

Report to: Overview and Scrutiny Committee

Date: 14 September 2018

Subject: **Business grants**

Director(s): Sue Cooke, Executive Head of Economic Services

Author(s): Lorna Holroyd

1. Purpose of this report

- 1.1 To provide the Overview and Scrutiny Committee with an update on business grant activity and programmes being delivered (or part funded) by the Combined Authority (in the period 1 April 2015 to date) since last reporting to the Overview and Scrutiny Committee on 24 January 2018.
- 1.2 This report has sought to focus on the particular issues highlighted by the Overview and Scrutiny Committee in the past and incorporate feedback received from members.

2. Information

Business grants and support programmes

- 2.1 The Combined Authority's business support programmes are delivered under the brand of the business-facing Leeds City Region Enterprise Partnership (LEP), administered by the Combined Authority's Economic Services directorate and overseen by the LEP Board and the Business, Innovation and Growth Panel (BIG).
- 2.2 The Combined Authority runs a number of different business support programmes delivered by the LEP Growth Service to businesses across the City Region. The majority of these programmes include a grant fund element, alongside other support for businesses, such as one-to-one coaching, peer learning and workshops on key growth topics. The programmes have a number of different outcomes that are closely monitored, including the creation and retention of jobs, number of new apprentices, development of new products/processes, and reduction in carbon emissions and increases in GVA (Gross Value Added). This report focuses only on the grant element of the various business support programmes.

- 2.3 The business grant programmes currently being delivered or part funded by the Combined Authority are detailed in **Appendix 1**.
- 2.4 Developments since 24 January 2018 include the re-launch of the successful Apprenticeship Grants for Employers (AGE) programme from 1 August 2018 with a revised level of grant award available and a new £1 million Digital Inward Investment Fund which launched in January 2018 aiming to attract digital sector jobs to the City Region.
- 2.5 The funding for all programmes is time limited with many of them due to end in late 2019. New funding opportunities will be sought over the coming year to continue successful programmes with proven outcomes as well as developing new programmes to meet emerging needs and priorities.
- 2.6 **Appendix 2** is a summary sheet, by programme and district, detailing all grant approvals made between 1 April 2015 and 30 June 2018 for all business grant programmes delivered, or part funded, by the Combined Authority and LEP.
- 2.7 All grant awards are also listed in summary form on the LEP website and updated quarterly.¹

Governance and decision making in relation to business grants

- 2.8 The Combined Authority's Assurance Framework sets out the systems and processes by which decisions on capital and significant revenue expenditure are made – including business grants. It ensures that decisions over funding are taken in an accountable and transparent way with appropriate democratic oversight in order to deliver best value for money.
- 2.9 **Appendix 3** sets out the appraisal, recommendation and decision making arrangements for the business grant and support programmes delivered by the Combined Authority. It includes:
- The appraisal, recommendation and approval process for each grant programme
 - Where applicable, the relevant committees and advisory panels that are consulted for each programme
 - The officer to whom final approval has been delegated (or sub delegated)
 - The number and value of grants approved from programme start date to 30 June 2018, for each level of grant award for each programme
- 2.10 The Business Innovation and Growth (BIG) Panel takes a lead on advising the Combined Authority and LEP Board on business growth policy, strategy and delivery by maintaining an overview of various programmes and priorities as they emerge – including the various business support and grant schemes. The BIG Panel is comprised of voting private sector members and councillors.

¹ <http://www.the-lep.com/about/governance-and-funding/grants-for-business/>

- 2.11 The Business Investment Panel provides strategic input into the delivery of the Business Growth Programme (BGP) in particular and plays a key role in supporting decision making for larger grant applications (over £100,000) by making recommendations to the Managing Director – who approves them under delegated authority. The Business Investment Panel is comprised of councillors and private sector members with particular expertise in commercial finance.
- 2.12 Smaller grant awards – up to £100,000 – are approved by appropriate senior officers under the scheme of officer delegations (and sub delegations).

Conflict of Interest policy and process

- 2.13 In respect of any application for a grant from a business where a potential conflict of interest arises, the Combined Authority's conflict of interest policy is outlined in the Officer Delegation Scheme as follows:

"Any decision in respect of an application for an economic development loan or grant from a business where a potential conflict of interest arises from the involvement with that business of any person on the Leeds City Region Enterprise Partnership (LEP) or any relevant committee, is taken **after consultation with the Chair of the Overview and Scrutiny Committee.**"

- 2.14 The Chair of the Overview and Scrutiny Committee has so far considered six such applications; three to the Business Growth Programme, two to the Resource Efficiency Fund and one to Access Innovation. Of these, four were ultimately approved and two were ultimately not progressed, though one of these was later approved when the applicant reapplied under changed circumstances.

