Circa £7m is left in the BGP budget to commit to businesses, so there is headroom within the budget to ring-fence £500,000 for a second round of the pilot and BEIS has previously agreed for it to be used for this purpose.

4 Legal Implications

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

5 Staffing Implications

- 5.1 As set out in the report, the staffing resource to implement and monitor the pilot would come from the existing Combined Authority Business Support Team.

6 External Consultees

- 6.1 No external consultation has been undertaken specifically on the proposed pilot. However, a number of businesses and other key stakeholders were consulted on the proposed changes to the BGP criteria that were approved at the March 2018 meetings of the Panel and the LEP Board. The need to address business productivity within the BGP was a clear outcome from that consultation process.

7 Recommendations

- 7.1 That the Panel endorses the recommendation to deliver a second round of the Productivity Pilot as detailed in 2.11, focussed on improving the productivity of businesses in receipt of capital investment grants from BGP. If endorsed, officers in the Business Support Team of the Combined Authority / LEP will progress delivery of the second pilot.

8 Background Documents

None.

9 Appendices

None.