

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	CABINET
Report of:	Strategic Director of Economy
Date of Decision:	17th May 2016
SUBJECT:	ERDF BUSINESS GROWTH PROGRAMME - FULL BUSINESS CASE
Key Decision: Yes	Relevant Forward Plan Ref: 001093/2016
If not in the Forward Plan: (please "X" box)	Chief Executive approved <input type="checkbox"/> O&S Chairman approved <input type="checkbox"/>
Relevant Cabinet Member	Cllr Tahir Ali, Cabinet Member Development, Transport & Economy
Relevant O&S Chairman:	Cllr Victoria Quinn, Economy, Skills and Sustainability
Wards affected:	All

1. Purpose of report:	
1.1	To accept an offer of European Regional Development Fund (ERDF) grant of £16.3m to deliver a Business Growth Programme (BGP) for the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP), Stoke-on-Trent and Staffordshire Local Enterprise Partnership (LEP) and The Marches LEP areas and for Birmingham City Council to act as the Accountable Body for the programme on behalf of the 3 LEP areas.
1.2	To note that the BGP will provide a grant assistance programme targeted at up to 576 existing Small/Medium Enterprises (SME's), specifically supply chain businesses (especially HS2 suppliers) where they are purchasing new plant/ equipment, relocating to new premises, developing new products and processes, systems and marketing, coaching and mentoring, especially where there are green benefits (i.e. energy efficiency).

2. Decision(s) recommended:	
That Cabinet :-	
2.1	Approves the Full Business Case (FBC) (attached at Appendix 1) for the Business Growth Programme (BGP) European Regional Development Fund (ERDF) project, which will provide a comprehensive grant assistance package to support Small and Medium Enterprises (SME's) across the Greater Birmingham and Solihull Local Enterprise Partnership, Stoke-on-Trent and Staffordshire Local Enterprise Partnership and The Marches LEP areas for the period from June 2016 to the end of December 2018.
2.2	Approves the City Council acting as the Accountable Body for the BGP and accepts the offer of ERDF grant of £16.3m (attached as Appendix 2), which is being matched against an equivalent amount of public and private sector expenditure.
2.3	Delegates the award of specific financial assistance grants between £10,000 to £200,000 per SME up to the total of £14.775m to the Strategic Director of Economy as per the approval process shown in Appendix 4.
2.4	Approves an exemption to Standing Orders Volume B Section 2 in relation to the requirement to place legal charges on grants of £25,000 or more.
2.5	Authorises the City Solicitor to negotiate, execute and complete all necessary documents to give effect to the above recommendations.

Lead Contact Officer(s):	Mohammed Zahir - Head of Business Enterprise and Innovation
Telephone No: E-mail address:	0121 303 2956 Mohammed.zahir@birmingham.gov.uk
3. Consultation	
3.1 <u>Internal</u>	Regular briefings have been provided to the Leader and Deputy Leader who are both supportive of this report proceeding to an executive decision. City Finance and Legal and Democratic Services have been involved in advising on the development and management of the BGP. Briefings have been given to Local Enterprise Partnerships (LEP's) and Planning and Regeneration to develop the proposed programme structure and the role of Accountable Body.
3.2 <u>External</u>	The BGP research, design and development has been carried out in consultation with the GBSLEP, Stoke-on-Trent and Staffordshire LEP and The Marches LEP, the Birmingham Chamber of Commerce group; HS2 Ltd; Birmingham City University and the Midland Environmental Business Council.
4. Compliance Issues:	
4.1 <u>Are the recommended decisions consistent with the Council's policies, plans and strategies?</u>	
4.1.1	The objectives of the programme are consistent with the long term outcomes of the Council Business Plan and Budget 2016+, which confirms the City Council's support for GBSLEP. This programme has emerged from research evidence and intelligence from earlier bids supported by ERDF funding and reflects the Department of Communities and Local Government's priorities of supporting all the LEPs across the West Midlands. The BGP will contribute towards the City Council's priority outcome one: A Strong Economy by helping SME's within the eligible area to grow and create new job opportunities. The proposal will also support strategic initiatives such as Enterprise Zone and Economic Zones by attracting investment and supporting the development and growth of businesses in the region.
4.1.2	The programme is aligned to the European Structural and Investment Fund (ESIF) Growth Strategies of GBSLEP, Stoke-on-Trent and Staffordshire LEP and The Marches LEP areas; by stimulating business and enterprise activity by investing in evidence-based business support programme.
4.1.3	BGP is also fully aligned to the GBSLEP "The Midlands HS2 Growth Strategy", which seeks to maximise the benefits of the largest infrastructure project in Europe and accelerate the UK's engine of growth.