Revision to core criteria and efforts to promote Inclusive Growth

- 2.15 The Overview and Scrutiny Committee has discussed a greater focus on embedding more inclusive and strategic conditions around apprenticeships, inclusivity and poverty in grants criteria and funding agreements.
- 2.16 There is currently a set of core criteria for the BGP detailing the conditions businesses must meet in order to be eligible for funding and commitments they are expected to make.
- 2.17 From 31 July 2018, changes to the criteria for BGP have been implemented. For grants of all values, the cost per job has changed to between £7,500-£12,500 of grant per job created, with the higher level of grant only available for jobs paying above the Real Living Wage (currently £8.75 p/h). For grants of over £50,000, businesses will be expected to make additional commitments relating to the Combined Authority's commitment to securing inclusive growth within the framework of the emerging inclusive industrial strategy, in addition to creating new jobs. **Appendix 4** provides examples of the types and

numbers of commitments that will be expected depending on the size of grant awarded.

Monitoring compliance with criteria and conditions

- 2.18 The Economic Services directorate monitors compliance by businesses that receive funding to ensure that agreed commitments and conditions are met and that outputs, such as jobs and capital investments, are achieved and delivered.
- 2.19 Funding agreements set out the contracted outputs and monitoring arrangements. Outputs from grants over £100,000 are monitored on a quarterly basis for 3 years (SMEs) and 5 years (large businesses). Outcomes from grants that are under £100,000 are monitored at least twice – once upon completion of expenditure and again on the completion of the associated outputs. All businesses receive at least one physical monitoring visit.
- 2.20 Businesses must also verify that they have spent the money on the agreed project, either by providing evidence of defrayal of expenditure or a report from an accredited accountant.
- 2.21 The BGP has additional monitoring and compliance aspects. 75% of a BGP grant is paid out on completion of the investment and the remaining 25% is paid out on the creation of the agreed jobs. The remaining 25% can be withheld if the agreed number of jobs have not been created and contingencies are in place within funding agreements to reclaim the other 75% if other conditions are not met in certain circumstances.

Job creation and retention

- 2.22 One of the main aims and outcomes of the various business grant and support programmes is to create and help retain good, permanent jobs in key emerging and growing sectors. A breakdown of achievement to date against this outcome – by programme and district – is highlighted in **Appendix 2**.
- 2.23 The variance in the data between 'proposed jobs' and 'actual jobs' created is largely due to the time taken between the initial investment and the ultimate creation of the job posts. The 'actual jobs' figure is expected to equal or exceed the 'proposed jobs' figures by the end of the programmes. The Digital Enterprise programme only begins to measure 'actual jobs' created 12 months after the projects are completed.
- 2.24 Not all grant programmes are focused on creating jobs. Some programmes, such as the Resource Efficiency Fund and Access Innovation, have other focuses such as carbon reductions and helping businesses make capital investments in technology or gain access to research.

Tackling productivity – Productivity Pilot

- 2.25 At the 24 January 2018 meeting, Overview and Scrutiny Committee members expressed their support for the increasing focus on improving productivity and better measuring it, identified by the Business Innovation and Growth Panel as a priority in the City Region’s emerging Local Inclusive Industrial Strategy.
- 2.26 A budget of £500,000 from the BGP is being ring fenced to support a Productivity Pilot, which will launch to businesses on 17 September 2018. This will support the LEP and Combined Authority’s work to drive up productivity across Leeds City Region through private sector leadership.
- 2.27 The aim of the pilot is to support businesses in the City Region to improve their productivity through capital investment grants, and to improve how they measure and report productivity gains. The pilot will award capital grants of between £25,000 and £100,000 to those businesses that best demonstrate how investments will have a positive impact on their productivity.
- 2.28 The recipients of the grants will not be required to create new jobs as a condition of the grant, but will need to maintain current employment levels. They will also be expected to clearly describe how they currently measure productivity and how it will improve following the investment project.
- 2.29 The Open Call will be live for an initial period of three months from 17 September 2018 to 14 December 2018, with a further Call to follow depending on whether the budget is fully allocated in the first round.
- 2.30 Applications will be assessed by a sub-group to be established by the BIG Panel, which will make recommendations to the Executive Head of Economic Services who will decide on final approvals as per the Combined Authority’s officer delegation scheme.
- 2.31 Further information on the pilot is provided in **Appendix 5**.

Limiting multiple applications and reaching new businesses

- 2.32 The Overview and Scrutiny Committee has in the past raised the issue of the degree to which grants are awarded to the same businesses making multiple applications compared to new applicants. Members have also discussed what efforts are undertaken to reach first time applicants and businesses that do not usually engage with government funded schemes.
- 2.33 This Committee suggested recording statistics on first time grants to new businesses and how many were repeat grants in addition to improving efforts to reach new businesses, particularly those outside the large urban areas.
- 2.34 Particularly in relation to BGP, there has been an increasing trend of businesses supported through the programme returning with a second, third, fourth and, in some cases, a fifth application. There is currently no restriction on the number of applications a business can submit, though there is a cap of

a maximum of £500,000 any one business can receive within a three year period.

