

Public Report

Birmingham City Council

Report to Cabinet

Date 13th November 2018



Subject: **BUSINESS GROWTH PROGRAMME 2 – FULL BUSINESS CASE**
Report of: **CORPORATE DIRECTOR, ECONOMY**
Relevant Cabinet Member: **Councillor Jayne Francis; Education, Skills & Culture**
Relevant O &S Chair: **Councillor Tahir, Economy & Skills**
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Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, add Forward Plan Reference: 005002/2018		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, provide exempt information paragraph number or reason if confidential :		

1 Executive Summary

- 1.1 To accept an offer of European Regional Development (ERDF) grant of £8.910m to deliver a Business Growth Programme 2 (BGP2) for the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) and The Marches LEP areas and for the City Council to act as the Accountable Body for the programme.
- 1.2 To note that the BGP2 will provide a grant assistance programme targeted at up to 285 existing Small/Medium Enterprises (SMEs), specifically supply chain businesses benefitting from HS2 and Commonwealth Games investment opportunities, where they

are purchasing new plant/ equipment, relocating to new premises, developing new products and processes, systems and marketing, especially where there are green benefits and energy efficiency. BGP2 will also target 143 new business start-ups in The Marches LEP.

2 Recommendations

- 2.1 Subject to confirmation of funding from the Ministry of Housing, Communities and Local Government (MHCLG), approves the Full Business Case (FBC) (attached at Appendix 1) for the Business Growth Programme 2 (BGP2) European Regional Development Fund (ERDF) project, which will provide a comprehensive grant assistance package to support Small and Medium Enterprises (SMEs) across the Greater Birmingham and Solihull Local Enterprise Partnership and The Marches LEP areas for the period from January 2019 to the end of March 2022.
- 2.2 Subject to confirmation of funding from the MHCLG, approves the City Council acting as the Accountable Body for the BGP and accepts the offer of ERDF grant of £8.9m, which is being matched against an equivalent amount of public and private sector expenditure.
- 2.3 Subject to confirmation of funding from the MHCLG, delegates the award of specific financial assistance grants between £2,500 to £1m per SME up to the total programme value of £7.486m to the Corporate Director, Economy.
- 2.4 Authorises the City Solicitor to negotiate, execute and complete all necessary documents to give effect to the above recommendations.

3 Background

- 3.1 The current ERDF funded Business Growth Programme is due for completion by December 2018 and is forecast to deliver the following results: grow 576 businesses; create 1,300 new jobs; generate £35m private sector investment; provide £15m in savings to the exchequer and contribute £140m in increased GVA.
- 3.2 In response to former Department of Communities and Local Government calls (Greater Birmingham and Solihull (OC12R17P 0666), The Marches (OC36R16P0473) and Herefordshire (OC36R17P 0669) in October 2017, the City Council submitted three applications to extend the existing BGP programme to these LEAs up to March 2022, after briefing the former Cabinet Member for Jobs and Skills. The outline applications were duly approved; a consolidated full application was submitted in June 2018 and is awaiting final approval. It is anticipated that the programme will operate from 1st January 2019 to 31st March 2022.
- 3.3 BGP2 is an integrated and comprehensive business support package strengthening supply chain companies, stimulating innovation and growing existing SMEs. It builds on successful delivery of the current BGP programme and responds to new

opportunities from the HS2 investment and Commonwealth Games 2022. BGP2 will operate across the GBSLEP and The Marches LEP areas to provide individual revenue and capital grants of £2,500 - £1m. 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 aims to support growth of up to 285 SMEs, 143 new start-ups (in the Marches LEP area only), create up to 900 new jobs, generate £10m private sector investment and increase regional productivity/ Gross Value Added.

- 3.4 BGP2 grants to SMEs of £0.101m to £1m are administered using State Aid General Block Exemption Regulations and grants of £2,500 to £0.100m are administered using De minimis. BGP2 will offer capital and revenue grants of £0.010m to £1m funding towards: relocation and expansions; 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); market development; process development and marketing costs.
- 3.5 At the request of The Marches LEP, BGP2 will offer grants to start-ups of £2,500 to £0.010m for brand new start-ups or businesses trading less than 6 months looking to consolidate, provided that this is matched against SME expenditure. A business start-ups programme is already being delivered by Solihull Metropolitan District Council on behalf of the GBSLEP and has not been included in this programme.
- 3.6 BGP2 will be managed by the Business Development and Innovation Team (BDI) within the Economy Directorate. The BDI Team has extensive experience of developing, managing and delivering large scale European Structural and Investment Funds on a wider regional and national basis:
- £93m Business support package- 2012-2015 (RGF/ERDF/Urbact/Interreg) creating 4,500 jobs, generating £85m private sector investment and generating GVA of £500m
 - £33m Business Growth Programme- 2016-2018 (ERDF) – existing project which will assist up to 576 business, across 3 LEP areas and generate up to 1,331 jobs
 - £8m Property Improvement Programme- 2016-2019 (ERDF) – existing project which will assist up to 40 businesses and generate up to 120 jobs
- 3.7 The established Investment Board will be chaired by an independent chair from one of the LEPs. It will comprise 2 LEP partners, industry experts and university representatives. It will be supported by the BDI team, an Accountable Body

representative and appropriate technical, financial and legal advisors, and will make recommendations on either approval or refusal of these grants. An Accountable Body flowchart is attached at Appendix 3.

- 3.8 The City Council will manage the BGP2 on behalf of the two LEPs and monitor outputs created as a result, to ensure businesses deliver upon expansion plans. Assistance will only be provided to those that meet the BGP2 programme criteria set out in the FBC at Appendix 1.

