



Delivering prosperity through innovation

Enterprise M3 Board

25 July 2019

Enterprise M3 Internationalisation Programme: European Regional Development Fund (ERDF) Application – Item 9

Enterprise M3 Board Members are asked to:

NOTE that Enterprise M3 is making an application in partnership to access £1m ERDF to support its Internationalisation agenda.

NOTE the deadline for submission of full application to MHCLG is 9 August 2019.

NOTE that the current Government funding for operating the Growth Hub service ends at the end of March 2020 with no clear indication from Government regarding ongoing funding for the Growth Hub beyond this date. (see item 12 on agenda)

NOTE that at this stage Enterprise M3 core funding is unclear beyond March 2020.

NOTE that submission of a full application to the Managing Authority does not expose Enterprise M3 or its partners to any financial risks as commitment to the programme is only confirmed once the contract is signed.

NOTE that Enterprise M3 will need to ensure it has approximately £230k match funding to meet the requirements of this programme to deliver its activities and those proposed to be delivered by the Growth Hub (Section 2.1)

CONSIDER the risks and proposed mitigation set out at Section 4.

AGREE to authorise Enterprise M3 to submit its full application to MHCLG by the deadline of 9 August 2019.

1. Background

- 1.1. Following the work carried out to refresh the Strategic Economic Plan (SEP), Enterprise M3 set an ambitious target to grow its economy by 4% p.a. on average over the next 12 years, equating to an increase in growth that would add £39bn of GVA to the UK economy.
- 1.2. Evidence gathered during this process identified Enterprise M3 based businesses had a strong track record in exporting, and with £14.6bn worth of goods being exported in 2015, Enterprise M3 businesses were exporting a significantly higher value of goods relative to neighbouring parts of the country; almost 60% of these goods heading to non-EU countries, especially USA and China.
- 1.3. Our strong track record in exporting is worth noting, however we must encourage even better performance since we recognise there is significant potential for further growth; increasing the number of companies and the volumes of goods and services being exported will increase demand, stimulate investment and create jobs.
- 1.4. Recognising this potential has led to exports being identified within the LEPs emerging Local Industrial Strategy (LIS) as one of the LEPs long-term strategic priorities to help give effect to the ambitious growth target set out in the SEP.
- 1.5. Furthermore, following approval by the Enterprise M3 Board in September 2016 to establish a Task and Finish Group to consider how the LEP and its key partners could improve on its approach to trade and investment, an Internationalisation Project Support Officer was recruited, and a new CRM system implemented.
- 1.6. To further strengthen this approach, and to facilitate an improved trading environment by providing internationalisation support to our high growth SMEs, Enterprise M3 agreed to develop a £1m ERDF Internationalisation funding programme.

- 1.7. Following discussions with partners, EM3, acting as the lead partner, formed a strategic partnership with Hampshire County Council, Surrey County Council, Surrey and Hampshire Chambers of Commerce, the EM3 Growth Hub, and the universities of both Surrey (SETsquared) and Winchester, to develop an outline application to access the £1m funding.
- 1.8. After considerable work between the partner organisations, on 22 November 2018 Hampshire County Council (HCC) acting as our Accountable Body and on behalf of Enterprise M3, submitted an ESIF outline application to MHCLG to access the £1m funding from the European Regional Development Fund (ERDF) Programme.
- 1.9. The Managing Authority (MA) confirmed in April 2019 that our application has been accepted at outline stage and that the partnership could now progress to submission of a full application subject to a number of conditions being met.
- 1.10. The conditions set out are not insurmountable, the most relevant condition perhaps being that we must demonstrate how duplication will be avoided at a local, regional and national level, specifically providing further detail about how the proposed project will integrate with the services and activities provided by the EM3 Growth Hub, whilst also ensuring the project dovetails with DIT's South Export Grant Scheme proposal currently in development rather than duplicating it.
- 1.11. The partnership is actively working together, and alongside DIT, to address the conditions set out in readiness to meet the deadline to submit the full application by 9 August 2019.

