

Subject:	ERDF Business Support Programme		
Date of Meeting:	20 June 2019		
Report of:	Executive Director Economy Environment and Culture		
Contact Officer:	Name:	Cheryl Finella	Tel: 01273 291095
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Ward(s) affected:	All		

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

1.1 This report updates the report to the Tourism Development and Culture Committee (TDC), in September 2018 which proposed a funding contribution toward a new business support programme for the city. This new report proposes an additional role for the City Council (the 'Council') in helping to manage the business grants element of the project on behalf of the lead partner, the University of Chichester, (UoC).

2. RECOMMENDATIONS:

That Committee:

- 2.1 Approves the proposal for the Council to manage the £2.865 million business grants fund which forms one element of the European Regional Development Fund (ERDF) Business Support Programme led by the University of Chichester.
- 2.2 Grants delegated authority to the Executive Director Economy Environment and Culture to enter into the agreements necessary to put the recommendation set out in 2.1 into effect, including:
- (i) A grant management agreement with the University of Chichester; and;
 - (ii) Grant agreements with the recipients of the business grant fund.
- 2.3 Notes the delayed start to the ERDF Business Support Programme and agrees that the Council's match funding contribution of £90,000 will now be made from 2019/ 2020 to 2021/2022.

3. CONTEXT/ BACKGROUND INFORMATION

3.1 On the 27th September 2018 TDC agreed to a funding contribution of £90,000 over 3 years to support a European Regional Development Fund (ERDF) bid led by the University of Chichester (UoC) focused on providing SME business support in the Coast to Capital LEP area. It comprised £30,000 per year funded from the Economic Development Initiatives budget from 2018/19 to 2020/21. This allocation was set to bring in match funding of a further £90,000 (£30,000 per annum), from the ERDF.

3.2 The UoC bid along with a number of other ERDF and European Social Fund (ESF) projects that have come via the Coast to Capital LEP have been waiting a long time for approval from MHCLG. The full reasons for this are unclear but include staff changes at MHCLG, requests for additional information and a lack of resource at government office to process the projects.

3.3 **ERDF Business Support Programme**

3.4 Early in 2017 the Ministry for Housing Communities and Local Government (MHCLG) launched a call for projects under the European Regional Development Fund (ERDF). The call was for Priority Axis 3: 'Enhancing the competitiveness of Small and Medium Enterprises'. £6 million was set aside for the call with a requirement that bidders identify and secure match funds of a further £6 million to provide a total project bid value of £12 million over three years.

3.5 The UoC led a bid for the fund in partnership with city region's main districts, borough council's and unitary authorities. An expression of interest was submitted in April 2018 followed by a full bid submission shortly after.

3.6 If successful then the University and its partners will work together to roll out the programme which will comprise training and support in the following areas:

Productivity & Growth

Monetisation of Innovation

Leadership and Management Development and Peer to Peer mentoring

Business Start-up advice

Access to Finance

3.7 The Access to Finance strand will provide grants of between £2,000 and £100,000 per business; £2.865million of the £11million programmes will be set aside over the 3 years toward business grants which will generate match funding through SME capital and revenue projects of around £4.65million. The overall project value was reduced from £12million to £11million in 2018 when two of the project partners withdrew from the project.

3.8 Match funds for the project will come from the project partners and UoC. West Sussex County Council is using an allocation from pooled business rates and Brighton & Hove City Council is using £90,000 from the Economic Development Initiatives budget (see paragraph 7.1) as match funds toward the project over three years. Other funders include the Greater Brighton Economic Board, Lewes District Council, Mole Valley District Council and The Princes Trust

3.9 Although led by the UoC project delivery will take place at different locations across the Coast to Capital region including locations in Brighton & Hove to ensure that provision is convenient for local businesses to access.

