

Report of Director of City Development

Report to Executive Board

Date: 20th March 2019

Subject: Extension of Ad: Venture and Digital Enterprise Programmes

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. Leeds City Council has successfully delivered the Ad: Venture and Digital Enterprise business support programmes across the city region since 2016. The projects are funded through a cocktail of funds including up to £11.08 million of European funding matched with a further £11.08m of match funding from a variety of sources.
2. Both programmes are delivered across the City Region with Ad: Venture providing essential support to new and young businesses and Digital Enterprise providing support to small/medium sized businesses to use digital technology to aid business growth.
3. These two business support programmes are currently funded until the summer of 2019. Over the last 12 months officers have been working with partners across the city region to secure a funding package which will enable the programmes to continue to 2022.
4. To date both these programmes have made successful funding applications from the LEP Local Growth Fund Allocation & the Local Authority Business Rates Pool and have secured match funding commitments from a range of other public & private sector partners. Both programmes are awaiting final decisions on

European funding applications expected by March 2019 which will complete the proposed funding package.

5. Digital Enterprise and Ad: Venture represents a significant contribution to delivering the ambitions of the Leeds Inclusive Growth Strategy. They deliver directly against two of the Growth Strategy's twelve big ideas; creating the underlying conditions for inclusive growth in the city;
 - *Big Idea Ten : Backing Innovators and Entrepreneurs in Business and Social Enterprises* – Ad: Venture will support new and young businesses to scale – up and fulfil their growth potential, over the life time of the project providing intensive assistance to at least 1800 businesses and 1985 individuals, resulting in minimum of 800 jobs.
 - *Big Ideas Nine: Leeds as a Digital City-* Digital Enterprise will support businesses to adopt the latest digital technology, improving their competitiveness and productivity, working with at least 2150 businesses during the life time of the project.
6. The Digital Enterprise and Ad: Venture project outcomes clearly support the Growth Strategy 2023 Vision that Leeds remains a fantastic place to start, scale-up and grow a business, and becomes a magnet for investment and talented people. The role that Leeds CC has played in developing and delivering these projects also demonstrates the key leadership role the council continues to play in ensuring businesses with growth ambitions in Leeds and the wider city region, have access to the practical help and support they need to realize their potential.

Recommendations

Executive Board is requested to:

1. Note the progress and success of Ad: Venture and Digital Enterprise to date in supporting businesses and individuals across the Leeds City Region.
2. Seek authority to spend up to a further £9.5 million of European funds, and up to a further £9.5 million of match funding over the period 2019- 22 on the Ad: Venture Enterprise Growth Programme and the Digital Enterprise Project, subject to the receipt of the necessary funding approvals.
3. Authorise the Director of City Development to enter into all new contracts and funding agreements associated with the extension of Ad: Venture and Phase 2 of the Digital Enterprise Programme.
4. Authorise the Director of City Development to take all action necessary to continue delivery of Ad: Venture & Digital Enterprise.
5. Receive reports on progress as part of on-going monitoring and reporting of the Inclusive Growth Strategy.
6. Exempt the resolutions arising from this report from the Call In process, on the grounds of urgency, as detailed within section 4.5 of this report. .

1 Purpose of this report

- 1.1 To update Executive Board on the Ad: Venture and Digital Enterprise programmes and provide information on efforts made by the Council in developing a new funding package to extend delivery for a further three years to 2022.
- 1.2 To seek approval to enter into all contracts and funding agreements required for the extension Ad: Venture Enterprise Growth Programme and the Digital Enterprise Project until 2022.
- 1.3 To seek authority to spend up to a further £9.5 million of European funds, and up to a further £9.5 million of match funding on the Ad: Venture Enterprise Growth Programme and the Digital Enterprise Project, subject to the receipt of necessary funding approvals

