
Report to: LEP Board

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Subject: **Business Productivity Programme**

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1. Purpose of this report

- 1.1 To note the continued development of a new Business Productivity Programme (BPP), following the endorsement of the Business, Economy and Innovation Committee at its inaugural meeting on 18 October 2021.
- 1.2 To provide feedback on the work undertaken to date in order to inform the ongoing development of the programme.

2. Information

Strategic Fit and Policy Drivers

- 2.1 At their meeting in September 2021, the Combined Authority considered the refresh of the West Yorkshire Economic Recovery Plan¹ and endorsed the interlinked Business Productivity and Resilience Plan², which had been led by the former Business Innovation and Growth Panel of the Leeds City Region Enterprise Partnership.
- 2.2 Across these strategic documents, the importance of business productivity to the recovery and future strong economic performance of West Yorkshire was a central theme, recognising that even before COVID-19 there was an £8.5 billion productivity gap between West Yorkshire and the UK average, impacting on living standards and widening inequalities. This is a challenge that exists at the firm level across sectors and geographies within the region.

¹ <https://westyorkshire.moderngov.co.uk/documents/s21942/Item%205%20-%20Appendix%201%20-%20Draft%20West%20Yorkshire%20Economic%20Recovery%20Plan.pdf>

² <https://westyorkshire.moderngov.co.uk/documents/s21945/Item%206%20-%20Appendix%201%20-%20Draft%20Business%20Productivity%20and%20Resilience%20Plan.pdf>

2.3 Improving business productivity has therefore been highlighted as a key objective of Investment Priority 1 of the West Yorkshire (WY) Strategic Investment Framework is 'Good Jobs and Resilient Businesses'. To achieve this, our future investments into business support will need to respond to the key business behaviours that are recognised to improve productivity as identified in the evidence of the Business Productivity and Resilience Plan, namely:

- Improving strategic decision making and planning
- Increasing the number of highly skilled managers and staff
- Increasing adoption of new innovative practices
- Increasing the value and volume of exports
- Increasing the prevalence of Good Work

2.4 In addition to focussing on those key business behaviours, our future investments in business support will also need to respond to the operating principles of the Strategic Investment Framework, principally: support inclusive growth, our climate emergency ambitions, drive social value, tackle market failure, maximise value for money and provide different kinds of return to the SIF.

Designing a new Business Productivity Programme

2.5 In response to the policy drivers outlined above, and using the intelligence gathered across the Growth Service and with partners on the current conditions for business as we emerge from the dual impacts of COVID-19 restrictions and EU Exit implications, detailed development work on a new Business Productivity Programme (BPP) to be delivered from April 2022 is now underway. This has been informed by ongoing consultation with the West Yorkshire Made Smarter Board (private, public and academic sector representation), with the manufacturing alliances active in the sub-region, and with the Economic Development teams of the West Yorkshire Local Authorities.

2.6 The development of the BPP to date also builds on the lessons learned from the most impactful aspects of current and previous investment and advisory support for SMEs, particularly the Business Growth Programme (BGP), #Grow & #Welcome, the Productivity Pilots, Investment Readiness, Strategic Business Growth and Manufacturing Champions (see footer below for brief descriptions), as evidenced by external evaluations including on the Local Growth Deal³. For example, the need to support SMEs with advice on how to

³ The BGP provides capital investment grants to businesses linked to job creation, #Grow & #Welcome provide capital investment grants to existing & inward-investing creative & digital businesses, Productivity Pilots 1 & 2 provided capital investment grants to businesses that could demonstrate productivity improvements, Investment Readiness provides businesses with advice & support on how to secure external commercial investment, Strategic Business Growth provides

measure and track productivity improvements, the importance and effectiveness of building partnerships with public and private sector organisations, the importance of securing more additionality and less deadweight on grant awards through robust testing of whether investments would progress with or without funding, and the need for a broader set of outcomes, including on Inclusive Growth and Equality and Diversity, to justify public investment (particularly if supported businesses are not intending to create new jobs).

- 2.7 Although it is recognised that the proposed programme needs to encompass a significant number of new elements to meet the current needs and priorities of the region, the most recent independent evaluation of the BGP does provide some good evidence of potential impacts of the new programme. The study, undertaken by Warwick Economics, found that from 2014-2021, 6,225 jobs were created and 1,697 were safeguarded. Furthermore, £41.5m was invested in grants to over 800 businesses, which leveraged over £300m of private sector investment. In terms of outcomes, the evaluation presented strong additionality for the BGP, with 24% of the individual projects not progressing at all without the programme, 33% progressing but on a smaller scale and 36% progressing but over a longer period. The evaluation also stated that the programme resulted in a Net Gross Value Added (GVA) increase of £238 million, and that 82% of businesses reported improvements in productivity and turnover.
- 2.8 The BGP formed a major part of Priority 1 of the Growth Deal for Leeds City Region. A recent independent evaluation of the Growth Deal concluded that for Priority 1, the £60.4 million investment leveraged a further public investment of around £28 million and private investment of around £357 million, meaning the overall value of delivering assets and support to businesses was in the order of £445 million. In addition, it concluded that over the lifetime of the programme, Priority 1 investments will create 4,800 net additional jobs and generate almost £2.5b in net additional GVA. Furthermore, Priority 1 projects are forecast to deliver a benefit cost ratio of 25:1 based on the full public sector cost.
- 2.9 In terms of the impact of programmes that focus primarily on advice for businesses and not just investment, the most recent evaluation of the Strategic Business Growth Programme by RSM provides a good example for comparison to the above. It reported the following outcomes and impact: - 85% of businesses experienced an increase in sales turnover; 95% of the businesses on-boarded in 2017 have experienced increased turnover and headcount. Furthermore, GVA and exports impacts based on data collected from a random sample of 75 businesses on the programme indicated an increase in GVA of £16,439,730 and an increase in exporting activity valued at