Request for Brighton & Hove City Council to manage the business grant fund

3.10 The University of Chichester approached the Council to ask if the council would take responsibility for managing the business grant fund element of the project. The reason for the request was to help the university manage the cash flow

issues arising from the project. Specifically the time lag between paying the business grant to a business, submitting a claim to the MHCLG, and receiving payment for the claim.

- 3.11 For clarity, businesses who are awarded an ERDF grant will receive no more than 40% the total cost of the item or activity. To access the ERDF 40% a business must have spent the whole amount (100%), they can then claim 40% back from the ERDF by providing evidence of expenditure.
- 3.12 The EU defrayed expenditure regulations on the business grant element of the project require the grants to be paid in advance of the claim being submitted to MHCLG. This means that even with the most efficient process the university would have to wait for between 2 and 3 months before receiving payment. Based on their estimates the university would experience a negative cash flow. Whilst this could be managed to a degree, the amount would likely be between £350,000 and £400,000 in a 2 month windows every quarter. Given the size of the university this cash flow represents an insupportable level of risk.
- 3.13 The University of Chichester is working with MHCLG to improve the efficiency of the claims process and increase the certainty and speed of payment matched to the claim. They propose to do this by producing a draft claim for scrutiny by MHCLG prior to final payments. The purpose of the draft claim will be to address any errors, potential challenges and risks prior to the grant applicant being paid.
- 3.14 The Council is very experienced in managing programmes of this kind. In 2014 the Council's Economic Development managed a three-year £1.8million business grants programme funded by the Department for Business Economy & Industrial Strategy (BEIS) Regional Growth Fund which was part of a business support project led by the University of Lancaster. The programme achieved 82% of job target outcomes and exceeded projected private sector match by 34%.
- 3.15 The specific role that the Council is being asked to manage has been identified as follows:

Advertise, interviewing, recruiting and managing the Grant Fund Manager

Support the general marketing of business grants

Manage enquiries

Manage Expressions of Interest

Manage full application

Review of full application and due diligence

Issue agreements linked to the grant

Pay grants to SME's

Follow up to ensure that the SME grant fund project has happened

Submit all paperwork and claims to UoC to form part of the full programme claim to MHCLG

Ensure grant fund KPIs are met (e.g. numbers of grants distributed, value of grants distributed, the value of SME project match to the programme)

Track and report on business outputs

Work closely in partnership with the UoC programme manager to ensure compliance with EU/ ERDF guidelines

Contribute to project evaluation

- 3.16 All costs associated with these additional responsibilities can be funded through the project, including the role of the Council's Finance team (ORBIS) in checking and signing off the quarterly claims and supporting evidence. The Grant Fund Manager will have responsibility for managing all aspects of the grants programme, this includes overall management of the process, allocating of the grants, compliance to EU and ERDF regulations, evidence requirements including evidence of defrayal, receipts, and contract compliance including achievement of outputs.
- 3.17 Additionally there will be a role for the Council's Legal officers (Orbis Public Law), in adapting/ drafting a legal agreement between the Council and the grant recipient; this will likely be based upon an EU/ ERDF/ government template. They will also review and advise on the agreement which will be needed between the Council and UoC including any revisions necessary. The fees for legal advice will be claimed through project delivery indirect costs.

Risks and Mitigations

- 3.18 This table sets out some of the risks and mitigations associated with the management of the business grant fund programme:

Risk Description	Probability	Impact on outputs	Impact on finances	Ownership	Risk Control Measures	Risk Contingency Plans
Failure to stimulate demand for the grant programme	Medium	High	High	BHCC	<ul style="list-style-type: none"> Ensure that project profile for the grants allows for a gradual increase in take-up each quarter Effective marketing <p>Actions by UoC</p> <ul style="list-style-type: none"> Development of a promotional partnership Employment of marketing coordinator Ensure delivery partner promotion of project Suitable marketing budget allowed for 	<ul style="list-style-type: none"> Ongoing marketing incl. social media and business networks Work with the LEP to secure referrals through the Growth Hub