- 2.35 An analysis of BGP grants awarded between February 2013 and June 2018 has highlighted that there are 143 businesses who have received more than one grant award through the programme – as outlined below in **Figure 1**.

No. of grants	Total grant award	% of grants award	No. of businesses	% No. of businesses	Total No. of grants	Average grant award	Average total grant per business
1	£33,452,417	70.1%	569	79.9%	569	£58,792	£58,792
2	£7,695,672	16.1%	94	13.2%	188	£40,934	£81,869
3	£4,826,018	10.1%	37	5.2%	111	£43,478	£130,433
4	£1,703,220	3.6%	11	1.5%	44	£38,710	£154,838
5	£50,000	0.1%	1	0.1%	5	£10,000	£50,000
Total	£47,727,327	100%	712	100%	917	£52,047	£67,033

Figure 1 – Number of successful repeat applications to BGP

- 2.36 Of these, 39 businesses have received grant support in excess of £100,000 as a consequence of multiple applications. 16 of these companies have received two grants, 17 have received three grants and 6 have received four grants.
- 2.37 With demand for the programme very high and a little over £9 million left to commit (between now and October 2020 when the programme will have to close to new applications), a balance must be struck between continuing to support companies with new strong applications, and who have achieved or exceeded contracted outputs in terms of job creation on previous awards, and supporting businesses who have not yet engaged with the programme.
- 2.38 It is also important to note that approximately 70% of all applications are for smaller grants of less than £50,000 and from micro or small businesses where financial support is needed the most. The key issue, therefore, is a need to get the balance right between the number and collective value of applications.
- 2.39 Following the results of the [2017 Leeds City Region Business Survey](#) showing the relatively low level of strategic business planning by local businesses and how this can drive business performance, applicants are asked to submit evidence of more detailed business plans with their applications, and will be supported with this by the LEP and its partners.
- 2.40 It is proposed to reduce the maximum grant a business can receive within a three year period from £500,000 to £250,000. It is also proposed to reduce the maximum number of successful applications a business can submit over a three year period to three (there was previously no maximum).
- 2.41 These changes to the criteria were endorsed by the Business Investment Panel on 31 August 2018 and will be proposed for endorsement to the

Business, Innovation and Growth Panel on the 13 September 2018, with a view to being implemented from 1 October 2018.

Next steps and future plans

- 2.42 Future activities in the area of business support include the development of a new 'investment readiness' project that will support businesses to prepare for, and access, the external finance (private and public) that they need to fuel their growth plans, and a business resilience project that will put SMEs in stronger positions to take advantage of the challenges and opportunities facing them in the short/mid-term. Although not exclusively so, this will incorporate a number of issues related to Britain's exit from the European Union, such as exposure to international trade and changes to the regulatory environment.
- 2.43 In addition, the impact of the Inclusive Growth commitments for the Business Growth Programme will be closely monitored and reported, and a second Productivity Pilot may be delivered in early 2019 informed by the learning from the first one.
- 2.44 Furthermore, efforts will be undertaken to secure more funding for successful programmes whose funding is due to end in 2019. Applications for additional European Regional Development Funds will be explored in the areas of SME innovation, resource efficiency and strategic business planning in preparation for new calls for projects to be launched in October 2018 and early 2019.

3. Financial Implications

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

4. Legal Implications

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

5. Staffing Implications

- 5.1 There are no staffing implications directly arising from this report.

6. External Consultees

- 6.1 No external consultations have been undertaken.

7. Recommendations

- 7.1 That the Overview and Scrutiny Committee notes this report and the progress made in the last six months.

8. Background Documents

[Officer Delegation Scheme](#)

[Assurance Framework 2018](#)

[2017 Leeds City Region Business Survey](#)

Report: [Item 6 Economic Services Business Grants](#) - Overview and Scrutiny Committee. 24 January 2018.

Report: [Item 6 Business Grants Programme](#) – Business Investment Panel. 31 August 2018.

Report: [Item 12 Business Support](#) – Business Innovation and Growth Panel. 13 September 2018.

9. Appendices

Appendix 1 – Summary of business grant and support programmes

Appendix 2 – Business grant award and outcomes summary

A summary sheet detailing all grant approvals made between 1 April 2015 and 30 June 2018 for all business grant programmes delivered, or part funded, by the LEP – by programme and district

Appendix 3 – Governance and decision making in relation to business grants

Appendix 4 – Core criteria and new Inclusive Growth criteria for the Business Growth Programme (BGP)

Appendix 5 – Productivity Pilot