2. **EM3 Internationalisation Programme (ERDF)**

- 2.1 This is a 3-year project for setting up and running an Internationalisation programme in the Enterprise M3 Area, directed at SMEs new to exporting and those that wish to expand to new markets.
- 2.2 The expected start date for the programme is 1 July 2020 with an expected completion date of 30 June 2023.
- 2.3 The total cost of the programme is £2m, made up of £1m in ERDF funding and the balance made up matched funding of £500k from EM3 and partner contributions, and £500k contributions from businesses for the services. The costs of the programme will be built into our future budget proposals for the board to approve in September 2019.
- 2.4 We have identified that Enterprise M3 will need to contribute approximately £230k (about £77k pa) to the project in the form of a staffing contribution and additional services to be delivered by our Growth Hub. This amount will be matched by a further £230k from ERDF funds.
- 2.5 The Enterprise M3 3-year budget will fund a dedicated LEP team to oversee the delivery of the EM3 Internationalisation Programme, including the Grant Funding Scheme and match funding the training programme, includes:
 - Head of Enterprise and Innovation will ensure alignment with the LEP's strategic objectives;
 - Trade and Inward Investment Lead will oversee the co-ordination of all work packages;
 - Programme Manager will ensure ERDF compliance and will liaise with the Managing Authority as required;
 - Project Officer will co-ordinate the preparation of the ERDF aggregated claims, liaising will all delivery partners and financial departments;
 - Grant Officer who would oversee the co-ordination of the grant funding scheme for SMEs. This could be delivered by either EM3 or UMi (Growth Hub company)
 - £98k provided to the Growth Hub from EM3 funds plus matched funding of £98k from ERDF to deliver the Internationalisation Training Programme for SMEs. The options work set out in the board paper at item 12 looking at the future delivery of Growth Hub activity, will consider how the internationalisation work sits alongside other activity.

2.6 Work is currently being carried out by the partnership to finalise the detail of this programme and DIT have been included in all meetings to ensure that this Internationalisation programme dovetails / complements the DIT Programme.

2.7 At this stage, it is envisaged that there will be 5 main activities the programme will focus on. These will include:

1. **The establishment of a network of Internationalisation Advisers**, led by both Chambers, will work alongside existing activity on export and inward investment advice provided by Invest in Surrey, Invest in Hampshire and Enterprise M3. Additionally, the work will dovetail with DIT activity.
2. **Development of a 12-month Internationalisation Training Programme for SMEs**, led by EM3 Growth Hub and the two universities, will target new exporters and those wishing to expand into new markets in key sectors such as digital, and to boost exports in the Service Sector. SMEs will be offered a choice of training support with specific modules that likely include marketing and growth strategy (in the context of Brexit); digital & trading platform; export of goods vs export of services; and understanding cultural differences.
3. **Establishment of an Internationalisation Grant Funding Scheme**, overseen by Enterprise M3 (potentially UMi). This scheme aims to provide 80 SMEs with access to grants between £3k - £10k ERDF with SME beneficiaries bringing 50% match. Grants will enable SME's to access a range of support services in their internationalisation journey such as IPR advice, translation and language support and digital marketing support. The size of the ERDF fund will be £500,000. The delegated grant scheme will be run through de-minimis rules to ensure state aid compliance.

The grants scheme process is planned to be launched through an open call in November 2020 with fixed review points (every 2 months), until the total funding of £500,000 has been allocated to SMEs with export and growth potential.

As part of the Grant Application Pack, SMEs applying to the scheme will need to complete and submit a Grant Application Form and an Export Business Plan template.