2 Background information

- 2.1 The European Structural and Investment Funds (ESIF) Programme is a seven year programme that can support a range of economic development, skills, environmental improvement and social inclusion activities, funded through the European Union. The funds are managed by the Ministry for Communities, Housing and Local Government (MCHLG), with scrutiny, oversight, and strategic direction provided by Local Economic Partnerships (LEP). The Leeds City Region has one of the largest allocations totalling circa £340m, the programme started in 2014 will last until December 2020, with payments on approved projects possible until the end of 2023.
- 2.2 The ESIF allocation is made up of three different funds: European Regional Development Fund (ERDF) with a focus on business support & investment and physical regeneration and the European Social Fund (ESF) with a focus on skills and employment, and a small allocation of European Agricultural Fund for Rural Development (EAFRD) focused on the specific challenges of rural areas.
- 2.3 Within the context of wider government funding policy & priorities, ESIF represents one of the only funding regimes which offers significant multi-year funding for this type of economic development & regeneration activities.
- 2.4 The ESIF Programme for the Leeds City Region provides up to a maximum of 50% of total project costs with 50% match funding being required from other sources. Match must be 'clean' i.e. cannot contain any other European funding, but can comprise public match, private match, SME contributions, staff time and certain contributions in-kind.
- 2.5 Call for proposals for ERDF revenue projects have prioritized larger applications and projects that cover the whole of a city region geography. Prospective applicants have been encouraged to work together in consortiums bring together a range of partners with a single or limited number of lead contractors. This funding approach has been mirrored by LEP local growth funding, an important source of match for business support and other economic development projects, which has only been available for projects that cover a city region geography.

- 2.6 Leeds CC has taken a leadership role in both developing and running on behalf of the wider city region partnership a number of business support projects. This has ensured that, businesses and individuals in Leeds and the wider city region can benefit from a range of business support services.
- 2.7 The first ESIF Programme call for proposals was launched in spring 2015 with Round 1 early 'calls' for specified ERDF proposals. Outline proposals to support start-up businesses (Ad:Venture) and to support businesses to adopt digital technologies (Digital Enterprise) were submitted as part of this first call. Both applications received final approval in the summer of 2016.
- 2.8 Following the results of the referendum in 2016, and the government's decision to leave the European Union it is expected that the current ESIF programme, associated with the EU's 2014- 2020 budget cycle, will be the last structural funds programme in which the UK participates.
- 2.9 In August 2016,¹ the Chancellor guaranteed all funding commitments made by the UK ESIF Programme before the Autumn Statement of that year, in July 2018 ² the guarantee was extended to underwriting the UK's full allocation for projects approved before the end of 2020. This extended guarantee covers funding approvals over the full life time of any ESIF project, and therefore applies to both phases 1 & 2 of Ad: Venture and Digital Enterprise.
- 2.10 In early 2018 MHCLG issued a number of calls for proposals from the ERDF projects these include;
- Priority Axis 3a : Enhancing the Competitiveness of Small and Medium Sized Enterprises: Promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators.
 - Priority Axis 2b: Enhancing Access to, and use and quality of, information and Communications Technology: Developing Information and Communications Technology, products and services, e-commerce, and enhancing demand for Information and Communications Technology.
- 2.11 Funding was available for up to 3 years, for projects that covered the Leeds City Region, for activity that completed no later than June 2023. The calls also set out MCLGs intention to approve one single application for each theme.
- 2.12 The call allowed for applications for the extension of existing projects where a track record could be demonstrated and where activities aligned with each call for proposals.

¹ <https://www.gov.uk/government/news/chancellor-philip-hammond-guarantees-eu-funding-beyond-date-uk-leaves-the-eu>

² <https://www.gov.uk/government/news/funding-from-eu-programmes-guaranteed-until-the-end-of-2020>

3 Main issues

3.1 Overview

- 3.1.1 Since 2016 Leeds CC have been lead partners for the Ad: Venture and Digital Enterprise business support programmes. These projects funded through ERDF and a range of other partnership sources, have been delivered, led and managed by Leeds CC on behalf of a city region wide partnership. This has enabled significant benefits to be delivered to businesses and individuals in the Leeds district and wider city region.
- 3.1.2 Current funding for these projects comes to an end in 2019. Officers have been working with partners over the last 12 months to secure funding to enable these successful programmes to continue.
- 3.1.3 Leeds CC is currently awaiting final stage funding approval and funding agreements for ERDF applications submitted in Oct 2018, this will be the last element of the funding package for a further phase of these projects, taking delivery through till 2022. Further details of the individual projects are provided below.