4.2 Financial Implications
(Will decisions be carried out within existing finance and Resources?)

4.2.1 Total BDG project expenditure is anticipated to be £32.588m, comprising £16.294m ERDF grant and an equivalent amount of public and private sector match funding. The ERDF grant will support estimated grant payments to SMEs of £14.775m and programme delivery costs (City Council and partner staffing, marketing and evaluation) which are estimated at £1.519m.

4.2.2 The precise mix of projects (and private sector match funding) expected to be delivered by the BGP will depend upon the scale of individual projects, but the following table shows the likely allocation of spend (in line with the BGP grant application) across thematic headings with required private sector contributions and confirmed public match-funding:

Category of Programme costs:	ERDF Grant	Private Sector Contribution	Public Sector Match	Total Public and Private Sector Funding
	£'m	£'m	£'m	£'m
<u>Capital Grants:</u>				
Business capital investment (new plant, equipment/systems/processes)	8.9	8.9		17.8
<u>Revenue Grants:</u>				
New product development	2.4	2.4		4.8
Market Development	2.4	2.4		4.8
Mentoring and Coaching/BIM	1.1	1.1		2.2
Total Revenue Grants	5.9	5.9		11.8
Total Grants/Match Funding	14.8	14.8		29.6
Other Revenue costs:				
City Council Delivery Costs/Salary match	1.2	0	1.2	2.4
Partner Delivery Costs/Salary match	0.3	0	0.3	0.6
Total BGP Expenditure	16.3	14.8	1.5	32.6

- 4.2.3 The City Council will be the Accountable Body for the ERDF grant, which needs to be defrayed by 31st December 2018. In order to minimise the risk of grant clawback, all grant conditions will be enforced through partnership agreements with LEP partners and Conditions of Grant Aid (COGA) agreements where financial support to SME's is provided enabling the City Council to recover funds in the event of a breach of these terms. As a requirement of the City Council's Financial Regulations (Standing Orders Volume B Part 2), grant expenditure of £25,000 or more requires a legal charge, however on the basis that this is likely to discourage the take up of grants, it is intended to waive this requirement on the basis that a signed COGA will be in place. Applications will be closely scrutinised and projects will be closely managed as part of risk management which is addressed in the FBC attached at Appendix 1. In the event of a company going into bankruptcy, DCLG have accepted this as being part of the normal business cycle and have confirmed that the City Council will not be subject to any liability for grant claw back on the basis of the due diligence and approval process set out in Appendix 4.
- 4.2.4 The City Council will claim ERDF grant from DCLG quarterly in arrears based upon actual grant payments to SME's. Given the time limit of the ERDF grant, the conditions of grant will specify that applicant projects need to be completed by 31st December 2018 or no grant will be paid. There will be no ongoing revenue implications for the City Council as a consequence of this project.

4.3 Legal Implications

The Business Growth Programme is being delivered under the Council's general power of competence under section 1 Localism Act 2011, to help businesses to develop and grow by improving their competitiveness and also create conditions for them to create new job opportunities. Grants will be provided in compliance with State Aid De-minimis rules of £164,176 (grants of £10,000 to £30,000) and General Block Exemption Regulation (GBER) (grants of £20,000 to £200,000) both at up to a maximum of 50% of eligible expenditure.

