Hull and East Yorkshire LEP

Paper C – Growing Places Fund Strategic Review and Programme Proposal
Report to the Business Support Board, January 2022
Report from Karen Oliver Spry, Investment Programmes Manager

1. Summary

1.1. This report updates the Business Support Board in relation to the findings of the strategic review of the Growing Places Fund and seeks approval of the proposed programme of capital investment funding.

2. Recommendations

2.1. The Business Support Board notes the findings of the strategic review

2.2. The Business Support Board recommends to the LEP Board that:

- £3.25m is committed from the HEY LEP's Growing Places Fund to create a new 3 year business support programme, as set out in Annex 2.
- £0.45m from this allocation is ring-fenced to cover programme management and administration, including the retention of the existing Investment Programmes Co-ordinator and Investment Programmes Officer roles.
- any underspend arising in the current Growing Hull and East Yorkshire programme, along with any outstanding management and administration allocation from LGF and GBF programmes is added to this fund.

3. Background

3.1. At the November meeting, members of the BSB received a paper setting out the rationale and initial update for a review of the LEP's Growing Places Fund allocation.

3.2. The fund had, since 2012, supported a Business Loan Fund which has subsequently become part of a broader and increasingly populated funding picture with interest in and take up being limited for some time.

3.3. At the close of the Humber LEP at the end of the March 2021, the entire Growing Places Fund was transferred to the HEY LEP's governance and administration. In July, the LEP Board agreed to close the Business Loan Fund programme to new applications pending an officer review of the programme and development of a new business support programme.

3.4. It should also be noted that the LEP has ongoing monitoring responsibilities for legacy investment programmes that will no longer be resourced from 1st April 2022. This review and programme development has taken place within the context of identifying resource to meet these commitments up to March 2025.

3.5. It should be noted that this funding must explicitly be used for capital and not revenue investment. On this basis the ring-fenced allocation for management and administration (including salaries) can be capitalised for the specific purpose of delivering a capital programme.

3.6. The HEY LEP, through the accountable body, is able to use capital switching freedoms and flexibilities to manage underspend within existing legacy programmes. However, a mechanism for enabling this through future spending is required and with fewer capital projects being delivered by Hull City Council, there is an opportunity to use a new capital programme as a mechanism for managing small amounts of underspend from the Getting Building Fund programme.

4. Review Findings

4.1. A number of business support and economic development stakeholders from across the HEY area, as well as officers managing Growing Places Fund programmes in other LEP areas were consulted in relation to business priorities and need, key success factors and gaps in provision. The review aimed to explore existing and anticipated need, opportunities for support and value that could be added to inform the development of a business support programme that could be launched by the LEP from 1st April 2022.

4.2. Some of the key messages and findings from the consultation are set out below:

- There is still a strong need for modest amounts of capital funding to support SME businesses in making capital investments and mitigating challenging economic environments. Business investment grant programmes such as Growing the Humber and Growing Hull and East Yorkshire are occupying a space that others aren't.

- Loans remain of little appeal to many SME businesses – those that are in the market for finance have options available to them from banks, investors, mezzanine finance specialists etc. While there may be times when offering a loan in preference to a grant is desirable (e.g. large enterprises, projects with quick payback), the focus should be on grants. These are also more cost effective to administer and more businesses will be able to benefit from smaller amounts of funding than could be awarded as loans due to FSA regulations.

- Supporting businesses and communities with the transition to net zero and low carbon technologies will be increasingly important due to looming targets and ambitions but limited line of sight to financial support and incentives from government. This is also likely to be a way to engage with rural businesses and communities, many of which may not have been a good fit with previous grant programmes.

- There is a need for simplicity and equitability across the programme requirements – many businesses find differentials like Assisted Area status confusing and demonstrating benefit beyond simple core metrics such as job creation difficult. However, a new programme must also balance this with maintaining adherence to the UK Subsidy Control regime and competition rules[1].

5. Programme Proposal

5.1. From the review findings, a proposed framework for a new business support programme has been developed. Initial consultations have taken place with the accountable body to ensure it complies with all legal requirements and conditions associated with the funding. The Investment Panel has also reviewed and endorsed the proposal and wish to recommend it to the Business Support Board.

5.2. The programme has identified initial output targets for internal benchmarking of value for money and contribution to delivery of the LEP's Economic Growth and Workforce Wellbeing Strategy. It may be appropriate to review these on an annual basis considering any economic changes or arising influences. It is worth noting, however, that in contracts to previous programmes, there are no external output targets to meet.

