
Report to: Business Innovation and Growth Panel

Date: 24 May 2018

Subject: **Business Productivity Pilot**

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1 Purpose of this report

- 1.1 To seek input and approval from the Panel on the development and delivery of a pilot project focussed on improving the productivity of businesses in receipt of capital investment grants from the LEP's Business Growth Programme (BGP).

2 Information

Context

- 2.1 The LEP's current Business Growth Programme (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 approximately £10k each. For example, if a business is awarded a grant of £100,000, it would be required to create around 10 new jobs. An update on this programme to date can be found in the separate Business Support update paper (item 7b)
- 2.2 As part of the debate at the March 2018 meeting of the Panel on inclusive growth outcomes from the BGP, members expressed a strong view that more should be done to incentivise improved productivity as a condition of awarding capital grants, as opposed to just job creation. The key drivers for this were the need to address the low levels of productivity within Leeds City Region's businesses compared to other parts of the UK and overseas, coupled with the City Region's current low unemployment rate, which has resulted in many firms struggling to fill vacancies. The City Region's productivity (GVA per hour worked) is currently 86% of the national average, and closing this gap would add £10billion to the region's economy.

- 2.3 An outcome of the March 2018 meeting was to establish a small working group to explore in more detail what could be done to address the productivity challenge. This would support and inform the Combined Authority's wider priority on improving business productivity as part of the emerging local inclusive industrial strategy for the City Region.
- 2.4 The working group had its first meeting in April 2018 and was attended by three private sector members of the Panel, a senior representative of the Government's Cities and Local Growth Team and officers of the Combined Authority. The group agreed on the need to trial a different approach within the BGP to incentivise productivity improvements within a small cohort of businesses that are awarded capital investment grants. The detail of this proposed pilot project is set out below.

Business Productivity Pilot

- 2.5 The proposal put forward for consideration by the Panel is to develop and deliver a time-limited pilot project, with a ring-fenced allocation of funding from the overall BGP budget. It is proposed that the pilot would remove the requirement to create new jobs (although these would, of course, remain welcome), and instead award grants to businesses that make clear and measurable commitments to improving their productivity following capital investment.
- 2.6 The findings of the pilot 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.

Objectives of the pilot

- 2.7 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.

Key features of the pilot

- 2.8 Subject to approval, a full specification for the proposed pilot will be developed, however, at this stage the key features would include:
- Competition-based approach with an Open Call inviting businesses to apply for grants of between £10,000 and £250,000 (with intervention rates of between 10 and 20%) to support capital investments that will lead to clearly-evidenced productivity improvements.
 - Social impact also to be included as a productivity improvement if the business is trading as a social or community enterprise.
 - A budget of £500,000 to be ring-fenced from the overall BGP budget. This could support between 10 and 20 projects depending on the size of investments that come forward.
 - The Call to remain open for a fixed period of three months, with a further Call to follow depending on how many projects are supported in the first Call.
 - Applicants must commit to maintaining employment levels for an agreed period following the grant-award.
 - Applicants to demonstrate how they currently measure productivity and what improvements will be made and evidenced within a 12-month period following the investment. A consistent measure for productivity across applicants will be tracked in addition to specific measures (to assist with evaluations), which would be calculable from accounting figures, such as output per worker:
 - o $\text{Output (GVA)} = \text{Operating Profit (before tax)} + \text{Employee Costs} + \text{Depreciation} + \text{Amortisation, or}$
 - o $\text{Output (GVA)} = \text{Turnover (or sales)} \text{ less the cost of bought in goods \& services (excl. employee costs)}$
 - Applicants to also set out other firm-level productivity interventions as part of a 'productivity plan' that will be delivered within an agreed period of up to 12 months. This could include:- 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.
 - There are programmes available in Leeds City Region that can support the above, and that require businesses to make financial, staff and time commitments. Examples include the Manufacturing Growth Programme, the Supply Chain Development Programme, Access Innovation and Knowledge Transfer Partnerships. Commitment to engaging with such interventions to be considered as an acceptable condition for grant-awards.
 - Applicants 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.

- Applicants to be provided with some advice and guidance from the Combined Authority's Business Support Team, recognising that it would be a competitive process.
- Applicants could be provided with access to some expert mentoring support from other businesses, or, via such initiatives as Be The Business.

2.9 The Call will need to be promoted to the business community, including the social enterprise sector, well in advance of the opening date, particularly to the private sector intermediary network (e.g. banks, accountants, legal practices etc.) and business-representative and business-membership bodies, such as the Chambers, Engineering Employers' Federation, Federation of Small Businesses and the local manufacturing alliances.

Risks

2.10 There are a number of risks to highlight particularly as the proposed approach has not been tested previously. The main risks to consider at this stage are:

- Too few applications for any meaningful evidence or learning to be gained. This could be linked to timing issues i.e. how many businesses will be making capital investments to coincide with the Call period(s)?
- Too many applications leading to delays in assessment and delivery, and subsequent reputational damage.
- Difficulty in judging between applications given the potential for different productivity interventions and measurement methods.
- Difficulty in capturing/measuring the returns on public investment in a timely manner.
- Perception that public investment is not generating clear and quantifiable returns for the City Region and UK economies e.g. new jobs.
- The contractual jobs created target for the BGP not being met, although over 63% of the target has already been achieved with 50% of the programme remaining and a large number of jobs committed via existing grant awards.

Governance and Delivery

2.11 It is proposed that, subject to feedback and approval from the Panel and the LEP Board, the working group takes responsibility for the further development and delivery of the pilot project. This would include the assessment of all applications and subsequent recommendations to the LEP and Combined Authority for grant awards.

2.12 The working group would then provide regular progress reports to the Panel via its quarterly meetings. The Combined Authority's Business Support Team would be responsible for the overall delivery and monitoring of the pilot, with support from the Policy and Strategy Directorate.

Indicative Timescale

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

Activity	Date
1 st Call opens	3 September 2018
Deadline for applications to 1 st Call	30 November 2018
Decisions on awards for 1 st Call	14 January 2019
Projects supported by 1 st Call undertaken	February 2019 to February 2020
2 nd Call opens (provisional)	4 February 2019
Deadline for applications to 2 nd Call	29 April 2019
Decisions on awards for 2 nd Call	14 June 2019
Projects supported by 2 nd Call undertaken	July 2019 to July 2020
Longitudinal survey of grant-recipients	February 2019 to February 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. The BGP budget is £42.7m up to the end March 2021, of which £32m has been committed and £23.8m actually paid. Therefore, there is headroom for the proposed pilot within the overall budget and BEIS has agreed for it to be used in this fashion.

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 provides input into a pilot project focussed on improving the productivity of businesses in receipt of capital investment grants from the LEP's Business Growth Programme.

7.2 That the Panel endorses the further development and delivery of the proposed pilot.

8 Background Documents

None.

9 Appendices

None.