4 Options considered and Recommended Proposal

4.1

- . To do nothing – Would lose the opportunity to secure the offered ERDF grant to extend the Business Growth Programme for SMEs across GBSLEP and The Marches LEP areas and not support up to 428 businesses and not create up to 900 jobs . 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.
- Recommended approval – to accept the offer of ERDF capital and revenue grant in order to deliver a comprehensive grant assistance programme in the GBSLEP and The Marches LEP areas which will create jobs and investment.

5 Consultation

- 5.1 The Leader of the Council and Cabinet Member for Education, Skills and Culture have been briefed and are supportive of this report proceeding to an executive decision. The consultation summary is attached at Appendix 2.
- 5.2 Briefings have been given to GBSLEP partners in the development of the proposed programme structure and the role of the Accountable Body.
- 5.3 Finance and Governance have been involved in preparation of this report.
- 5.4 The BGP2 research, design and development has been carried out in consultation with the GBSLEP and The Marches LEP, the Birmingham Chamber of Commerce group, HS2 Ltd and Commonwealth Games representatives.

6 Risk Management

- 6.1 A risk register is attached at Annex 1 of Appendix 1.

7 Compliance Issues:

7.1 How are the recommended decisions consistent with the City Council’s priorities, plans and strategies?

- 7.1.1 The objectives of the project are consistent with the Birmingham City Council Plan: 2018-2022 Priority 1: We will create opportunities for local people to develop skills and make the best of economic growth.

- 7.1.2 This programme has emerged from research evidence and intelligence from the existing BGP programme supported by ERDF funding and reflects the MHCLG's priorities of supporting the LEPs across the West Midlands. BGP2 will contribute towards the City Council's priority by helping SMEs within the eligible areas to invest, 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.
- 7.1.3 The project is aligned to the European Structural and Investment Fund (ESIF) and Strategic Economic Plan (SEP) of GBSLEP and the Marches LEP. BGP2 will deliver the objectives Priority Axis 3 by providing pragmatic solutions and tangible benefits to entrepreneurs and SMEs at different stages in their business cycle. This will improve economic prosperity within the GBSLEP area by stimulating business growth, new business start-ups, increased investment, improved productivity and the creation of new jobs.

7.2 Legal Implications

- 7.2.1 The Business Growth Programme 2 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 £100,000 (grants of £2,500 to £0.100m) and General Block Exemption Regulation (GBER) (grants of £0.101m to £1m). De minimis will be 50%-60% contribution towards eligible expenditure. GBER will be 10%-30% contribution towards eligible expenditure.

7.3 Financial Implications

- 7.3.1 Total BGP2 project expenditure is anticipated to be £23.274m, comprising £8.910m ERDF grant and £14.364m of public and private sector match funding. The ERDF grant will support estimated grant payments to SMEs of up to £7.486m and programme delivery costs (City Council and partner staffing, marketing and evaluation), which are estimated at £2.631m over 3 years.
- 7.3.2 The Council's match funding is derived from existing revenue staffing budgets in the Business Development and Innovation (BDI) team and the Graduate Hub of the Economy Directorate. As part of the financial governance process a full reconciliation of the City Council's match-funding commitment has been undertaken for the service and will be monitored throughout the project.
- 7.3.3 The precise mix of projects (and private sector match funding) expected to be delivered by the BGP2 will depend upon the scale of individual projects, but the following table shows the likely allocation of spend (in line with the BGP2 grant

application) across thematic headings with required private sector contributions and confirmed public match-funding.

7.3.4 No expenditure will be incurred until confirmation of funding is received from MHCLG.

Category of Programme costs:	ERDF Grant	Private Sector Contribution	Public Sector Match	Total Public and Private Sector Funding
	£'000	£'000	£'000	£000
Capital (new plant, equipment/systems/ processes) grants (34%):	6,237	12,107	0	18,344
Revenue Grants (New product development and market development) (54%)	1,249	1,050	0	2,299
Total Grants/Match Funding	7,486	13,157	0	20,643
Other Revenue costs:				
City Council salary match, Marketing and evaluation (54% ESF)	1,195	0	1,014	2,209
Partner Delivery Costs (54% ESF)	229	0	193	422
Total BGP2 Expenditure	8,910	13,157	1,207	23,274

7.3.5 The City Council will be the Accountable Body for the ERDF grant, which needs to be defrayed by 31st December 2021. 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 SMEs is provided, enabling the City Council to recover funds in the event of a breach of these terms. 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 Annex 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 established due diligence and approval process.

7.3.6 The City Council will claim ERDF grant from MHCLG quarterly in arrears based upon actual grant payments to SMEs. Given the time limit of the ERDF grant, the conditions of grant will specify that applicant projects need to be completed by 31st

December 2021 or no grant will be paid. There will be no ongoing revenue implications for the City Council as a consequence of this project.

7.4 Procurement Implications (if required)

7.4.1 There are no direct procurement implications to the City Council. However, to comply with EU procurement rules, SMEs will have to demonstrate in their application and as part of the grant claim that they have obtained three quotations and secured value for money.

7.5 Human Resources Implications (if required)

7.5.1 The project will be supported by existing staff resources in the Business Development and Innovation team in the Economy Directorate supplemented by Graduates and Interns funded from the Graduate Hub and supported by City Finance.

7.6 Public Sector Equality Duty

7.6.1 The programme is open to all SMEs within the GBSLEP and The Marches LEP areas. An initial Equalities Analysis has been carried out in line with statutory protocol, which is attached at Appendix 4 (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 protected categories.

8 Background Documents

8.1 ERDF Business Growth Programme – Full Business Case : Cabinet report dated 17th May 2016

8.2 List of Appendices accompanying this Report (if any):

- 1. Full Business Case
- 2. Consultation Summary
- 3. Governance flowchart
- 4. Equality Assessment