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An Insight Works Report

Annual Evaluation of the New Anglia Business Growth Programme September 2015 – August 2016

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Contents

Introduction	3
Executive Summary	4
1. Strategic Observations	5
2. Acquiring and Satisfying Customers	8
3. Helping Companies to setup and grow	10
4. Streamlining Business Support	14
5. Value for Money	15
6. Outcomes, GVA and Job Creation	15
7. Governance and Operations	16
8. Strengths and Weaknesses	17
9. Analysis	20
10. Conclusions	21
11. Recommendations	23

Introduction.

The Insight Works team was engaged in early March 2017 to conduct a root and branch review of the New Anglia Business Growth Programme, covering the period September 2015 - August 2016. However, following our initial discussions with New Anglia LEP and our own first review work, it was agreed that whilst this task was important we should also focus effort on key improvements to programme delivery.

The major challenge facing the programme were difficulties encountered by the Micro Grant Scheme (MGS). As the success of the MGS underpins the long-term viability of the programme, serious attention has been given to potential MGS process improvements. This report, therefore, also takes account of the related issues and has inevitably included a review of the MGS and Start Up progress achieved in the last two operational quarters.

The LEP team asked us for a "warts and all" analysis of the programme process and wanted us to provide entirely objective views of how effective current arrangements are. This report has therefore been produced in the spirit of "critical friends" but also in line with the themes required in the Invitation to Tender (ITT).

Executive Summary.

The New Anglia Business Growth Programme has significant potential to boost local growth - however effort needs to be invested in increasing the targeting and attractiveness of Micro Grant Scheme (MGS) grants and reducing the burden on applicants, particularly smaller businesses

- The MGS offer needs to be made more attractive to businesses and systematically segmented along the lines of our suggestions in Annex 1
- The LEP team needs to start a "growth conversation" with delivery and other local partners based on an understanding of growth company characteristics and find ways of actively identifying ideal companies to support
- The project philosophy needs to focus on inclusion (results orientation) moving away from exclusion (based on fear of audit challenges)
- An extremely complex delivery partnership, grant appraisal and decision making process needs to be radically reduced in line with the spirit of GBER and State Aid Modernisation
- Intensive efforts should be made to simplify and truncate the appraisal process - radically cutting the number of organisations and individuals involved
- More work should be done with the project Start Up partners to encourage them to share the focus on growth
- Development work should be undertaken around SME satisfaction and business impact
- Consideration should be given to a significantly enhanced role for the Growth Hub and its business advisers and a more strategic role for the LEP team
- Current project Guidance is too long, too technical and makes too much use of web links – it should be re-worked

1. Strategic Observations.

We have concluded that the programme has the potential to provide a significant boost to local SMEs with growth potential and aspirations, however, current processes and structures need a radical overhaul to achieve that potential success.

This is the most complex delivery partnership and small grant appraisal process we have encountered in our extensive work with ERDF funded projects. We have recognised that this is the result of good intentions and the product of a strong partnership, however, the level of complexity in current arrangements is significant.

Setting the programme's Start-Up actions aside, the delivery design for the MGS seems to have been built on several foundations: an attempt to incorporate the attractive facets of the much liked Growing Business Fund (GBF) programme, exploit proven partner expertise, overlaying proven processes with successful ERDF compliance procedures from previous projects and the creation of a concept to help the level of cohesion across key business support initiatives. This has led to the creation of a grant mechanism that is lengthy, involves every partner, is highly bureaucratic and is founded on an offer that is not very attractive to businesses. This is almost entirely contrary to the Commission's intention that GBER aid should be "given quickly and easily under simple administrative processes".

The situation regarding the MGS has been exacerbated by the involvement of a large number of individuals in the partner organisations with direct EU funding technical experience, resulting in perhaps ten people being able to influence the compliance process (not counting DCLG) and challenge the judgements of a single business adviser and their SME client. Most of these individuals are highly experienced in either grant giving or ERDF and as a result all of them have been influenced by previous direct experience of particular rules in various funding streams. This has resulted in them all having extremely firm views on what is required to achieve compliance and everyone involved has happily added cautionary procedures in a well-intentioned effort to avoid the possibility of future challenge and potential clawback. Each administrative decision has created another bureaucratic burden for other applicants to the point where SME managers have been so down trodden by the process they have withdrawn.

In our opinion, this approach is not in the spirit of the Commission's State Aid Modernisation project. The Commission's intention in creating GBER was to considerably simplify administrative processes even for grants as large as €2.5m – so the structure that has been created is out of proportion to the support being given.

For us, the MGS is the most outstanding example of bureaucratic creep we have experienced in any project or programme in over 25 years of experience. It is the understandable but inevitable result of the incremental application of individual interpretations, custom and practice and conventional wisdom - all fuelled by individual interpretations of the application of rules by both DCLG and the Commission over many years. This is the very essence of bureaucratic creep.

From an applicant's perspective, concerns were raised that the scheme was seeking ways to say "No" to applications, rather than supporting the development of applications in a positive way . From an ERDF technical perspective, we recognise that many ways of the challenges mounted against applications can be justified on some ground or other. So the challenge is – how can the programme make radical changes to the MGS process and remain compliant? We believe that our extensive recommendations meet that test.

