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Report to: LEP Board

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Subject: Flexing Economic Services to Deliver Inclusive Growth Outcomes

1 Purpose

- 1.1 To consult the LEP Board on the proposal to target inclusive growth outcomes through the use of more stretching and proportionate criteria to the grants awarded to businesses.
- 1.2 The report also describes the ongoing testing and consultation with private sector partners, including previous grant-recipients, to ensure desired impacts are achieved.

2 Information

- 2.1 The vision in the current Strategic Economic Plan includes good growth delivering high levels of prosperity, jobs and quality of life for everyone. The LEP and West Yorkshire Combined Authority (WYCA) established an inclusive growth project in November 2016 as the post-crash 'recovery' coincided with parts of society feeling economically insecure, that they had not benefitted from globalisation and vulnerable to further public sector austerity.
- 2.2 Inclusive growth is where everyone contributes to, and benefits from, growth. The WYCA received a report¹ in August 2017 on how the city region might more explicitly target its policy and programmes to inclusive growth outcomes – such as increase earnings of workers at the 20th percentile of the earnings distribution (i.e. £8.26 p/hr in the LCR) faster than those at the median (i.e. £14.83 p/hr in the LCR). Resolutions included:
 - a) Driving a single, bold top-level city region strategy owned by both the LEP and WYCA, with inclusive growth at its core. This will reflect the government's emerging approach to industrial strategy, and the particular challenges and opportunities in the Leeds City Region;
 - b) Agreeing in principle to review WYCA programmes to take account of inclusive growth, subject to the conditions on delegated funding.

- 2.3 Since then, the WYCA/LEP have:

¹ See <http://westyorkshire.moderngov.co.uk/documents/s3382/Item%20%20-%20City%20Region%20Policy%20and%20Funding%20Framework%20for%20Inc%20Growth.pdf>

- Set bold ambitions for a local inclusive industrial strategy to address four key challenges identified by the LEP Board’s September away day:
 - i. The productivity gap is widening;
 - ii. R&D activity and investment (particularly private sector) is too low;
 - iii. Improving living standards have stalled; and,
 - iv. Stubborn deprivation persists.
- Reviewed existing programmes with a view to flexing them to make a bigger impact for those suffering the greatest disadvantage. This includes Economic Services, and its programme of grants, which is discussed further below.

2.4 Launched in July 2015, the LEP Growth Service (Growth Hub) is the access point for all publically-funded support in Leeds City Region that can help businesses to grow. To date, it has supported some 4,600 businesses, 1,500 of which have received ongoing intensive support from the team of 13 SME Growth Managers. The service diagnoses the needs of growing SMEs and then links them to the most appropriate support based on their position in the growth cycle. This is often access to finance and results in the firms submitting applications to the LEP Capital Grants programme.

2.5 The LEP/WYCA is working closely with BEIS and other LEPs/Growth Hubs on the future of the service. This includes setting principles about how Growth Hubs can more effectively engage with growth-oriented businesses and support them to be more productive. The blueprint builds upon the service’s existing core offer of IDB (Information, Diagnosis and Brokerage) and our ambition to focus on drivers of productivity and competitiveness like Innovation/R&D, International Trade, Access to Finance and Skills.

2.6 The LEP Capital Grants programme was launched in February 2013 with a focus on job creation. Since then unemployment has fallen by 43% (from 125,000 people to 71,000), while there has been an increase in in-work poverty (JRF; Dec 2016²). There is, therefore, a need to focus on the *quality* of jobs created (skills levels, progression opportunities, wages) as well as the *quantity*. Part of the answer lies in using the leverage of the LEP’s grants for businesses to create and safeguard better, as well as more, jobs.

2.7 The Board now has the opportunity to recommend a more stretching yet proportionate approach to the capital grants programme based on the detail in **Appendix 1**. Recalibrating the criteria and conditions for grants fits the inclusive industrial strategy policy framework, and the importance of addressing the growing productivity gap. For example, a more stretching threshold for higher paying jobs (i.e. those paying at least the Living Wage Foundation rate of £8.75 p/hr), incentivises businesses to create more productive roles – albeit there might be fewer of them

² <https://www.jrf.org.uk/report/monitoring-poverty-and-social-exclusion-2016>

compared to previous criteria. **Appendix 2** provides more information on the current National Living Wage and Real Living Wage.