strategic planning advice and investment to high-growth SMEs, Manufacturing Champions provides an intensive package of advisory support, tech-adoption and investment to SME manufacturers with high growth potential

£18,454,781. When extrapolated to cover full programme collection, GVA benefits increased to £72,334,811 and exporting benefits increased to £81,201,036. It is important to stress that these outcomes may not be wholly attributable to the programme.

2.10 Some of the main considerations that have informed the development of the programme to date are set out below, and feedback on these from Board Members is welcomed:

- How can public investment best support improved productivity performance of businesses in economic recovery?
- What gaps are there in delivery of support for the business productivity behaviours?
- What does the intelligence from businesses tell us support is most needed for? e.g. advice and guidance, capital investment, revenue-based grant investment.
- How do we measure the impact of a scheme supporting productivity and what conditions would we place on support?
- What conditions of support deliver best value for money and address market failure?
- How does support incorporate equality, diversity and inclusion targets, and ensure that those targets can be met?
- How do we target businesses across our geography that would most benefit from the support, rather than attract those most aware of the public offer?
- How do we best utilise existing infrastructure – including the SME Growth Managers in the Local Authorities, business networks and key influencers – to deliver support?

Progress to date on the BPP

2.11 The following points set out the development work undertaken to date on the potential key features of the new programme. Board Members are requested to consider these and to provide any feedback, accepting that the conditions associated with any future funding sources may further influence the programme's future design and delivery:

- A framework to maximise the numbers of businesses that can be supported across West Yorkshire, and one that only supports repeat-business that correlates to the different stages of growth for businesses, and/or, the need and opportunity to effect positive behaviour change;
- A focus on engaging with businesses that have been underrepresented in programmes to date. For example, those led by women or people from minority backgrounds, and/or, in sectors that have not been supported previously due to funding criteria e.g. Business-to-Consumer;
- An integrated package of advisory and financial support for SMEs across West Yorkshire to help them improve productivity;
- Focussed on searching out SMEs across all sectors with up to 100 staff based in West Yorkshire, with tiered intervention rates linked to the size

of business and potential for positive impact on growth, climate and inclusion;

- Financial support with SME grant or loan investment (between £2,500 and £100,000) that supports strategic productivity growth plans primarily for the innovation & adoption of new technologies and introduction of enhanced business processes, reduce carbon emissions and the securing of Inclusive Growth contributions;
- Businesses in receipt of investment supported to join the 'Fair Work Charter', pay the Real Living Wage and attain quality / industry accreditations. Measures to support inclusive growth to be a part of every award and to be reflected in the programme's targets;
- Provide direct access to advice and funding on resource/energy efficiency, recycling & reuse, sustainable & active travel, exporting (new, novice and more experienced) and strategic business planning for growth;
- Active engagement with networks, intermediaries in the private, academic and third sectors and key influencers to raise awareness and take-up of the programme from equality groups, particularly ethnic minority and female-led SMEs, and
- Utilise a mixed delivery model with CA staff undertaking grant-appraisal, service & contract management and quality assurance, with SME Growth Managers employed by the Local Authorities providing client-engagement, account-management and referral routes into the programme, and with the private and/or academic sectors providing procured technical expertise on benchmarking and measuring productivity, and on implementing new processes.

Feedback from the Business, Economy & Innovation Committee

- 2.12 The BEIC considered a report on the BPP at its inaugural meeting on 18 October 2021. There was unanimous support for the programme to be further developed and to be delivered from April 2022 onwards as a key part of the SME support offer in West Yorkshire. Committee members made the following specific points that have informed the ongoing development and design of the programme: -
- I. Supporting SMEs to improve productivity is critical in terms of economic recovery and growth. Therefore, the programme is very much needed.
 - II. Grants as opposed to loans are most suited to this type of programme and its associated interventions, particularly because the resource requirements of delivering a loan fund with such small amounts would be prohibitively high and because other commercial loan funds (with private and public backing) already operate in this market.
 - III. The Business Growth Programme (BGP) was very successful in unlocking SME investment and creating new jobs, but job creation is not as much of a priority in the current climate. Therefore, it is important to have other clear and measurable outcomes from grant-awards, such as upskilling the lowest paid and lowest qualified staff, contributing to Net Zero and to wider Inclusive Growth priorities.

