

Report to: West Yorkshire Combined Authority

Date: 10 May 2018

Subject: **Inclusive Growth outcomes from the Business Growth Programme**

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Is this a key decision?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Is the decision eligible for call-in by Scrutiny?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the report contain confidential or exempt information or appendices?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, state paragraph number of Schedule 12A, Local Government Act 1972, Part 1:	

1 Purpose of this report

- 1.1 To endorse the LEP Board's decision to adopt the revised criteria and associated conditions for awarding grants to businesses from the LEP/Combined Authority's Business Growth Programme (BGP), commencing from July 2018.

2 Information

- 2.1 The City Region's approach to a local inclusive industrial strategy aims to tackle the growing productivity gap and sustainably improves living standards for all. This extends to using the Combined Authority's economic services – including the BGP – to incentivise businesses to grow in a way that delivers inclusive growth.

2.2 As context:

- There is significant in-work poverty, where one in four jobs in the City Region pays below the real living wage (£8.75 per hour) and 165,000 households with someone in work in the City Region (one in five) rely on in-work tax credits to top-up pay.

- Government policy implies increasing the national living wage (£7.83 for over 25s as of April 2018) to around £8.57 by 2020¹ and requiring employers and staff to contribute more to auto enrolment pensions.
- 2.3 By introducing stretching inclusive growth outcomes for the BGP, the LEP targets its limited public support at those businesses seeking to 'get ahead of the curve' on matters like paying the 'real living wage', providing training and supporting employees with disabilities.

Consultation to date

- 2.4 The LEP is mindful of the need to ensure that the measures proposed are acceptable to small businesses and will not place an undue burden on their operations. To this end, a workshop was hosted in November 2017 with representatives of prominent private sector intermediaries in the City Region, including accountants, banks and legal companies (known as the 'Professionals' Perspective'). Attendees were consulted on the proposed changes to the grant criteria, and also provided valuable feedback from their own perspectives and those of their clients and customers. There was strong consensus amongst attendees of the importance of prompt payment to small businesses.
- 2.5 To gather direct feedback on the proposals from SMEs, a survey of businesses in the Leeds City Region that have previously been awarded grants was undertaken in late 2017/early 2018. 25 businesses responded by completing a detailed questionnaire on the revised draft criteria and associated conditions. One specific question was whether the revised criteria would have deterred businesses from applying for the grant.
- 2.6 The LEP Board's January 2018 meeting provided feedback on the revised criteria and associated conditions, which were noted subject to further consultation. The same documents were previously considered by the Business Investment Panel in December 2017, and by the Business, Innovation and Growth (BIG) Panel in December 2017 and March 2018, with feedback also noted.
- 2.7 Following the above meetings, a final version of the revised criteria and associated conditions was again considered by the LEP Board at its meeting on 27 March 2018. This meeting approved the revised criteria and associated conditions, but emphasised the importance of making the application, appraisal and monitoring processes as straightforward and business-friendly as possible.
- 2.8 As an extension of its appraisal function on large capital grant applications, the Business Investment Panel will advise the LEP/Combined Authority on the application of the revised criteria and associated conditions.

¹ <https://www.gov.uk/government/news/largest-rise-in-national-minimum-wage-rates-for-young-people-in-a-decade>

Consultation Findings

- 2.9 The main findings from the above consultation and business engagement are that there is strong support for the inclusive growth agenda and its underpinning principles, and for encouraging employers of all sizes to invest in their lower-paid staff and facilitate career progression.
- 2.10 There is a consensus that the LEP and the Combined Authority should realise increased inclusive growth outcomes and benefits from the grants awarded to businesses in the City Region. However, there is also a clear view that support for the new approach should be proportionate depending on the size of the business and of the grant i.e. businesses in receipt of larger grants should deliver the most inclusive growth outcomes.
- 2.11 Paying the 'real living wage' is regarded as the main barrier for businesses in terms of implementing all of the proposed changes. This is primarily because of the cost implications in sectors with typically low margins. Furthermore, there is strong support for incentivising businesses to deliver more inclusive growth outcomes, but without excluding certain sectors or sub-sectors.
- 2.12 Other common views from the consultation include the importance of grant-recipients making a commitment to prompt payment of their small business suppliers, and the need to improve the link between grants and increased productivity. This is particularly important for manufacturers that may be investing in productivity measures without necessarily increasing headcount in the business.
- 2.13 The headline findings from the questionnaire with businesses were as follows:-
- 72% agree that the LEP/Combined Authority is right to look at ways in which businesses can support the inclusive growth aims.
 - 56% of businesses already are, or have plans to, become a Living Wage employer within two years.
 - 32% would be inclined in principle to committing to become a Living Wage employer within two years.
 - 44% of businesses would not be deterred from applying for a grant if the new conditions were introduced, 24% would be put off and 32% were unsure.
 - Most businesses would welcome support from the LEP/Combined Authority to deliver more inclusive growth outcomes e.g. through skills plans and apprenticeships, working with schools, training lower paid staff, undertaking a supply chain audit etc.
 - The conditions that most businesses would be inclined to commit to were developing a skills plan and working with schools, whilst the ones they were least inclined to commit to were offering work opportunities to local people with disabilities or health issues and offering more sustainable green travel options. The main reason for this was lack of awareness of the support available to undertake such activities.