4. **Development of bilateral trading routes**, led by Hampshire County Council alongside Surrey County Council, will aim to develop bilateral international trade routes in four strategic destinations for high value sectors for the region. This workstream will start with an analysis of opportunities linked to EM3 High Growth Sectors and is expected to develop special links with 4 countries, possibly including the US and India, and other destinations that may be determined in line with the outcome of the Brexit negotiations and possible new trade agreements.
5. **Monitoring and progress will be reviewed** quarterly by an EM3 steering committee. All partners will be represented on the Group and will include DIT. The committee will provide project governance and report into the EM3 Enterprise and Innovation Action Group and the LEP Board when appropriate.

2.8 The budget for the programme is £2m including 50% match provided by each partner and businesses accessing the services, but excluding the Growth Hub, based on costs to deliver their respective activities. Enterprise M3 has agreed in principle to provide the match for the Growth Hub through additional funding.

3. Programme Risks

- 3.1. The Project Team will use a five-stage risk management strategy to identify, manage and cost project risks. It follows a cyclical process and will be implemented throughout the project duration using established processes.
- 3.2. The key programme risks alongside appropriate mitigation strategies are set out in the table below:

Risks description	Probability	Impact	Mitigation
Take-up: take up from businesses slower than anticipated	Low	Medium	Early engagement with stakeholders to deliver effective marketing. Establishment of cross-referrals with DIT provision.
Insufficient Resource to deliver and manage the project	Low	Medium	The partnership has allocated significant resources to manage and implement the project. Staff changes may occur throughout implementation. Effective succession planning. Contingencies planning for Growth Hub legacy.
Cost overruns	Low	Medium	Effective management and financial controls, supported by robust governance.
Duplication of service provision	Medium	Medium	Focus and targeted marketing. Careful research into existing provision and monitoring of changes in national central Government programme. Relevant checks with applicant businesses of other support received.
Breach of State aid rules	Low	High	Robust project engagement supported by clear protocols and monitoring arrangements, strong financial and procurement processes put in place.
Project under performs output targets	Low	Medium	Develop a strong pipeline of potential beneficiaries through partners' membership and effective marketing and promotion. Capitalise on initial SMEs survey.
Project does not meet ERDF rules and regulations	Low	High	Ensure ERDF Procurement, guidelines, publicity, cross-cutting themes are delivered in compliance and followed at all times for all partners.

4. **Risks to Enterprise M3**

- 4.1. It is worth noting that submission of a full application to the Managing Authority (MA) does not expose Enterprise M3 or its partners to any financial risks as commitment to the programme is only confirmed once the contract is signed.
- 4.2. During the full application assessment period conducted by the MA, it is important to discuss and work with the MA where any possible changes to the programme might need to be made and to set out how those changes might affect the programme. This is unlikely to have any adverse consequences.
- 4.3. Once contracted, it is possible to issue a Project Change Request should any delivery partner be no longer able to deliver the service. This would need to be discussed with the Managing Authority as it could result in delivery of less outputs. This is deemed as low risk as there is unlikely to be a penalty against non-delivery of outputs if contingency measures are put in place.

Enterprise M3 Compliance and Clawback

- 4.4. Once the project is contracted Enterprise M3 as lead partner will be responsible for the management and submission to the MA of compliant quarterly claims in order to claim 50% ERDF for each delivery partner. The risk to Enterprise M3 is failure to comply with ERDF rules which could mean, for example, that we are unable to claim back 50% of the salaries and any expenditure associated with the delivery of any aspect of the project. Potentially the risk could be as high as £500k if we are unable to provide supporting evidence or a claim was found to be non-compliant. We consider this to be low risk because of our current ability to manage ERDF funds effectively.

- 4.5. To mitigate risks of non-compliance and clawback, prior to the start of the programme all delivery partners will be given training on what is eligible to claim and how to comply with ERDF compliance rules.
- 4.6. Further, the claims process will be managed by a Project Officer who will have significant knowledge in co-ordinating the preparation of ERDF aggregated claims, liaising with all delivery partners and financial departments through overseeing claims compliance across ERDF programmes.
- 4.7. Other reasons for clawback could include failure to deliver what we had agreed to deliver in the contract. To mitigate this risk, the LEPs Trade and Investment Lead will oversee the co-ordination of all work packages to ensure outputs agreed are being delivered. Further, if there are delivery problems then our Programme Manager will liaise with the Managing Authority and, where possible, a PCR would be submitted to allow for changes.