Finally on the MGS, we detect some disappointment amongst both the LEP team and delivery partners about the low quality and volume of MGS applications to date - particularly given the LEP teams aspirations in designing the programme to provide additional relevant support to local high growth companies. We agree that some applications and their investment projects have been lower quality than would be wanted in an ideal world, but we believe there is sufficient evidence to show (from early applications and our own research work) that significant impacts can be achieved with a little fine tuning.

In arriving at our key improvement recommendations for the MGS we have been driven by the absolute requirement of the programme to commit funding and obtain sufficient private sector match leverage with at least 200 SME beneficiaries thereby ensuring long term programme viability.

Progress on supporting start-ups has also been hampered by both operational and technical difficulties, however given the proven experience of both delivery partners we are confident that the start-up element of the programme can also be managed to success.

There appears to be a problem with customer acquisition for the MGS and it seems to be related to the current distribution of responsibilities, the offer itself and some of the key elements in the process.

We have concluded that part of the problem in achieving take up (and therefore securing the critical accompanying match investment) is the lack of attractiveness of the proposition to businesses.

The current process is problematic (both in terms of the distribution of grant appraisal, decision responsibilities and the supporting paperwork). These issues are working against the success of the programme. There is, therefore, a strong case for improving and perhaps eliminating some of the key elements in the current MGS process.

There seem to be multiple issues here, the paperwork appears to be out of sync with the value of grants being provided (this includes a large number of what might appear to be unnecessary evidencing requirements and questions which seem to deal with issues which would be better dealt with by the adviser - rather than burdening the applicant). Some internal paperwork and processes seem to be "gold-plated" and it may be that the separation of duties in the process exacerbates the difficulties. There is a case for re-visiting the presentation of grants and first impressions suggest that the process could be significantly slimmed down (whilst remaining ERDF compliant). Although the forms are not the whole picture in terms of the way the grants are presented to local business they do seem to point the way to root causes of some of the problems.

We have concluded that the current application and scrutiny process is amongst the most complicated we have encountered and the rigour and volume of appraisal is out of step with the spirit of GBER and the aspiration to award smaller grants to smaller companies. Whilst many of the selection criteria and elements of the process might be appropriate to grants of higher value their presence in a MGS is highly unusual compared to ERDF custom and practice elsewhere. Further, the appraisal process draws in both Treasury Green Book practices and overlays these with ERDF conventional wisdom leading to a "gold plated" process which we believe could be simplified, at least for smaller grants.

Most ERDF grant mechanisms of this sort are managed under one roof and between a small number of people (normally an adviser advocate and a line manager (guaranteeing a separation of duties and avoiding partiality). Third signatories are normally used on a management by exception basis but they are also normally employed in a single organisation / line management. The separation of selection and appraisal duties across so many partners slows decision making and given the subjectivity involved in any appraisal process differences in opinions about what should or should not be supported are bound to be multiplied.

The current selection process is very stringent and appears to be out of sync with the value of grants being offered. There are a large number of individuals directly involved in the decision making and possibly too much democracy in decision making. The paperwork and guidance is rather technical and therefore not very accessible for either SME clients or generalist advisers. We believe there are opportunities for improving both the process and the supporting paperwork.

Improvements in relation to Acquisition should be the absolute priority and include a switch from generic marketing of the offer to direct recruitment. Effort should also be invested to improve the presentation of the offer itself.

2. Acquiring and Satisfying Customers.

Like many other ERDF funded projects and programmes the Business Growth Programme has suffered from an extremely slow start, following a lengthy Technical Assessment by DCLG and the uncertainty inflicted because of Brexit. We understand the team were asked around 100 questions in the course of the DCLG's Technical Assessment, with the programme not finally having its PIV until late October 2016. Even then, the documentation was not signed off until late August 2016. In effect the programme was in DCLG appraisal for a considerable length of time and its start was delayed by almost a year.

Marketing activity has been held back because of the lack of confidence about the approval of the bid. The soft launch of the MGS seems to have simply meant that Growth Hub advisers were asked to canvass their existing clients. In the early months, there were some marketing / announcement emails sent to local partners, the programme website was established and a leaflet was produced. Latterly, we understand there has been some digital marketing, social media and press actions and some (largely) unsuccessful petrol pump and bus advertising campaigns. We have advocated much more direct sales based activity.

Given that securing private sector match is critical to the viability of the programme, we recommend that something is done urgently to enhance the attractiveness of the MGS to business and secure the programme's future. We have worked with the Growth Hub and LEP teams to re-cast the MGS offer as set out in Annex 1 – intended to support new messaging and targeted campaigns.

Given extensive experience of both Menta and NWES the acquisition of clients involved in pre-start and start up activity is not seen as a problem. Both organisations have been working in this arena for around 30 years and have direct experience of compliance with the requirements of many publicly funded schemes including ERDF.