- 2.8 There will be a reduction in the amount of grant funding available from April 2018 onwards, meaning fewer businesses in the city region will be supported. Therefore, introducing revised inclusive growth criteria could be advantageous in terms of targeting reduced resources and realising better returns on our investments. The two main operational challenges from the revised approach will be continuing to deliver the programme in a business-friendly manner and ensuring systematic understanding of impact. For example, increasing skills and wage levels of existing employees are important impacts, but can be less identifiable as new jobs.
- 2.9 It is important to strike the right balance between incentivising 'inclusive growth' decisions from businesses without being disproportionate. Three operational factors can help with this situation:
- first, informal testing with businesses who use the Hub and discussion via the Business Communications Group;
 - second, it is proposed that all recipients of capital grants worth over £10K will deliver some inclusive growth outcomes, but that the level of contribution will increase in proportion to the amount of grant awarded i.e. a progressive approach with more expected from those receiving over £50K; and,
 - third, making sure that businesses are supported to access products and services to help deliver the required inclusive growth outcomes. The LEP/WYCA is well-placed to support businesses with the latter e.g. Apprenticeships, Enterprise Education and Travel Plan Network.
- 2.10 Views are sought from the LEP Board on the proposed new criteria (Appendix 1).
- 2.11 WYCA's Consultation Team recently sent a survey to over 150 businesses that have received grants of over £50,000 from the LEP in the last three years. This is seeking feedback from the businesses on the proposed new approach and criteria, whilst also reinforcing the connection between career progression and productivity improvements. Further consultation with businesses that have previously received LEP grants of under £50K, and with businesses that have not received any LEP grants to date, will also take place in early 2018.
- 2.12 Initial headline findings from the questionnaire-respondents, and feedback on the proposed approach from both the Business, Innovation and Growth Panel and the Business Investment Panel (both of which also considered the proposed approach and criteria at their respective meetings in December 2017), are set out below. This falls into two broad categories which could be defined as 'supportive with amendments' and 'issues to consider':-

Supportive with amendments

- I. Broad support for the Inclusive Growth agenda and for the importance of ongoing staff development to boost productivity;
- II. supportive of a proportionate approach i.e. the higher the grant, the more Inclusive Growth outcomes expected;
- III. businesses may respond more favourably if a 'carrot and stick' approach is used i.e. higher grants for higher paid jobs and vice-versa;
- IV. there are other desired behaviours of businesses in receipt of the larger grants that could contribute positively to the agenda e.g. paying small suppliers on 30 day terms;
- V. businesses are keen to engage with the various workstreams listed at 2.3 on the attached Appendix 1 (particularly recruiting apprentices and working with local schools/colleges), but need to be given clear and straightforward support to do so;
- VI. businesses should also be able to put forward their own additional inclusive growth outcomes for consideration amongst those set out at 2.3 in Appendix 1;
- VII. a broader range of outputs/outcomes are needed for grant-awards as job creation alone is too narrow and restricting, particularly when employment levels are high. The upskilling of existing employees should be considered, along with any indicators of increased productivity;
- VIII. the eligibility requirements for key sectors/supply chains and B2C businesses should be reviewed in the content of current policy and e-commerce business models; and
- IX. it is important, however, that the outputs/outcomes can be communicated, measured and monitored in a consistent and effective manner.

Issues to consider

- I. Certain sectors that more typically pay lower wages (under the Living Wage Foundation rate of £8.75 per hour) to high proportions of their workforces could be excluded from future support. Such sectors, which include Food and Drink, Manufacturing and Logistics and Tourism, employ large numbers in the city region and are important economic contributors;
- II. following on from the above, there is a possibility that support will be limited to sectors and sub-sectors that are already more likely to pay above-average salaries, which could exclude those in most need of support;
- III. paying new employees £8.75 per hour could result in disharmony amongst workforces if existing employees do not get paid the same rate;
- IV. consideration should be given to the fact that some employees prefer to be on zero hours contracts;
- V. implementation of the approach to the Living Wage for awards over £250k as set out within Appendix 1 could exclude future significant inward investment and indigenous business growth projects, thus risking loss of new jobs to other locations e.g. a recent major business expansion project in Calderdale would not have received grant-support under the proposed criteria; and

VI. the business community would expect the public sector to also implement the proposed approach to the Living Wage, including with its major contractors and supply chains.

2.13 The above was also informed by the Professionals' Perspective workshop hosted by the CA/LEP in November 2017. This had senior representation from several banks, as well as leading legal and accountancy practices, and focussed on Inclusive Growth and the UK's current productivity challenge.

2.14 Further findings from the questionnaires and feedback from the LEP Board will be used to refine the proposed criteria and policy approach. This will then be considered again by the BIG Panel in March 2018, with a view to concluding agreement and moving to implementation in 2018/19.

3 Recommendations

3.1 That the LEP Board considers and comments on the proposal that more stretching inclusive growth conditions are set for the programme of grants to ensure jobs created and/or safeguarded are of a better quality, and can support career progression within businesses.

3.2 That a broader range of inclusive growth outcomes are requested from businesses in receipt of larger grants, including work with schools, providing local supply chain opportunities and adopting sustainable travel planning.

3.3 That the BIG Panel is requested to work up the proposals further in the light of feedback and further consultation and to bring back revised proposals in due course.