- IV. Measuring and reporting productivity improvements is difficult, particularly for smaller businesses, therefore, hands-on expert support will be needed.
- V. Support for SME-manufacturers to adopt new technology and build internal production capacity is needed in the current climate i.e. challenges related to supply chain fragility and rising transport and utilities costs, and in relation to setting out their plans for reaching Net Zero.
- VI. The programme will be important in terms of contributing to the Mayoral pledges on Supporting Local Businesses and the Manufacturing Task Force, and could be a vehicle for taking forward the Made Smarter programme in the region, following the recent announcement in the Spending Review of an additional £24m nationally.
- VII. As with the current BGP, the new programme will be a vital tool for the 20 SME Growth Managers to engage with businesses, build trusted relationships with them and then be in stronger positions to effect positive behaviour change and growth in such areas as Net Zero, Inclusive Growth, International Trade and Innovation.
- VIII. There is strong support for the programme from Local Authorities in the region as it has potential to support SMEs across all districts in proportion to, or above, the overall SME stock per district e.g. Calderdale has circa 9% of SMEs and has accessed circa 14% of BGP funding, whilst the respective figures in Kirklees are 14% and 19%
- IX. In response to a question related to demand, it was confirmed that there is a healthy pipeline of SMEs (circa 100) across all districts of the region with expansion projects requesting grant investment, and this level of high demand is expected to continue into 2022/23.
- X. As above, it was confirmed that there is delivery infrastructure in place now across the Local Authorities and the CA to move forward on the programme, if funding can be identified.
- XI. In response to a question related to the amount of funding required to deliver a meaningful programme, it was confirmed that the optimum amount would be between £4m and £6m per year.

Next Steps

- 2.13 The Board's views on the features of the new programme and its proposed delivery are welcome. The received comments will support the ongoing development of the strategic outline and full business cases that will be used to secure funding for delivery from April 2022 onwards.

3. Tackling the Climate Emergency Implications

- 3.1 The BPP will support SMEs to invest in new digital technology that will improve efficiency and reduce carbon emissions and waste. It will provide SMEs with direct access to expert advice and guidance on recycling and reuse, energy efficiency and sustainable / active travel. In addition, the BPP will support SMEs to look at the sustainability and diversity of their supply chains (which could reduce carbon emissions and improve footprints) and, where appropriate, implement circular economy principles.

4. Inclusive Growth Implications

- 4.1 It is proposed that SMEs awarded grants of over £25k would be required as a condition of their funding agreements to commit to at least one Inclusive Growth (IG) contribution, and those that are awarded grants of below £25k would be encouraged and supported to do so. Examples of IG contributions could include, upskilling lowest paid employees, providing work placements for people disadvantaged in the labour market, working actively with a local school to inspire the future generation of employees, and implementing sustainable / active travel projects for staff. In addition, all SMEs supported by the BPP could be encouraged to attain the Fair Work Charter and pay staff at least the Real Living Wage.
- 4.2 Active engagement with networks, intermediaries from the private and third sectors and key influencers will be undertaken to raise awareness and take-up of the programme from a more diverse range of businesses, including those led by equality groups and those not previously supported by the CA / LEP. For example, ongoing work with the Yorkshire Asian Business Association (YABA) and the Asian Standard, and engagement with the BAME Committee of the West & North Yorkshire Chamber of Commerce and the Women in Business initiative.

5. Equality and Diversity Implications

- 5.1 The programme will be promoted to all businesses in West Yorkshire, particularly those that have not previously engaged with business support available from the CA / LEP and the wider public sector. This would be aided by ongoing engagement with key business networks and initiatives, such as the Women in Enterprise initiative, the Yorkshire Asian Business Association and the BAME Committee of the West & North Yorkshire Chamber of Commerce. The support would also be proactively promoted via such vehicles as the Asian Standard publication and several radio stations with good reach into equality groups. It would also continue to build strong and trusted working relationships with key influencers who have access to businesses from certain ethnic minority backgrounds. This has been successful on the Business Growth Programme, in particular, which saw take-up of circa 12% from BAME-led businesses in 2020/21.

6. Financial Implications

- 6.1 There are no financial implications directly arising from this report.

7. Legal Implications

- 7.1 There are no current legal implications directly arising from this report, although legal advice would be required in relation to the new UK Subsidy Controls framework.

8. Staffing Implications

8.1 There are no staffing implications directly arising from this report, although delivery of the BPP does impact on several staff members in the CA's Business Support team.

9. External Consultees

9.1 Previous consultation with the former Business Innovation and Growth Panel and the Business Investment Panel have influenced early-stage work on a potential BPP.

10. Recommendations

10.1 That the Committee provides input to the potential for a new Business Productivity Programme (BPP), in particular providing views on the points and questions outlined at 2.7 and 2.8.

11. Background Documents

None.

12. Appendices

None