There have however been serious problems with the acquisition of applicants for MGS grants. From the information we have been provided there appears to be a five to one enquiry to application attrition rate and the programme has averaged only 15 enquiries per month since its soft launch last year. Up until the end of March 2017 it was getting just three applications a month. Given that all MGS grants need to be committed by March 2018 (and it would be better if it was earlier) the programme has under 12 months to manage a minimum of 180 more applications (15+ per month in a flat world). We therefore strongly believe acquisition needs urgent and serious attention and would recommend a stretched target of 30+ applications per month. If the reported attrition rate is correct / remains the same, this requires 75 enquiries per month to be generated (unless something radical is done to improve the acquisition process). Failure to address this will have serious implications for the viability of the programme and perhaps future funding.

There is a perception that the previous highly successful GBF absorbed all the demand for this kind of help. We also understand there is a degree of competition from other grant schemes, fuelling concerns that there may not be enough growth companies to support. We do not agree. Given our experience elsewhere and a basic understanding of the economic structure of the counties we believe there are more than enough companies with a growth profile which could be assisted. What is required is some intensive, highly targeted marketing. The scale of this challenge should not be underestimated and we can almost guarantee that routine public sector marketing behaviour will not deliver the required numbers.

There are opportunities. Many programme partners have emphasised that local government connections with EDOs could be better exploited. There is also some optimism around the new CMS and accompanying commercial database.

We have concluded that the reasons for lack of progress with acquisition include:

- Unrealistic expectations of the impact of the Marketing Group.

- LEP policy in aiming to raise the awareness of the LEP itself and the whole of the growth programme rather than recruiting to individual products.
- Unrealistic expectations around the impact of current recruitment techniques such as events, flyers, digital marketing and social media, press and stakeholder engagement
- All the marketing activities to date have had a tendency to announce rather than sell.
- The fact that the MGS client acquisition is the responsibility of everyone involved means that acquisition activity has been fragmented.

Marketing activity needs to catch companies when they are planning significant investment projects and the acquisition process must align with business timescales and pressures (doing it's best not to get in the way of the business needs). This needs intensive effort.

3. Helping Companies to setup and grow.

Growth Hub

Given the pressures of our other evaluation work we have not yet been able to look closely at the key elements of Growth Hub performance. We have established that the former "Sugar" CRM system appears to be not fit for purpose in collecting output data. We see that there are discrepancies between the submitted progress reports and the internal records of outputs. We believe there may still be a possibility to retrospectively compile adequate output records for the work which was undertaken in the early phase of the programme, although we have been told that the work done was apparently not well documented.

Micro Grant Scheme

Minimal activity was carried out on the MGS during claim periods 1 and 2. This was due mainly to a delay in the funding agreement and the development of the guidance. In claim 3, there were 7 applications made with 4 of these proceeding to due diligence.

Start-up Programme

During this period – the Start-up programme was the only one of the three main delivery mechanisms to deliver support, or retain sufficient evidence to provide adequate data.

Start-up support is delivered by NWES and MENTA, with each partner collecting the required evidence and supplying it to the programme delivery team at the LEP.

During the period September 2015 – August 2016, there were 67 new enterprises supported by the Start-up Programme. All the companies in this period were assisted by NWES. The lack of assists claimed in this period by MENTA was down to a delay in the start of the programme and constantly changing guidance materials produced by DCLG.

Support consisted of a combination of workshops and one-to-one support, which could be delivered either face-to-face or over the telephone.

Workshops were divided into four classes – first steps, financial masterclass, strategic marketing including digital, and bookkeeping ranging from two hours in duration to a full day. NWES offered events on Saturdays and evenings, but both were relatively unpopular and Saturday events had the highest dropout rates.

Outputs

Our research of the files from NWES showed support was given to 67 companies over the claim periods 2 and 3, with all companies counting towards the programme output targets for new enterprises supported and potential entrepreneurs assisted to be enterprise ready.

Nature of Business

There was limited information regarding the nature of business / sector for the 67 start-ups, with details for 25 of the 67 companies. There was an extremely broad mix of companies, including English Language Training, homemade party food suppliers, bartending services, cleaners, gardeners, plasterers, handymen and graphic design.

Hours of Support

During the first 3 claim periods, 67 companies received a total of 1038.5 hours of support, at an average of 15.5 hours. The longest length of support received by one company was 39 hours. It is currently too early to link this data to impact, but in time we will explore whether there is a relationship between the amount of support received and the impact.

Number of Hours	No of Companies	%
up to 12	13	19%
12.5 - 20	46	68%
20.5 - 30	7	10%
Over 30	1	1%

Table 1 – Hours of Support

Nature of Support

We analysed the nature of the support received and categorised them by business process. The origin of the seven business processes listed in Table 2 are founded in extensive work we have carried out elsewhere and reflect 100's of entrepreneur's views of the key processes common to all businesses. It serves as an excellent way to distinguish which part of the business was the focus for support. We have added Business Setup to Strategy as most companies benefitted from basic setup advice, and we have added in a 'Personal' category. Starting a business can be lonely and personal support can often be just as useful as traditional business advice.