Delays in payment/ claims rejected by MHCLG due to non-compliance with ERDF regulations	Medium	High	High	BHCC	<ul style="list-style-type: none"> • Ensure that claims are eligible by conducting the draft claim approach along with detailed scrutiny of applications and applicants • Align the due diligence process with MHCLG standards incl. de minimis regulations • Ensure that the grants panel members have appropriate skills in assessing grant applications • All claims checked and agreed by BHCC Finance before award of grant 	<ul style="list-style-type: none"> • Review of each quarterly claim and implementation of lessons learned • Obligations and requirements regarding eligibility, claims and payments set out in the grant fund legal agreement
Businesses fail to provide the required level of match funds	Low	Medium	Medium	BHCC	<ul style="list-style-type: none"> • SME's required to spend their match funds before accessing the grant fund • Businesses sign a legal agreement setting out the requirements and obligations linked to the fund • Grant Fund Manager to track compliance with the agreed outcomes & seek business action to address shortfalls 	<ul style="list-style-type: none"> • BHCC to agree the evidence requirements for the match funds from UoC/ MHCLG before promoting the fund

3.19 Interest loss on the estimated rolling in year deficit of £350,000 to £400,000, will equate to circa £2,000 to £3,000 pa at current interest rates. This will be a loss of cash to this authority and Brighton & Hove taxpayers. Assuming this is a 3-year programme it is also subject to interest rate rises throughout that period. UoC has agreed to reduce the Council's contribution, (originally agreed as £30,000 per annum x 3 years) proportionate to the interest rate loss to the council per annum so that there are no additional costs to the council that cannot be claimed back in managing this fund.

3.20 The role of the Grant Fund Manager is central to the effective delivery of the project activities and outcomes. The costs for advertising and recruitment will be claimed from the project retrospectively. The Economic Development Programme Manager will work with UoC to ensure that the profiled KPI's are achievable, in order to minimise delays in payment and/ or ineligible claims.

3.21 As part of the management of the grant the Council's Finance officers will check the quarterly reports prepared by the Grant Fund Manager and sign off claims prior to submission to UoC. Issues that arise will be dealt with by the Grant Fund Manager, or, if necessary, escalated to the UoC Programme Manager.

Next Steps

- 3.22 If agreed by Committee UoC will amend the proposal to MHCLG detailing the role that the Council will play in managing the business grant programme. MHCLG is already aware of this proposal and is expecting the revised bid from UoC. The anticipated timeline will be approval by MHCLG from July, agreements agreed by September and operational by end of October/ November because delivery partners will have their systems in place for a prompt start.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 MHCLG, the LEP, West Sussex County Council and the local authorities involved are all keen to see this programme go ahead. West Sussex has agreed to help manage the cash flow by front loading their match funds which are drawn from pooled business rates, and the LEP will be aligning the work of the Growth Hub to facilitate signposting to the provision. However none of the partners are able to take on responsibility for managing the grant fund at this time.
- 4.2 UoC will take responsibility for overseeing delivery of the bulk of the programme however universities are currently facing a number of financial challenges which negate managing the cash flow issues present in this element of the programme. MHCLG has indicated that they would accept the Council taking on this role instead of UoC and are happy for the proposal to be revised accordingly. UoC has made clear that if the Council is unable to take on this role; the programme will not be able to go ahead as the grant fund is integral to the wider programme.
- 4.3 Participation in the ERDF Business Support Programme will provide a much bigger and more diverse programme of services to business. By contributing £90,000 over three-years to the project Brighton & Hove businesses will have access to a £11 million programme of business support over the next three years. Further it will help to fill a gap in start-up business advice which was created when the Coast to Capital Growth Hub reduced start-up support from its provision and when the national Business Link service was disbanded.
- 4.4 Taking on the additional responsibility of managing the fund will help ensure that the wider programme gets delivered. It also gives the Council greater strategic influence over programme delivery.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 Partners involved in the project and local stakeholders such as the Coast to Capital Local Enterprise Partnership are very keen to see this project go live. Since the demise of the government funded Business Link programme there has been very limited publicly funded business support provision. The absence has led to a much more fragmented business support landscape with businesses unsure where and how to access good quality business support services.
- 5.2 The ERDF project was formed in response to a project call for competitive bids by Coast to Capital LEP. The project call was endorsed by the European Structural Investment Framework (ESIF) panel comprising representatives of the LEP local authority areas. The ESIF committee oversees project calls to ensure

that they fit with local priorities.

