

Birmingham City Council

Report to Cabinet

21 April 2020



Subject: Business Growth Programme 2 Extension- Acceptance of ERDF Grant Offer

Report of: Interim Director, Inclusive Growth

Relevant Cabinet Member: Councillor Ian Ward – Leader of the Council
Councillor Tristan Chatfield - Finance and Resources

Relevant O &S Chair(s): Councillor Lou Robson, Economy & Skills
Councillor Sir Albert Bore, Resources

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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): add Wards here | | |
| Is this a key decision? | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| If relevant, add Forward Plan Reference: 007620/2020 | | |
| 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, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential: | | |

1 Executive Summary

- 1.1 The purpose of this report is to accept an offer of additional European Regional Development Fund (ERDF) grant of £5.000m to extend the existing Business Growth Programme 2 (BGP2) to 30th June 2023 for the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) and The Marches LEP areas. The City Council will continue to act as the Accountable Body for the programme on behalf of the two LEP areas.

- 1.2 The BGP2 extension will provide a grant assistance programme targeted at up to 162 existing Small/Medium sized 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.

2 Recommendations

- 2.1 Approves the extension of the Business Growth Programme 2 (BGP2) project (subject to receipt of an offer letter from the Ministry of Housing, Communities and Local Government (MHCLG)), which will provide a comprehensive grant assistance package to support Small and Medium sized Enterprises (SMEs) across the Greater Birmingham and Solihull Local Enterprise Partnership and The Marches LEP areas for the period from 27th April 2020 to the 30th June 2023.
- 2.2 Approves the City Council continuing to act as the Accountable Body for the BGP2 project and delegates to the Interim Director; Inclusive Growth acceptance of the offer of ERDF grant from MHCLG of £5.000m comprising £3.950m capital and £1.050m revenue, which is being matched against an equivalent amount of public and private sector expenditure.
- 2.3 Delegates authority to the Interim Director, Inclusive Growth or their delegates to approve, award and monitor specific financial assistance grants of between £0.0025m to £1.000m per SME, up to the total of £4.274m.
- 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 BGP2 project was approved by Cabinet on 13th November 2018. The aim was to provide a grant assistance programme to existing Small/Medium sized 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.
- 3.2 Since June 2019, 101 grants totalling £3.179m have been approved in the GBSLEP area which has exceeded the grant funding available and awarded of £3.143m. The over-commitment will be funded from the grant extension, subject to approval of the project extension. To date funding awarded has supported the creation of 101 jobs, with a further 84 in the pipeline, which is the equivalent of an average grant of £17,183 per job created. In the GBSLEP area this has also levered in £7.838m of private match-funding, exceeding its target by £2.311m.

- 3.3 In the Marches LEP area there have been 27 grants awarded totalling £0.930m and creating 97 jobs, which is in line with the ERDF output targets. Information gathered in respect of the Marches LEP has highlighted that the businesses tend to be small in nature and seeking support towards lower value projects rather than larger projects or start-up. As a result, in agreement with MHCLG and the Marches LEP, the start-up budget has now been reprofiled towards more relevant support.
- 3.4 The programme to date is estimated to provide £10m in savings to the exchequer and contribute £100m in increased Gross Value Added (using Oxford Econometric Model) to the national economy
- 3.5 In September 2019 the Director, Inclusive Growth submitted indicative responses to MHCLG calls (Greater Birmingham and Solihull (OC12R19PO995), The Marches (OC36R19P1016), to extend the existing BGP 2 programme to June 2023. The objective being to offer support to established supply chain companies with investment plans to develop and grow, including HS2 suppliers, Commonwealth Games suppliers and companies operating in the green economy. The Outline applications were duly approved by MHCLG and a Project Change Request (PCR) was submitted in February 2020 and is awaiting final approval. The opportunity to extend the existing project does not result in any change in existing staff resources in future years.
- 3.6 The extension to BGP 2 will enable applications to be processed and approved up to 30th June 2023. Applications for grant funding under the existing BGP2 programme have been oversubscribed and a number have been approved subject to the Council accepting additional ERDF funding. This extension will enable grant funding of up to £0.300m (approved subject to funding) to be released immediately. Moreover, there is an existing pipeline of £1.000m of applications from the existing programme and the extension will enable this to be progressed.
- 3.7 The BGP2 extension within the GBSLEP is effective from 27th April 2020 on the basis of demand and applications in the pipeline. Within the Marches LEP area the extension will commence 1st April 2022 on the completion of BGP2. Subject to approval, the additional grant will be allocated as £3.500m for the GBSLEP and £1.500m for The Marches LEP on the basis of consultation with the respective LEP's. The budget profile is shown in the Full Business Case attached at Appendix 1. One of the significant changes has been the extension and reallocation of £1m of funding for start-up activities to existing SMEs within the Marches LEP, as agreed by the Marches LEP and MHCLG.
- 3.8 BGP2 extension will offer an integrated and comprehensive business support package strengthening supply chain companies, stimulating innovation and growing existing SMEs. It builds on the delivery of the current BGP2 programme and will respond to new opportunities from the HS2 investment and Commonwealth Games 2022. BGP2 will operate across the GBSLEP and The Marches LEP areas to provide revenue and capital grants of £0.010m -

£1.000m. However, in The Marches LEP only there will be start-up grants available between £0.0025m and £0.010m. The extension of the programme is expected to: support the growth of a further 162 SMEs; create an additional 423 new jobs; generate an estimated further £7.943m private sector investment and increase regional productivity/Gross Value Added.