Business Process	No of Companies	% of Support	% of Companies
Business Set-up/Strategy	52	30%	78%
Sales	42	24%	63%
Operations	14	8%	21%
Finance	44	25%	66%
People	16	9%	24%
New Markets	2	1%	3%
New Products	1	1%	1%
Personal	5	3%	7%
Total	176		

Table 2 – Nature of Support

The table shows that the most common form of support given was business advice, accounting for nearly 30% of all support given and delivered to 78% of all companies. Sales and Finance support was the next most common, accounting for 24% and 25% of all support, and delivered to over 60% of companies. In fact, those three business process categories combined accounted for just under 80% of support offered, which is what might be expected from a start-up programme. The remaining 5 categories accounted for 22% of support delivered, with people and operations slightly more common at 9% and 8%, which were both delivered to just over 1 in every 5 companies.

Business Setup/Strategy

By far the most common type of support under this category was Business Plan development which was delivered to almost all companies and would appear to be standard support offered. Companies were also helped to register with HMRC, decide their company status and legal structure (Ltd, Sole Trader, etc). There was almost no strategic advice captured by advisers, with only 2 companies helped to develop their business model.

Sales

Online and digital sales advice was the most common form of support delivered in this category, specifically relating to SEO, website reviews, and social media usage / Facebook advertising. Companies were also given basic marketing and promotional advice, including support to carry out market research.

Operations

Support for operations is more varied and can be difficult to categorise – but this included advice on equipment, templates for terms and conditions, gaining licenses, seeking premises, IP and the purchase of software.

Finance

The vast majority of support consisted of basic bookkeeping advice, or other actions related to financial control, including forecasting, and cash flow. Companies were also supported with VAT or tax issues, and how to file returns. There were few instances of genuine access to finance support, with some support related to securing loans and applying for grants.

People
Nearly all people support consisted of either attendance at a workshop – the most popular being the First Steps workshop, or a referral to seek training. One company was supported with a specific issue around dealing with an employee who had timekeeping and sickness issues.

New Markets
Only two companies were supported with accessing new markets and both types of support appeared to consist of discussions around targeting alternative markets – although no further details were provided.

New Products
Just one company was supported with the development of new products or services, and were given advice on further developing their service offer to appeal to a broader market.

Personal
Personal advice given included advice on benefits, working tax credits and achieving a work life balance.

Summary
Although start up support contributes to growth in the business stock and job creation the key programme mechanism for significant growth lies in the MGS.

The choice of using the GBER Regulation as the State Aid device for the programme was driven by the admirable LEP team aspiration to be able to provide companies with financial support which would be genuinely additional to help they had already been given under schemes operated under the de minimis Regulation. At the time there was a fear that some clients would exceed their de minimis allocations, particularly those located in Assisted Areas. This is laudable, but we are not sure that there is any evidence to support this conclusion. There could be some value in exploring this issue further.

In our view, there is a problem with GBER. Ostensively, it is simple to apply and monitor. In practice it could be argued that it is administratively more complex than de minimis – which is actually much more attractive to businesses. None the less, we acknowledge there are good reasons for the choice for this partnership.

The current MGS Guidance to applicants and Business Advisers was developed based on a previous ERDF funded three-year environmental programme, drawing extensively on the Commission's Regulations and with a high level of advice from DCLG. We consider that there would be real merit in embarking on a root and branch review of the guidance with the aim of simplifying it for all involved.

There has also been a tendency to exclude companies in certain sectors in order to avoid eligibility problems at audit. Whilst this has not directly affected acquisition we think it has led to a mentality of checking eligibility to screen people out rather than actively finding ways to screen people in.

Given the programme structure the MGS isn't primarily focused on the delivery of jobs but this is beneficial in some ways to achieve the overall programme's job target. If this were a further obligation it would severely reduce the number of MGS applications. On the other hand, it will make the offer highly attractive to manufacturing companies wishing to invest in productivity and efficiency plans.

We understand there is an acquisition issue on the west side of the region where the LEP geographies overlap - as GCGP have opted for a more virtual Growth Hub there seem to be no boots on the ground. It is too early to check whether this is leading to a paucity of beneficiaries from that area and establish the need for any special measures.

4. Streamlining Business Support.

As we have indicated above, this is the most complex programme partnership process we have encountered in our evaluation work. We fully understand how the team have arrived here. It is the result of an attempt to exploit the attractive facets of the much liked GBF programme, overlaying it with ERDF compliance procedures, whilst trying to achieve a level of cohesion across key business support partners. However, this has led to the creation of a highly bureaucratic, complex process which is certainly not the best use of resources.

There is a yin and yang about the programme's complex Governance arrangements. Seen in a positive light these reflect the LEP team's laudable intention for inclusiveness and consultation. From the other perspective, there have been demands for the LEP team to exert more strategic leadership. This needs consideration.

In the case of the MGS it has however resulted in up to ten people being able to challenge the judgements of a single business adviser and their client. To add further complexity most of these individuals are highly experienced in grant giving or ERDF. As a result, all of them have been damaged by direct experience of the strict enforcement of particular rules. This has resulted in them all having extremely firm views on what is required to achieve compliance and so everyone involved has added their own cautionary procedures in a well-intentioned effort to avoid the possibility of future challenge and potential clawback.