4.4 Public Sector Equality Duty (see separate guidance note)

The programme is open to all SMEs within the West Midlands area. An initial Equalities Analysis has been carried out in line with statutory protocol which is attached at Appendix 3 (Reference EA000077). This has not identified any issues of concern in relation to the Equality Act 2010. The proposed activity will not have any adverse impact upon the Council's protected categories.

5. **Relevant background/chronology of key events:**

- 5.1 Cabinet approved the report "European Regional Development Fund, European Social Fund and Youth Employment Initiative Grant Bid Submissions" on 18th May 2015. This included eight outline applications which were submitted on 28th May 2015 and subsequently the outlines were approved by Department of Communities and Local Government (DCLG) in August 2015. This included five projects to provide business development support and the City Council was invited to submit a final single consolidate application seeking ERDF funding by 5th November 2015, which was called BGP. The offer letter from DCLG is attached at Appendix 2.

5.2 BGP is an integrated and comprehensive business support package strengthening supply chain companies, stimulating innovation and growing existing SMEs. It builds on successful delivery of previous business programmes and responds to new opportunities from the HS2 investment. BGP will operate across the GBSLEP, Stoke-on-Trent and Staffordshire LEP and The Marches LEP areas to provide revenue and capital grants of £0.010m - £0.200m. It will stimulate investment by offering grants subject to match-funding and the creation of jobs, in turn this will improve business confidence and accelerate economic growth. The programme will support growth of 576 SMEs, create 1,331 new jobs, generate £15m private sector investment and increase regional productivity/Gross Value Added.

5.3 The type of grants available (capital and revenue) are as follows:

5.3.1 HS2 Suppliers and green economy (grants of £0.020m - £0.200m (General Block Exemption Regulation) administered)

BGP will target established supply chain companies with investment plans to develop and grow including HS2 suppliers and companies operating in the green economy.

BGP will offer capital and revenue grant funding towards: capital expenditure: purchase of capital equipment; introduction of advance technologies; installation costs; improvements in systems/ processes; quantifiable green benefits (energy efficiency, waste management, recycling and renewables) ; new product development (concept development, prototyping, testing and market launch; process development and improvement in systems and material usage); logistics and IT; market development; mentoring and coaching support for management development and consultancy support.

5.3.2 Innovation and development (grants of £0.010m - £0.030m (De-minimis administered)

BGP will also target SMEs:

- requiring grant interventions in innovative production processes leading to new products and services, which are “close-to-market”
- looking to expand, relocate and improving access to markets.
- Creating jobs for people from within the Local Enterprise Partnership areas

BGP will offer capital and revenue grant funding to encourage investment in innovative production processes, relocation and expansion of SMEs: capital equipment, improvement of production processes and systems, new product development (concept development, prototyping, product testing and product launch), marketing costs, coaching and mentoring and development of new markets.

5.4 The BGP will be managed by the Business Development and Innovation team (BDI) within the Economy Directorate (Planning and Regeneration), who have a successful track record for the development, securing external funding and delivery of significant business development programmes both in Birmingham and on a wider regional and national basis (£75m Regional Growth Fund/ERDF funded Green Bridge Supply Chain Programme, £8m Business Development Programme, £9m Business Innovation Programme and £10m Business Support for Creative Industries Programme.

The Investment Board/Panel will be chaired by an independent chair from one of the LEPs. It will comprise 3 LEP partners, 4 industry experts, and 2 university representatives. It will be supported by BGP management team, and attended by BDI, DCLG and an accountable body representative. It will also be supported by appropriate technical, financial and legal advice, and will make recommendations on either approval or refusal of these grants. The process is shown in the flowchart attached at Appendix 4.

- 5.5 The City Council will manage the BGP and monitor outputs created as a result, to ensure businesses deliver upon expansion plans. Assistance will only be provided to those that meet the BGP programme criteria set out in the FBC at Appendix 1.
- 5.6 On the basis of the timescales set out below to commence the GBP in June/July 2016. Each application will be subject to detailed financial, project and state assessment. The BGP Investment Board Panel will recommend grant awards, which will be subject to approval by the Strategic Director of Economy.