5.3. A full proposal framework can be found at Annex 2.

6. Governance and Resourcing

6.1. It is recommended that the programme be administered by the HEY LEP with Hull city council acting as accountable body. Hull City council are already the accountable body for the Growing Places Fund which effectively means they need to be for this programme. In the event that the HEY LEP ceases to exist during the lifetime of the programme, it is suggested that an alternative HEY-wide organisation is selected to deliver the programme.

6.2. The HEY LEP's Investment Panel currently has delegated authority to make decisions on business funding investments, including the Business Loan Fund. With more than 8 years' experience it is recommended that the Investment Panel continues to make decisions in relation to this new funding programme.

6.3. An annual ring-fenced allocation of £150,000 is proposed to cover programme management and administration for a minimum of 3 years. This would cover:

[1] See Annex 1

- 100% salary costs of 2 administration and monitoring roles (the existing Investment Programmes Officer and Investment Programmes Co-Ordinator)

- External due diligence costs

- Reasonable accountable body costs

6.4. It is suggested that any accumulated underspend in this M&A allocation is carried forward in reserve, along with any returned funding pending further review and approval of an appropriate use for this funding.

7. Decisions

7.1. The Business Support Board is recommended to:

- **Note the findings of the strategic review**

- **Recommend to the LEP Board that £3.25m is committed from the HEY LEP's Growing Places Fund to create a new 3 year business support programme, as set out in Annex 2.**

- **Recommend to the LEP Board that £0.45m from this allocation is ring-fenced to cover programme management and administration, including the retention of the existing Investment Programmes Co-ordinator and Investment Programmes Officer roles.**

- **Recommend to the LEP Board that any underspend arising in the current Growing Hull and East Yorkshire programme, along with any outstanding management and administration allocation from LGF and GBF programmes is added to this fund (the two administration and monitoring roles will in any case cover off any GBF/LGF monitoring).**

Annex 1

UK Subsidy Control

1. The EU State aid rules, which were developed and adopted to support the EU 'Single Market', no longer apply to subsidies granted in the UK. The only exception is aid within scope of the Withdrawal Agreement, specifically Article 10 of the Northern Ireland Protocol, and Article 138 in relation to aid for ongoing EU programmes and activities within the UK's share of the previous Multiannual Financial Framework (2014 – 2020).

2. The UK does still have international commitments and obligations in relation to subsidy control, and public authorities must act in accordance with those obligations in awarding subsidies (required from 1 January 2021). The Trade and Cooperation Agreement (TCA) introduced a framework in relation to what it refers to as "subsidy" controls and the Government' Subsidy Control Bill of 2021 further shaped this, defining subsidy as arising when a public authority confers an economic advantage on "enterprises" engaged in economic activity for an economic purpose, using public resources which distort, or may distort, competition (within or external to the UK). This is similar to the EU's "State aid".

3. The Bill confers an obligation on public authorities to apply the key "subsidy control principles" which should be satisfied before a subsidy is granted. These are:

   - pursues specific public policy objectives to remedy identified market failures or an equity rationale (such as social difficulties or distributional concern);
   - is necessary and proportionate;
   - is designed to change the beneficiary's behaviour to achieve the objective;
   - does not subsidise costs that would be borne in any event;
   - is not applied to an objective that could be achieved via a less distortive means;
   - is designed in a way to minimise any negative effects on UK domestic competition and investment; and
   - leads to a positive contribution to the public policy objective that outweighs the negatives from the market distortion.

4. There are exemptions for natural disasters, national or global economic emergencies and national security, or for minimal financial assistance measured against the IMF's Special Drawing Rights of 325,000 (current value approx. £332,000[2]) given to a single beneficiary over 3 years.

5. However at present the detail of the subsidy control regime in the UK is still to come and further advice is awaited. The Competition and Markets Authority (CMA) has been appointed as the UK's subsidy regulator who will, in certain cases, provide advice about whether a subsidy complies with the subsidy control principles. This will be mandatory in high-profile cases and voluntary in other cases, although the CMA's view is not binding.

[2] https://www.gov.uk/government/publications/complying-with-the-uks-international-obligations-on-subsidy-control-guidance-for-public-authorities/technical-guidance-on-the-uks-international-subsidy-control-commitments