We believe there is currently a considerable duplication of tasks – for example with four programme partners with tasks involved in the MGS decision to support (Growth Hub Business Advisers and management making the first decisions on eligibility and suitability, Nwes staff conducting a process they call Due Diligence, the Grant Panel members challenging those results and the SCC challenging the entire information supply chain).

The programme can make a significant contribution to the LEPs strategic role in business support. Its construction facilitates the existence of the Growth Hubs cohort of business advisers, allowing capacity for generic business support alongside grant giving. We have learned that without the programme the Enterprise Agencies would be more likely to compete (because of the programme they have reached an agreement about district coverage) and they are now integrating their efforts along with the Growth Hub, agreeing its role in working in the space beyond Start-Up. The Start-Up partners are also playing a positive role in communicating their impacts at district level which is in itself a contribution to further integration of effort and the reduction of duplication.

5. Value for Money

We have recommended that it is too early to engage in any Value for Money (VFM) or impact analysis, given the small numbers of beneficiaries engaged to date and the timescales involved in any support achieving business impacts. We have recommended that consideration should be given to surveying all beneficiaries in the process of developing our year two Annual Report.

6. Outcomes, GVA and Job Creation

As with VFM, it is too early to make any kind of assessment of GVA or job creation. This will form part of our year two Annual Report.

7. Governance and Operations

In our view the governance arrangements and the LEP team are in line with the scale of the programme, and its sophisticated structure includes:

- Five delivery partners (Suffolk County Council, Menta, Nwes, Suffolk Chamber of Commerce and the LEP)
- A Partnership Board – which secures strategic fit
- An Operations Group (Chaired by the LEP and involving all delivery partners).
- A Marketing Group (comprising individuals drawn from each of the delivery partner organisations)

A few partners have suggested that it would be helpful to improve the clarity in relation to everyone's roles and responsibilities.

The LEP Team

There has been insufficient time to undertake a comprehensive review of the LEP team roles, responsibilities and processes, however we have concluded that the quality of programme management information could be considerably improved. In our opinion there is significant potential for the programme to capture extremely valuable data on a large number of clients and business impact. There is a case of a re-examining how to refocus the work of the LEP team. This might include leading on acquisition - with measurable performance and accountability for the volume and quality of SME recruitment against the LEP's own growth criteria.

DCLG

The role of Government in Governance should not be ignored. DCLG advice and direction has been pivotal to the design and operation of the programme to date.

In our experience DCLG and BIS (now BEIS) officers change regularly and often have far less experience than programme delivery partners and their involved line managers. This can often contribute to poor decision making or low quality programme processes. DCLG officers regularly lack commercial experience (which means they have no idea of the impact their decisions have on applicant businesses) and are often highly risk averse and obsessed with compliance. DCLG officers can also be quite directive, but when pushed will take no responsibility for their directions or interpretations – reminding programme owner that it is their responsibility to comply with Regulations. It is worth reporting that in our experience DCLG interpretations of the requirements of the Regulations vary within and across their teams, sometimes contradicting each other. An illustration of this is the way they have handled SME responsibilities regarding the Procurement Regulations where the position has altered fundamentally three times since the beginning of the Operational Programme.

Partners report that DCLG have regularly failed to appreciate the negative implications of their interpretations on business clients, and efforts to comply with the various changes in DCLG in guidance on SME procurements has proved to be a major barrier to progress and a cause for serious complaints from applicant SMEs.

There have also been major frustrations because of the numerous alterations in output definitions – particularly technical guidance around start up support.

8. Strengths and Weaknesses

Strengths

There is extensive consultation and excellent working relationships amongst all Delivery Partners. The quality of the partnership is remarkable. It is untypical in terms of its collaborative spirit and good intentions.

The strength of the LEP team lies in its culture – it is well led, administratively sound, systematic, ordered, open, honest and collaborative with a good mix of skills.

Menta have 30 years' direct experience of pre-start and start up programmes, operating in incubation, working with district and county councils and other local partners. They are actively engaged with the LEP team.

Nwes also has more than 30 years of experience in the start-up arena and is operating increasingly successfully across the country. Their in-house ERDF technical expertise is comprehensive.

The programme teams have well established processing and claiming procedures.

Both start up delivery partners believe that a latent demand exists for start-up support.

Suffolk County Council are highly experienced in both grant giving and ERDF audit disciplines with grant offers and payments being overseen by extremely thorough, professional and supportive staff, with high levels of auditing and monitoring standards.

The Growth Hub team, employed by Suffolk Chamber (which is extremely well connected to local businesses and operates to high professional standards) are flexible, loyal, supportive, respected at government level and grant savvy, with extensive prior experience in business support. They have a great team spirit, a good spread of ages and business sector expertise.

The Growth Hub offer is designed not to clash with other local initiatives and it is consistent with other business support availability and aspirations to integrate start up support.

The Growth Hub and LEP aims to target growth companies are laudable – aiming to help the LEP play its strategic role in integrating local core business support mechanisms – with the Growth Hub functioning to connect to all other business support initiatives across the counties.

The aspirations set out in the Full Application remain sound. The Growth Hub should be seeking to support companies with high growth potential in the LEP priority sectors, as that will give the best VFM for the public investment in this programme.