3.2 Ad: Venture Programme

- 3.2.1 Ad: Venture is an ambitious cross sectoral programme that delivers across Leeds City Region. The project is led by Leeds CC on behalf of all local authorities in the ESIF Leeds city region. Ad: Venture delivers a range of support to pre-start new and young business (up to 3 years old) providing wrap around support to business with high growth potential; Alongside a dedicate programme for any young people interested in exploring starting a business as an alternative to training or employment. Key elements of the offer include;
- Core Business Support- A programme of workshops; covering key aspects of business growth including: sales and marketing. Supported with one to one business support and mentoring including access to finance advice.
 - Young Enterprise Programme – A dedicated programme of support for young entrepreneurs between the ages of 18-30 delivered through the Princes Trust.
 - Area Specific Opt-in- Providing additional sectoral support focusing on the particular needs of individual districts.
 - HEI Expert Programme- Enabling new businesses to access academic expertise, either one to one or through specialist events.
 - Ad: Venture Growth Grants- Providing grants of up to £25,000, helping new and young businesses grow.
- 3.2.2 The project is delivered by a consortium of “delivery partners “including a number of local authorities, the Chambers of Commerce, the Business Enterprise Fund, a number of the city regions universities, and the Princes Trust. Leeds CC provides the programme management function including central marketing, administration

of Ad: Venture Growth Grants, and commissioning some aspects of the workshop programme delivered by contractors.

- 3.2.3 The first phase of the project which is due to be completed in June 2019, has a total value of £ 6.93 million, with £3.46 million provided by the ESIF programme; £3.46 million match funding coming from business contributions, deliver partners and other sources. To date the project has supported over 1518 trading businesses, and 1004 individuals.³
- 3.2.4 During phase 1 Ad: Venture has provided significant support to businesses within Leeds district with approximately one third of businesses supported being based in the Leeds district.
- 3.2.5 A phase 2 application to extend current delivery has been submitted. The total value of this second phase is £11.3 million, with £ 5.6 million provided by the ESIF programme. The remaining £ 5.6 million match will be provided by business contributions, deliver partners and other sources including an additional £ 0.563 million from a successful application to the Business Rates Pool.
- 3.2.6 This report requests authorisation to spend up to an additional 10 % of the total value of the phase 2 application, taking the total value of ESIF funding to £ 6.2 million ESIF funding, the total value of match funding to £ 6.2 million. This will allow the project the flexibility to apply for additional funding during the course of the extension period, if demand cannot be met from within existing budgets for business grants. This would be match funded with business contributions.
- 3.2.7 Over the extended 6 year delivery programme, the project is expected to provide intensive assistance to 1800 businesses and 1985 individuals, providing £2.66 million of business grant funding resulting in at least 800 new jobs being created.
- 3.2.8 An outline application for the second phase was approved in July 2018, an application & business case for an extension of activity till 2022 was submitted for appraisal in October 2018. The project extension for Ad: Venture received final approval from the ESIF sub-committee in January. A funding agreement is expected to be ready for signature by the second week in March.

3.3 Digital Enterprise

- 3.3.1 Digital Enterprise is an innovative business support programme which aims to help small to medium sized businesses grow by investing in digital technology. This is accomplished by providing funding (via vouchers) and/or access to training opportunities so that SMEs can improve their knowledge. The project offers a range of interventions that support small firms in achieving digital maturity and transformation as they scale up and grow these include;
- A Digital Growth Voucher – A grant worth between £2-10,000 to help eligible businesses invest in digital technology to achieve business growth and digital transformation.

³ Nov 2018 Client Data.

- A Connectivity Voucher – To help eligible businesses to upgrade their digital connection – worth between £500 to £1,000.
- Digital Knowledge Exchange Service - A package of events and mentoring, offering entrepreneurs and small business managers access to the expertise and advice they need to deploy new digital technology.

3.3.2 All project activity is delivered Leeds CC on behalf of all LCR local authorities covered by the programme. The Digital Knowledge Exchange Service is commissioned and managed by Leeds CC and delivered by contractors.

3.3.3 The first phase of the project which is due to complete in August 2019, has a total value of £ 5.2 million, with £ 2.6 million provided by the ESIF programme and £2.6 million match funding coming from business contributions and other sources. During its first phase Digital Enterprise is expected to provide intensive assistance to 1050 businesses.