HCC as the LEPs Accountable Body

- 4.8. HCC, as the LEPs Accountable Body, agreed to sign the outline application, acting as the accountable body for the LEP on condition that the LEP was the lead partner and not HCC. This remains their position and will be the case on submission of the full application. However, the reality is that under whatever circumstances, as the accountable body HCC does carry the contractual and financial risks / liabilities if a funding agreement with MHCLG was entered into.
- 4.9. Further, HCC do not plan to set aside funds to deal with cashflow issues for delivery partners that could occur should claims be non-compliant and therefore not paid, or claims made that the MA clawback. The LEP, as the lead partner, would need to have further discussion with the Accountable Body and partners to understand this position.

Enterprise M3 Core Funding

- 4.10. Enterprise M3 core funding is unclear beyond March 2020. However, at this stage we are looking to submit a full application to the Managing Authority and since the process of assessment to approval will take some time, it is likely that the contract will not be ready to sign until nearer the start date, i.e. 1st July 2020, by which time we expect to know about future LEP funding.
- 4.11. However, as stated above in paragraph 4.1, Enterprise M3 will not be exposed to any financial risks as commitment to the programme is only confirmed once the contract is signed.

Growth Hub Funding

- 4.12. As set out in the Enterprise M3 Growth Hub Board paper: 'Options for Future Delivery of Service', due to be presented to the Board on 25 July 2019, the current two-year funding settlement from Government for running the Growth Hub service is due to come to an end in March 2020 with no clear indication at this stage from Government regarding ongoing funding beyond this date.
- 4.13. Although we expect the Comprehensive Spending Review will set out requirements for supporting business alongside details of further funds, the date of the Comprehensive Spending Review is currently not known, and it is also not clear whether it will apply for a 1- or 3-year cycle.
- 4.14. At this stage we are assuming there will be a Growth Hub service from 2020 and we will know our position in July 2020 when we will need to contract for the service. Since the Growth Hub is a key EM3 strategic partner delivering a service valued by our businesses and partners, the Hub, alongside the universities of both Surrey and Winchester, was considered as the most appropriate organisation to deliver the Internationalisation Training activities to support SMEs through this programme.
- 4.15. Once the ERDF application has been approved and agreed to go to contract, the Growth Hub contract would require an amendment to expand its remit to deliver the export training, and an amendment to reflect the increased funding requirement. The latter will be approximately £98k over 3 years.

4.16. Once contracted, if for any reason the Growth Hub fails to exist before or during the delivery of the export training creating a major change to the terms of delivery, it is possible to issue a Project Change Request (PCR) to the Managing Authority explaining that a significant change has occurred and what our proposal is to move forward. In these cases, it is possible to either re-procure that aspect of the project, redeploy the budget and delivery activities to one of the existing delivery partners, or remove it altogether; the latter option would have a detrimental effect to the programme.

5. **Conclusion and Recommendation**

5.1. The application to access £1m ERDF to take forward this internationalisation programme must be submitted by 9 August 2019.

5.2. Submission of a full application to the Managing Authority (MA) does not expose Enterprise M3 or its partners to any financial risks as commitment to the programme is only confirmed once the contract is signed.

5.3. At this stage the partnership is working on the core elements of the programme and refining the budget. It is therefore prudent that once the full application has been submitted an update paper will be presented to the Board in September giving further details.

5.4. While at this stage we have no clear indication from Government regarding ongoing funding for the Growth Hub or the LEP beyond 2020, although our expectation is that the Comprehensive Spending Review will set out requirements for supporting business and details of further funds, the Board are asked to **AGREE** to Enterprise M3 submitting its full application by the 9 August 2019 deadline.

Chris Quintana
Head of Enterprise and Innovation

16 July 2019