Despite past difficulties relationships with the current DCLG contract manager are excellent. More broadly, DCLG apparently view the programme outputs (if achieved) as extremely good VFM and expect Business Growth Programme initiatives to deliver more than all of their other investments together.

The acquisition of the new programme Client Management System (CMS) and accompanying commercial database provides real potential to assist the programme in meeting its MGS acquisition objectives and then its delivery of business impact in growth firms.

Weaknesses

The programme's growth philosophy is not as sharp as it could be. We think the original growth objectives in the Full Application have been somewhat buried beneath behaviour and processes aimed at securing compliance.

There has probably been too much consultation and not enough strategic direction / programme management. The LEP team has been accused of micromanagement.

We believe there have been unrealistic expectations around the impact of current marketing actions.

Constant changes in guidance in terms of interpretations and rules has undermined their confidence in the programme and they believe that some interpretations have burdened them with unnecessary financial strains. To an extent, they believe that their underperformance against target is partly because of this lack of confidence.

There needs to be a growth conversation in the context of the number of potentially high-growth SMEs in the two counties with active efforts to find ways to help the recruitment of the right kind of businesses.

Although the team felt the bureaucracy associated with the MGS has been cured by the time we were engaged we quickly concluded that despite the improvement / simplification efforts, the process remained unnecessarily unwieldy and needed an overhaul.

The MGS application process we have encountered is far too demanding given the levels of grant support on offer. History had delivered an offer which aimed to be simple but is in fact highly complex to consume. All partners have argued that the current MGS process should be in sync with the value of the grants being provided.

The current guidance is a problem. We know this is difficult. In our experience neither clients nor practitioners read detailed written guidance and find it extremely difficult to assimilate the highly complex rules surrounding ERDF definitions and technical requirements. None the less strenuous effort needs to be made to simplify the rules and hide the wiring from SME applicants.

The current MGS guidance to applicants and advisers is highly technical and seems more concerned with screening people out rather than helping them in. New guidance needs to put an end to the lack of clarity about what can or cannot be supported. Adviser confidence and competence needs to be considerably boosted by increasing their understanding of ERDF rules.

Everyone involved has recognised that the existing MGS process is complex, risk averse and slow. Business Advisers report that applicant businesses find the application process too daunting and time-consuming (even though they are providing hands-on help to them in making their applications). The process is failing to understand the needs of the SMEs it is claiming to try to help. The process needs to recognise that SME managers (particularly those in smaller companies) have the least amount of time and experience of grant applications and have real difficulty in finding the time to make applications.

Growth Hub Adviser ownership needs to be increased by involvement in conveying good as well as bad news to their clients.

Advisers tell us that there is as much paperwork attached to the MGS as there was for the GBF which offered grants of up to £500k and those were turned around in a month. They also have direct experience of other ERDF supported grants of similar levels which have simpler and faster application processes. Delivery partners have argued that the MGS decision processes are out of proportion to the value of the grants being provided (and we agree).

Experienced delivery partner staff have argued (and we agree) that given that clients have to spend the money before they can claim grants there is little risk involved in the programme making offers of grant.

There has been little recognition of SME needs in the existing process. Advisers have regularly encountered resistance from applicants to providing the amounts of information required when such small levels of grant are involved. SME managers are extremely reluctant to open-up to this level of scrutiny when there are only limited benefits involved.

Given the ratio of a GBER grant to the amount of investment required by the SME, it has to be recognised that the attractiveness to most businesses is quite low, particularly when the levels of grant are low. In our view, the attractiveness of the MGS offer declines significantly with grants below £10k (where the current level of scrutiny might perhaps be just about tolerable) to £1k (where the amount of paperwork and effort must disadvantage the applicant – if only in terms of opportunity cost). The current lower levels of grant are too small to be useful to SMEs given the burden of the application process.

There might have been some limited brand damage for both the Growth Hub and the LEP resulting from SME experiences in the early management of the MGS.

Because of the delays in decision making there may now be a need to re-persuade all economic development partners involved to date of the value of this support.

Partners have said they believe there is a possibility that Brexit might mean the support will be taken away and this may well have contributed to some reluctance to full commitment on their part. That issue continues to undermine confidence and needs to be managed.

9. Analysis

In many of the ERDF projects and programmes we have designed and evaluated, payment of grant has been made against actual expenditure largely at the discretion of a single individual (occasionally this is an accountant or someone with a finance background, but more commonly it is a generalist business support senior manager). The normal relationship (which guarantees a separation of duties) is to have a Business Adviser advocate who presents a business case to a (senior generalist) line manager. On an exception basis (scale of grant, eligibility) a third signatory is involved (normally in the same organisation and typically in a finance department – but not necessarily possessing formal finance qualifications).

Some DCLG officials erroneously regard a forecast as a promise. They fail to understand that a forecast of expenditure is exactly that and we have encountered several instances where arcane administrative policies have been put into place as a result of pressure from DCLG to try to manage difference between forecast expenditure and claimed expenditure. Due regard also needs to be taken of the fact that in business things change - it is simply not possible (or necessary) to predict future expenditure with absolute accuracy). It needs to be recognised that claims will vary from forecasts and all that is required is the use of discretion in terms of the intention of the investment plan and/or an assessment of the applicant's justification for any change.