3.3.4 A phase 2 application has requested funding to extend delivery until 2022. The total value of the phase 2 project is £6 million, with £3 million provided by the ESIF programme. The remaining £3 million match will be provided by business contributions, and other sources including an additional £ 0.25 million from a successful application to the Business Rates Pool.

3.3.5 This report requests authorisation to spend up to an additional 10 % of the total value of the phase 2 application, taking the total value of ESIF funding to £ 3.3 million ESIF funding, the total value of match funding to £ 3.3 million. This will allow the project the flexibility to apply for additional funding during the course of the extension period, if demand cannot be met from within existing budgets for business grants. This would be match funded with business contribution.

3.3.6 During phase 1 Digital Enterprise has provided significant support to businesses within Leeds district. Approximately one third of businesses supported are based in Leeds.

3.3.7 Over the extended 6 year delivery programme, the project is expected to work with at least 2150 businesses and provide £7.4 million of business grant funding.

3.3.8 An outline application for phase 2 of Digital Enterprise was approved in July 2018, with the full application & business case submitted for appraisal in September 2018. Final approval and a funding agreement is expected by mid March 2019.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 The original phase 1 application for both Digital Enterprise & Ad: Venture were developed on the basis of extensive consultation with a wide range of organisations across the city region. As part of the consultation process within the Council, briefings have been held with Executive Members, senior Finance Managers and the Corporate Leadership Team.

4.1.2 Both programmes benefit from on-going input and consultation from a range of organisations through a Project Board, which provides oversight and scrutiny for all project activities. Project Boards includes representation from all participating districts and the combined authority.

4.1.3 An evaluation is a formal requirement for ERDF funded projects. The Phase 2 proposals have benefited from feedback received from both beneficiaries & stakeholders as part of an interim evaluation process.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 Consideration of equality and diversity were an integral part of the development and appraisal process for these projects. An equality, diversity and cohesion impact screening has been completed, provided at appendix one, identifying that extending delivery of the service will have a neutral or positive effect on equality groups. The programme has set out a number of measures to ensure support is open to the widest possible group of eligible businesses, and the participation of priority groups will be monitored as part of on-going evaluation.

4.3 Council Policies and Best Council Plan

4.3.1 Both projects support the clear ambitions set out in the Leeds Inclusive Growth Strategy and best Council Plan; directly supporting two of the council objectives to increase growth and investment, and enable businesses to improve their skills.

4.3.2 The projects also directly contribute to one of the Best Council KPIs; to increase the number of new business start-ups and scale-ups in Leeds. By supporting local businesses to improving their competitiveness and helping to remove key barriers to future growth, the projects also support the growth of the city's business rate base, a potentially important future source of income to sustain council services.

4.4 Resources and value for money

4.4.1 In the current financial climate, funding available to deliver against key priorities, especially revenue activities, is low. The ESIF programme is the largest and for business support only revenue funding available capable of delivering at scale across the city region.

4.4.2 The ESIF Programme provides a genuine opportunity for the Council. It is a significant source of external grant funding which can contribute up to 50% of the costs of projects which we want to deliver there by doubling the resources available.

4.4.3 The financial benefits to the city can be illustrated by the Ad: Venture and Digital Enterprise Programmes, in which it is estimated that for every £1 invested by LCC as match funding, the city will receive at least £10 of project related investment.

4.4.4 Both phases of the projects have been developed to ensure that the least resource are deployed in delivery, while maintaining the level and quality of outputs, and effectively managing risk. A value for money assessment formed a significant part of the ESIF appraisal of both phases, during this process delivery costs were benchmarked against other ESIF programmes.

4.4.5 The programmes currently employs a small number of staff within the City Development Department. Phase two will require some minimal increase to staff employed on the project, to ensure that demand for support can be meet, while also meeting Leeds contractual obligations, and managing risk. These are fully funded posts that require no additional commitment from Leeds CC.

4.5 Legal Implications, Access to Information and Call In

4.5.1 There are no significant legal issues relating to this report.

4.5.2 This report recommends that these decisions are exempt from call-in for reasons of urgency.. It is anticipated that by the date of the Executive Broad both projects will have received final approval, and that MCHLG will have issued funding agreements. Exempting these decisions from call -in will enable these agreements to be signed following the Executive Broad and before the 29th March, ensuring that delivery partner agreements and employment contracts can be extended in a timely manner.