- 3.9 The scope, management, governance and operation of BGP2 extension will remain as per the Full Business Case approved by Cabinet on 13th November 2018.

4 Options considered and Recommended Proposal

- 4.1 Approve the extension of the BGP 2 – This would take the opportunity of securing additional ERDF grant to further support SMEs across GBSLEP and The Marches LEP areas to deliver the outcomes detailed in this report, including generation of an estimated further £7.943m private sector investment and increased regional productivity/Gross Value Added. This is the recommended proposal.
- 4.2 To do nothing – Would lose the opportunity of securing additional ERDF grant to further support SMEs across GBSLEP and The Marches LEP areas to deliver the outcomes detailed in this report. In addition, 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.

5 Consultation

- 5.1 Briefings have been given to all partners in the GBSLEP and The Marches LEP areas. All stakeholders have been consulted in the development of the proposed extension and are supportive.

6 Risk Management

- 6.1 A risk identification, mitigation and management process was identified in the Cabinet report approved 13th November 2018. However, due to recent circumstances this has been revised and attached at Appendix 2. COVID 19 is a major area of concern and a risk to this extension is the growing economic uncertainty and lack of 'take-up'. To mitigate this risk the Council will work closely with partners to ensure maximum exposure and the Council awaits further advice from Government on any flexibility on the use of funds to support SMEs impacted by the virus.

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 priorities in the Updated Council Business Plan and Budget 2018 – 22, specifically Outcome 1: Birmingham is an entrepreneurial city to learn, work and invest in, by providing grant support for investment and job creation.
- 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 extension 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. It will deliver the objectives of Priority Axis 3 by providing a pragmatic solution 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, increased investment, improved productivity and the creation of new jobs.

7.2 Legal Implications

- 7.2.1 BGP2 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 create conditions for them to create new job opportunities.
- 7.2.2 Grants will be provided in compliance with State Aid De-minimis rules of £0.100m (grants of £0.0025m to £0.100m) and General Block Exemption Regulation (GBER) (grants of £0.101m to £1.000m). 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 extension project expenditure is anticipated to be £13.562m, comprising £5.000m ERDF grant and the balance made up of £0.619m public sector match funding and £7.943m private sector match funding. The ERDF grant will support estimated grant payments to SMEs of £4.274m and programme delivery costs (City Council and partner staffing, marketing and evaluation), which are estimated at £0.726m.
- 7.3.2 The following table shows the likely allocation of expenditure in line with the BGP2 extension grant application across thematic headings with required private sector contributions and confirmed public match-funding:

| Category of Programme Expenditure: | ERDF Grant | Private Sector Contribution | Public Sector Match | Total Public and Private Sector Funding |
|---|--------------|-----------------------------|---------------------|---|
| | £m | £m | £m | £m |
| Capital (new plant, equipment/systems/ processes) grants | 3.950 | 7.668 | 0 | 11.618 |
| Revenue grants (New product development and market development) | 0.324 | 0.275 | 0 | 0.599 |
| Total Grants/Match Funding | 4.274 | 7.943 | 0 | 12.217 |
| Other Revenue Expenditure: | | | | |
| City Council, partner Delivery Costs/Salary match, Marketing and evaluation | 0.726 | 0 | 0.619 | 1.345 |
| Total Expenditure | 5.000 | 7.943 | 0.619 | 13.562 |

7.3.3 Grants will be provided in compliance with State Aid De-minimis rules of £0.100m (grants of £0.0025m to £0.100m) and General Block Exemption Regulation (GBER) (grants of £0.101m to £1.000m). De minimis will be 50%-60% contribution towards eligible expenditure. GBER will be 10%-30% contribution towards eligible expenditure.

7.3.4 There will be no ongoing revenue implications for the City Council as a direct consequence of this project when it finishes in June 2023.

7.4 Procurement Implications (if required)

7.4.1 BGP2 extension involves the procurement of £0.025m of marketing expenditure (literature, banners, public relations and social media) included in delivery costs. This will be based on a competitive basis involving the submission of three quotations using the www.finditinbirmingham.com.

7.5 Human Resources Implications

- 7.5.1 BGP2 is being managed and delivered through existing resources contained within the Business Development and Innovation Team. The team has been supplemented with one Grade 5 and four Grade 4 fixed term equivalent posts using the ERDF grant generated from the Council's salary match-funding to deliver this project. When this grant funded project expires then in the unlikely event of not having a successor project then the team will be required to reduce staff resources through redeployment or termination of employment.
- 7.5.2 In addition, support undertaking due diligence of SMEs grant applicants is being undertaken by one Grade 5 in City Finance.

7.6 Public Sector Equality Duty

- 7.6.1 The programme will be open to all SMEs within the GBSLEP and The Marches LEP areas. An initial Equalities Analysis was undertaken with the original Full Business Case and Cabinet report accepting ERDF Grant approved on 13th November 2018 (Reference EA000077). The proposed extension to activity will not have any adverse impact upon the Council's protected categories

8 Attachments

- 8.1 Appendix 1 Full Business Case
- 8.2 Appendix 2 Revised Risk Register

9 Background Documents

- Business Growth Programme 2 – Full Business Case, Cabinet report 13th November 2018.