Milestone	Start Date	Completion Date
Develop marketing plan and monitoring systems	Nov 15	Mar 16

All Partner agreements	Oct 15	Mar 16
Partner inductions and workshops	Sept 15	April 16
Procurement of marketing activity	May 16	June 16
Marketing of programme	June/July 16	Dec 18
Commence project delivery	June/July 16	Dec 18
Grant aid to SME's delivery starts and finishes	June/July 16	31 st Dec 18
Programme targets achieved		Dec 18
Evaluation	Jan-Nov 18	Dec 18

6. Evaluation of alternative option(s):

- 6.1 To do nothing – Would lose the opportunity to secure the offered ERDF grant to support a Business Growth Programme for SME's across GBSLEP, Stoke-on-Trent and Staffordshire and The Marches LEP areas. Moreover, to decline the offer would damage the City Council's reputation as the lead partner and Accountable Body and undermine trust and relationships with key regional partners.

7. Reasons for Decision(s):

- 7.1 To accept the ERDF funding and approve the FBC which will enable the City Council to start the programme as quickly as possible supporting the growth of existing businesses across GBSLEP, Stoke-on-Trent and Staffordshire and The Marches LEP areas.

Signatures	<u>Date</u>
Cabinet Member for Development, Transport and the Economy Cllr Tahir Ali
Strategic Director of Economy Waheed Nazir

List of Background Documents used to compile this Report:
1. European Regional Development Fund (ERDF), European social Fund (ESF) And Youth Employment Initiative (YEI) Grant Bid Submissions: Cabinet report dated 18 th May 2015

List of Appendices accompanying this Report (if any):
1. Full Business Case.
2. DCLG letter of offer of grant funding
3. Equality analysis initial assessment.
4. BGP Governance structure

PROTOCOL PUBLIC SECTOR EQUALITY DUTY

- 1 The public sector equality duty drives the need for equality assessments (Initial and Full). An initial assessment should, be prepared from the outset based upon available knowledge and information.
- 2 If there is no adverse impact then that fact should be stated within the Report at section 4.4 and the initial assessment document appended to the Report duly signed and dated. A summary of the statutory duty is annexed to this Protocol and should be referred to in the standard section (4.4) of executive reports for decision and then attached in an appendix; the term 'adverse impact' refers to any decision-making by the Council which can be judged as likely to be contrary in whole or in part to the equality duty.
- 3 A full assessment should be prepared where necessary and consultation should then take place.
- 4 Consultation should address any possible adverse impact upon service users, providers and those within the scope of the report; questions need to assist to identify adverse impact which might be contrary to the equality duty and engage all such persons in a dialogue which might identify ways in which any adverse impact might be avoided or, if avoidance is not possible, reduced.
- 5 Responses to the consultation should be analysed in order to identify:
 - (a) whether there is adverse impact upon persons within the protected categories
 - (b) what is the nature of this adverse impact
 - (c) whether the adverse impact can be avoided and at what cost – and if not –
 - (d) what mitigating actions can be taken and at what cost
- 6 The impact assessment carried out at the outset will need to be amended to have due regard to the matters in (4) above.
- 7 Where there is adverse impact the final Report should contain:
 - a summary of the adverse impact and any possible mitigating actions (in section 4.4 or an appendix if necessary)
 - the full equality impact assessment (as an appendix)
 - the equality duty – see page 9 (as an appendix).

Equality Act 2010

The Executive must have due regard to the public sector equality duty when considering Council reports for decision.

The public sector equality duty is as follows:

1	<p>The Council must, in the exercise of its functions, have due regard to the need to:</p> <ul style="list-style-type: none">(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by the Equality Act;(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
2	<p>Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:</p> <ul style="list-style-type: none">(a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;(b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;(c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
3	<p>The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.</p>
4	<p>Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:</p> <ul style="list-style-type: none">(a) tackle prejudice, and(b) promote understanding.
5	<p>The relevant protected characteristics are:</p> <ul style="list-style-type: none">(a) age(b) disability(c) gender reassignment(d) pregnancy and maternity(e) race(f) religion or belief(g) sex(h) sexual orientation