Many ERDF projects and programmes use a diagnostic, action planning, project profile which is essentially a forecast. They are just based on reasonable evidence or guidance from the Business Advisers. Most business applicants are capable of producing a robust forecast. If they aren't, this can be factored into the Advisers assessment of the suitability of the applicant. SME business people and Business Advisers generally know what things might cost – while civil servants (and many DCLG officers) largely do not.

£1k can be a help to an SME (any free money can be a help to company) but it is not much given the amount of effort and perhaps cost involved in making an application (If companies need to use their accountants to assemble information which they do not normally keep this will inevitably lead to charges). There is no doubt that free resource will help any firm, but only if the benefits outweighs the emotional and actual costs incurred by the company in securing support. At the bottom end of the current range of grants any informed SME manager would rule out participation on the basis of his / her cost benefit analysis.

10. Conclusions.

Technical issues of all kinds seem to be taking far too long to resolve, involving too much effort and too many people – all of whom had different opinions on what are largely subjective issues.

The Growth Hub Business Adviser process for smaller grants needs to take account of the fact that very small companies are the ones with the least time available and least experience of working on their businesses.

There are currently too many organisations involved in the MGS process and the fact that many of the individuals in the process have considerable prior experience of ERDF is an obstacle to simplification. Some of them have had previous disturbing enforcement experiences which have convinced them of how single compliance issues must be handled. This rarely takes account of the fact that the audit judgement or interpretation might have been flawed or that the rules / practices have subsequently changed. The problem is that fear drives these decisions. Almost everyone involved is fearful of future audit challenges (around their particular experience of issues) and the potential for claw-back.

The current MGS process asks for too much information from applicants (almost regardless of the levels of grants involved) and places too great a burden on applicants. In the case of smaller grants this is rendering the grants of no value or even results in a negative value to the applicant / local economy. Far too much detail is currently being required in relation to small investment projects including the imposition of unnecessary requirements such as the need to provide evidence of potential cost elements at the point of application.

There is widespread disappointment amongst partners about the quality and volume of the MGS applications to date, given the LEP aspirations in terms of supporting high growth companies. An initial analysis of the grant recipients suggests that:

- Over half are larger employers seeking a maximum level of grant to support significant investments
- The majority of applicants are substantial established strategic local employers
- Grants are already helping trigger some important business impacts

The Guidance

This is amongst the most technical and complex grant policy guidance we have encountered. In our view the applicant guidance could be considerably simplified and shortened. There are large elements in the applicant guidance which the applicant does not need to know at that stage - for example how the aid will be treated in administrative terms - and there are elements which are too technical for any SME novice applicant to understand.

In round the guidance is much too technical for both clients and advisors, not very accessible to the general reader/novice and not very commercial. We would be surprised if an SME manager would go much beyond reading the first page of the applicants guide before giving up. Life is too short – business pressures are too great. The text is sometimes vague and ambiguous and includes organisations we (as a team) have never encountered – so it is highly unlikely businesses will be familiar with them.

The guidance text is often simply a repetition of text drawn directly and verbatim from the Regulations, BIS or DCLG Guidance and so it's only added value is that it has been brought into one place.

We're not sure there is much of a case for separate guidance for applicants and advisers.

We would recommend that the LEP team undertakes an intensive effort to make the rules clearer to everyone involved and then provide additional advice on a case-by-case basis where it is required. This role should diminish over time as everyone involved understands the actual requirements of compliance.

Recent behaviour has been driven by the (understandable) fear that the programme will not secure enough match funding. This has led to the MGS being opened up to business sectors with low economic added value. Whilst we understand the rationale for these changes we would suggest that the focus of effort should be on securing the participation of the right kind of companies.

The presentation of the grant is sometimes guilty of making an offer which is already not very attractive to businesses even *less* attractive. The "up to" 20% is well intentioned (based on the hope of securing more match funding for the programme) but it needs to be recognized that the more match required the less attractive the grant.

Any new marketing activity needs to aim to catch companies when they are planning significant investment projects. The grant giving process has to align with businesses timescales and pressures (doing its best not to get in the way of what the business needs)

Issues around compliance with the procurement rules have been acknowledged as a major barrier. In our opinion the requirement for a price confirmation for items of planned expenditure is gold plating.

DCLG officers change regularly, often have far less experience than most of the project proposers and involved line managers, regularly lack commercial experience (which means they have no idea of the impact their decisions have on applicant businesses) are often risk averse and obsessed with compliance. It is therefore regularly helpful to engage in positive challenges to interpretations which do not make sense in the real world.

It is important to remember that although DCLG can be very directive the department will take no responsibility for their directions or interpretations. There are limited connections between the appraisal and audit functions. DCLG officers interpretations of the requirements of the Regulations vary within and across teams. An illustration of this is the way they have handled SME responsibilities in regard to the Procurement Regulations which have altered fundamentally three times since the beginning of the Operational Programme.

Despite the extensive programme administrative processes the business case / evidence of reasons for support / case decision narrative is quite limited and there is currently almost no focus on business impact in the paperwork.