2.14 There were several areas of risk raised during the consultation process from both the businesses that responded to the questionnaire, and the private and public sector members of the two panels and the LEP Board. These were as follows:-

- The sectors that typically employ staff on lower salaries could be those most excluded from future grant-funding e.g. food and drink, some parts of the manufacturing sector, warehousing and distribution.
- Margins within these sectors are very tight, which will make it difficult for businesses to pay the 'real living wage' and remain competitive or even viable.
- The above sectors also employ large numbers in the Leeds City Region and are particularly prevalent in certain areas of Kirklees, Bradford and Wakefield.
- Recent analysis of grants awarded to 138 businesses over the last 12 months shows that 42% of the jobs created (totalling 466) were below the 'real living wage' rate of £8.75 per hour and, therefore, would not have been supported if the new criteria had been in use. The businesses in receipt of these grants include some of the City Region's most established and innovative manufacturers.
- Grant awards are a recognised and proven way for the public sector to build strong, lasting and mutually-beneficial relationships with key employers. Therefore, there is a risk that some of these relationships will not progress and flourish if some businesses are deterred from applying for grants.
- There is a potential reputational risk for the LEP/Combined Authority if the public sector is perceived to be influencing wage policy within the private sector, and is not adopting the same policies within its own organisations and supply chains.

Business Productivity

2.15 A common response from the consultation was the need to identify an effective, robust and deliverable way to support businesses with grant-funding for capital investment projects that are improving their productivity, without necessarily creating new jobs. To this end, the LEP has established a small working group, with representation from businesses in the City Region, to take it work forward at the local level. The group will report progress to the LEP Board and the BIG Panel.

2.16 The working group had its first meeting in April 2018 and considered the design and implementation of a pilot project on productivity. This could include a ring-fenced amount of funding from the BGP budget to support a number of capital investment projects where productivity commitments would replace the requirement for increased jobs. Further work is underway to develop the precise delivery model for the pilot, but it could include the applicants committing to recognised national and/or industry accreditations linked to productivity gains, such as ISO9001, Lean or Six Sigma.

- 2.17 Further consideration will be undertaken into how the new criteria and associated conditions approach might be applied to strategic inward investment projects. This will include more detailed analysis of projects supported to date and those in the pipeline.

Conclusions and proposed revised approach

- 2.18 The overall conclusion of the consultation and business engagement activity to date is that there is strong support for introducing the proposed new criteria and conditions.
- 2.19 The main area of concern for some businesses and other stakeholders was the original proposal to pay the 'real living wage' for all new jobs created as a result of investment projects supported by grants. This was primarily because of the potential for certain sectors, sub-sectors and parts of the City Region to be excluded from grant-funding and from engaging meaningfully with the LEP/Combined Authority.
- 2.20 Therefore, it is proposed that the new criteria incorporate an 'incentive element' that provides more funding per new job paying the 'real living wage', and less funding per new job paying the National Minimum Wage. This revised approach is set out in more detail within **Appendix 1** and addresses the feedback to ensure that small businesses in lower wage sectors can continue to apply for business grants, whilst incentivising those who pay more to their staff.
- 2.21 It is proposed to roll out this approach and review after six months to check its effectiveness and impact on SMEs, including grant take up rates amongst smaller businesses.

3 Inclusive Growth Implications

- 3.1 The proposed changes set out within the report aim to improve inclusive growth within the City Region by encouraging, incentivising and supporting businesses to pay higher wages and invest in their current and future employees.

4 Financial Implications

- 4.1 Implementation of the revised criteria could reduce the amount of Local Growth Fund expenditure via the BGP in coming years. However, this should be balanced by the reduced amount of available funding within the BGP up to 2021, compared to the previous three years.

5 Legal Implications

- 5.1 Implementation of the revised criteria would require additional legal resource due to the inclusion of new clauses in funding agreements with the grant-recipients related to the inclusive growth outcomes.

6 Staffing Implications

- 6.1 Implementation of the revised criteria would require a modest level of additional staff time within the Combined Authority to ensure that the proposed inclusive growth outcomes are appraised, monitored and reported for each grant award over the £50k threshold, i.e. circa 20-25 grants per annum.
- 6.2 For the smaller awards up to £50k, the grants team would continue to track the wage rates of jobs created with the grant funding, as they do currently, to check that they are in line with the grant conditions stipulated, prior to final payment.

7 External Consultees

- 7.1 Please see 2.4 to 2.13 above for detail of the consultation undertaken to date.

8 Recommendations

- 8.1 That the Combined Authority endorses the LEP Board's decision to adopt the revised criteria and associated conditions for awarding grants from the Business Growth Programme (BGP) as set out within Appendix 1, commencing from July 2018, with a review to be undertaken after six months.

9 Background Documents

None.

10 Appendices

Appendix 1 - Proposed new criteria for the Business Growth Programme