- 5.3 The UoC proposal was also endorsed by the Greater Brighton Economic Board (April 2017), as a project that aligns with their strategic priorities and provides practical support to business.

6. CONCLUSION

- 6.1 The Committee is asked to agree to the Council taking on lead responsibility for managing the ERDF business grants programme on behalf of and under agreement with the University of Chichester.
- 6.2 The Committee is asked to agree to the delayed start in providing the Council's contribution of £90,000 over three-years which will now start from 2019/2020.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 Brighton & Hove City Council agreed to contribute £0.090m over 3 years to support the European Regional Development Fund (ERDF). Comprising £0.030m per year funded from the Economic Development Initiatives budget from 2018/19 to 2020/21. This allocation will draw down match funding of a further £0.090m from the ERDF fund being managed by University of Chichester (through the MHCLG £11.000m regional programme).
- 7.2 Due to the delay in securing MHCLG approval the project has not started and the £0.030m from the Council was not drawn down. The proposal is to move the start date of the project, (and therefore the partner match funds) to 2019. This will therefore require Committee approval to allocate Council funds from the Economic Development Initiatives budget for three-years starting from 2019/ 20 through to 2021/2022.
- 7.3 Paragraphs 3.12 sets out the cash flow challenge that UoC is asking Council to manage. Interest loss on the estimated rolling in year deficit of £350,000 to £400,000, will equate to circa £2,000 to £3,000 pa at current interest rates. This will be a loss of cash to this authority and Brighton & Hove taxpayers. Assuming this is a 3-year programme it is also subject to interest rate rises throughout that period. UoC has agreed to reduce the Council's contribution, (originally agreed as £30,000 per annum x 3 years) proportionate to the interest rate loss to the council per annum so that there are no costs to the council that cannot be claimed back in managing this fund.
- 7.4 All costs associated with the delivery of the programme including the post of Grant Fund Manager with on-costs and overheads as well as administrative support from the Economic Development Team officers, Legal and Finance will be recovered through the programme over the three year period.
- 7.5 The payment and administrating of grants to businesses will be processed through the Council's finance systems. This process will be adhered to under the Council's Financial Regulations and Procedures that have been reviewed by MHCLG. A strict protocol will be established to minimise the risk of grants not

being approved by MHCLG prior to release of grants to businesses as detailed in the risk table at paragraph 3.18.

Finance Officer Consulted: Rob Allen

Date: 05/06/19

Legal Implications:

- 7.6 Once Chichester University receives formal approval to proceed from MHCLG, an agreement(s) between the University and the Council will be drawn up. Legal officers will assist with drafting and advice as required to finalise the agreement.
- 7.7 In addition, Legal officers will draft and provide advice on the proposed contract(s) between the Council and the business grant recipients ensuring the all relevant liabilities and obligations flow down from the Council's contract with the University and accord with ERDF guidelines.

Lawyer Consulted: Isabella Sidoli

Date: 10/06/19

Equalities Implications:

- 7.8 There are no direct equalities implications arising from this report.

Sustainability Implications:

- 7.9 There are no direct sustainability implications arising from this report.

Any Other Significant Implications:

SUPPORTING DOCUMENTATION

Appendices:

1. None

Background Documents

1. ERDF Business Support Programme Committee Report 27 Sept 2018 [S:\Cultural Services\Economic Development Team\Projects\EU\ERDF Business Support Programme Committee Report 27 Sept 18.docx](#)