As a result of adopting the premise that grants must be finance of last resort (and regarding this as the only legitimate additionality argument) the process has been seeking hard additionality. The problem with that policy is that at this level of grant it is highly likely the programme will only be able to support companies in a weak financial position with issues around their long-term viability – not the growth companies which will deliver employment.

11. Recommendations.

As there are significant improvements that can be made in the application and appraisal process to the attractiveness of the offer, the provision of additional assistance, the acquisition of quality clients, increased support and training for business advisers – we believe the whole programme can become much less technical and more SME friendly achieving greater economic impact in all domains.

Given that a consultation with DCLG about the proposed changes implied by our recommendations might take too long, we recommend that the LEP team decide immediately if they believe our proposed new approach will be compliant and be prepared to risk any technical challenges at audit. We stand ready to defend any element of our recommendations.

Strategic

1. Work to shift the culture of whole team (LEP and partners) onto the applicant's side
2. The LEP team to introduce a same day service on Adviser questions
3. Find ways of Hiding the Wiring from applicants
4. Consider renaming the grant
5. Rewrite / supplement the guidance to be more commercially aware and less technical
6. Repackage the offer to enhance its attractiveness to businesses
7. Consider the scrapping of some current processes and partner roles

Guidance

We recommend the programme should

1. Invest considerable effort in ensuring the minimum rules are clear to everyone involved. The team can then provide additional advice on a case-by-case basis where it is required.
2. Give active consideration to the production of a quick "no" for applicants such as retailers - helpfully explaining why they are excluded from support and pointing out the other schemes that might help them.
3. Boost Adviser confidence via increased clarity of the rules (ending the lack of clarity about what can or cannot be supported)
4. Undertake a detailed examination of the way in which investment costs are treated (both from a claiming and reporting perspective)

Advisers

The quality of the investment projects supported is in part down to the business adviser who can help improve the SMEs investment planning as well as delivering other impacts during any 12 hours of support. We propose a major alteration of roles - demanding new things from Growth Hub advisers which should include:

1. Taking full responsibility for the acquisition of quality growth potential clients, a role in the advocacy for quality investment projects and a responsibility for the protection of the public purse
2. Providing hands on help, particularly to smaller companies, to ensure there are comprehensive and high quality applications
3. The production of top-quality narratives to represent their projects, the associated business case/additionality/incentive effect. There should be an overwhelming reason for using taxpayers money for supporting any investment (we have suggest the application of the "Daily Mail" test)
4. More commercial insights and market assessments
5. Less support for companies in market segments that are already well served unless the business case can be clearly justified
6. A clear role in ensuring applicants are aware that if they perjure themselves at the point of application then "due diligence" checks may result in them being a denied a grant offer
7. Striking a new balance between the level of grant funding support provided to the company with the administrative burden (both for the applicant and the programme) avoiding including an unreasonable volume of investment elements/costs

To support this the LEP team should:

1. Provide more help and advice to advisers in handling questions
2. Clearly state the adviser role and required behaviour (their role in promotion and advocacy, define the level of service to clients)
3. Increase understanding of the adviser's position within the LEP team
4. Give more respect to advisers and involve them more in decisions
5. Provide advisers with case studies to build their knowledge and understanding
6. Support advisers to raise the quality of applications / recruit the right companies and help ensure high quality investment projects are supported
7. Encourage advisers to work harder on anticipating and answering questions which arise

Acquisition

Develop a more in-depth growth targeting philosophy and behaviour/increase acquisition selectivity, develop a quick no for the unsuitable or less suitable. These responsibilities should be handled at adviser and Growth Hub manager level.

1. Test methods to recruit the right companies in the right volumes
2. Recognise that current plans and the Growth Hub advisers won't deliver all that is required to secure the future of the programme
3. Introduce 60 second on-line video introductions to the grant
4. Find ways to actively involve EDOs in recruitment
5. Improve cascade to multipliers but recognise they also might not contribute significantly to results
6. Produce strong impact focused narrative case studies

As acquisition is critical to programme viability we recommend that urgent attention is given to targeted direct acquisition of quality customers. The programme needs to move from broad awareness marketing to focused targeted activity. This can be achieved by making it someone's responsibility, perhaps examining whether there is a need to increase internal capacity or appoint an external contractor.

Application

1. Cut to the business burden to the absolute minimum
2. Help advisers to do more support work with SMEs

As it is a widespread custom and practice in ERDF grant giving to make offers against action plans based on forecast expenditure with no requirement for any kind of verification of cost elements or the provision of evidence of VFM or Best Value by SME beneficiaries w*e recommend that all processes related to the* prior validation of forecast expenditure are dropped.

Appraisal

1. Ensure the scrutiny and narrative involved in applications is in line with value of grants/investment (rigour in line with scale)

Speeding up Decisions

1. Consider removing the Panel process
2. Consider removing Nwes from the MGS process
3. Find ways to eliminate LEP team checks
4. Find ways to introduce flexibility in the scrutiny of applications

A proposed new programme process is provided at Annex 6.

The Insight Works team would like to express its sincere thanks to the LEP team and Delivery Partners for their honest and positive collaboration with this evaluation and we look forward to working with everyone again to track progress in years 2/3.