4.5.3 HMG has guaranteed all ESIF funding commitments in the event of the UK leaving the EU on the 29th March 2019 with no transition period, however considering the current uncertainty relating to the UK departure from the EU there is a significant risk of delay if responsibility for ESIF funding commitment passes from the EU to the UK government on the 29th March. This puts at risk the continuity of current project activities and the employment of staff working on the projects.

4.5.4 As a result of the timeline for feedback and queries from the Managing Authority on the applications, this is the first meeting where it has been possible to present details of the full funding package.

4.6 Risk Management

4.6.1 The ESIF programme is the largest and perhaps the only revenue opportunity available capable of making the level of impact necessary in Leeds. It is one of a few real sources of funding which can support the delivery of projects which focuses on economic development, business support and skills, and which can make a genuine impact on the growth of the city's economy. Not progressing these projects could jeopardise the delivery of key priorities and targets within the Best Council Plan as set out above.

4.6.2 As referenced in 2.8 & 2.9 of this report, the Chancellor has guaranteed all funding commitments made by the UK ESIF Programme before the end of 2020. This guarantee covers funding approvals over the full life time of any ESIF project, including in the event of the UK leaving the EU on the 29th March 2019 without a withdrawal agreement or transition period.

4.6.3 Leeds City Council as lead partner for both projects has been and will continue to be responsible in the first instance for any liability associated with ERDF regulation compliance. Particular areas of compliance risk for revenue projects include; procurement, output verification, financial record keeping, and state aid. Both projects have taken a range of measures to mitigate this risk, putting a

strong focus on compliance in delivery .This strong focus on compliance has resulted in excellent compliance and audit performance in the first phases of Digital Enterprise and Ad: Venture. To the end of 2018 the projects had been subject to four external ESIF external audits⁴, these have resulted in no actions or recommendations to make significant clawback of project funds.

- 4.6.4 To manage risk associated with output and SME grant performance, in phase two both projects will continue to work closely with delivery partners, contractors and Leeds CC staff to ensure that targets are meet, building on good performance to date in these areas.

5 Conclusions

- 5.1 Leeds City Council as lead partner of a city region wide partnership has been successful in securing resources to deliver significant business support programmes over the last two years. This is a positive, for both Leeds City Council and Leeds City Region, providing support for businesses and residents that would not otherwise be provided.
- 5.2 Although, there are some risks associated with the delivery of ERDF funded programmes, these have and will be fully considered during delivery of these projects. The excellent audit performance of the projects to date is testament to the effectiveness of action taken to manage and mitigate these risks.
- 5.3 There is a clear rationale to extend these programme based on their record of delivery and positive impact to date for businesses and residents in Leeds and the wider city regions, directly contributing to meeting the ambitious vision for the city set out in the Leeds Inclusive Growth Strategy and best Council Plan.

6 Recommendations

- 6.1 Members of Executive Board are recommended to:
1. Note the progress and success of Ad: Venture and Digital Enterprise to date in supporting businesses and individuals across the Leeds City Region.
 2. Seek authority to spend up to a further £9.5 million of European funds, and up to a further £9.5 million of match funding over the period 2019- 22 on the Ad: Venture Enterprise Growth Programme and the Digital Enterprise Project, subject to the receipt of the necessary funding approvals.
 3. Authorise the Director of City Development to enter into all new contracts and funding agreements associated with the extension of Ad: Venture and Phase 2 of the Digital Enterprise Programme.
 4. Authorise the Director of City Development to take all action necessary to continue delivery of Ad: Venture & Digital Enterprise.
 5. Receive reports on progress as part of on-going monitoring and reporting of the Inclusive Growth Strategy.

⁴ Digital Enterprise: A125 Audit 2017, AD: Venture - A125 Audit 2016, A125 Audit 2017, A127 Audit 2018.

6. Exempt the resolutions arising from this report from the Call In process, on the grounds of urgency, as detailed within section 4.5 of this report.

7 Background documents⁵

- 7.1 None.

8 Appendices

- 8.1 Appendix 1 - Equality, Diversity and Cohesion Impact Screening

⁵ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.