



**Lowlands and Uplands Scotland ERDF and ESF Programmes 2007 - 2013
Programme Monitoring Committee**

**STRATEGIC OPERATIONAL GUIDANCE FRAMEWORK FOR LOCAL AUTHORITY
BUSINESS SUPPORT PRODUCTS AND SERVICES**

**PROPOSED JOINTLY BY
THE CONVENTION OF SCOTTISH LOCAL AUTHORITIES (COSLA) AND THE
SCOTTISH LOCAL AUTHORITY ECONOMIC DEVELOPMENT GROUP (SLAED)**

Abstract

A small number of applications have been made to date by various Local Authorities (LAs) under LUPS ERDF Programme Priority 2: Enterprise Growth. Some have already been approved but other bids lacked clarity and raised questions as to how they fit with Scottish Government policy or appeared to duplicate the existing operation of Business Gateway. This paper sets out a more strategic and coherent approach that will give LAs greater confidence in preparing applications that fit together without duplication of other measures and which fully fit with Scottish Government policy for growth and economic recovery.

Aim

This paper has been developed by the Scottish Local Authority Economic Development Group (and endorsed by Cosla) in cooperation with the Business Gateway Scotland Board, Scottish Government policy lead officers and the Managing Authority. The overall aim is to provide a strategic guidance framework that will enable LAs to bring forward suitable and consistent proposals to address the needs of SMEs in the context of the specific aims of LUPS Priority 2: Enterprise Growth aimed at:

1. encouraging a greater focus on those measures that will help to address the immediate difficulties of local SMEs affected by the current recession and ensure there is a sustainable pipeline of SMEs able to prepare for future growth and economic recovery in accordance with Scottish Government policy;
2. establishing a rationale for LAs working together across Scotland to complement rather than duplicate measures which are provided in any event through Business Gateway and other national policy frameworks to stimulate enterprise, so as to avoid wasteful and ineligible duplication;
3. providing the Priority 2 Standing Advisory Group with clarity on how bids will support and build on existing services rather than duplicate existing provision;
4. assisting the Managing Authority and ESEP to provide a transparent process when considering funding applications from LAs for the provision of business support products and services;
5. enabling LAs to bring forward applications with greater confidence thus optimising available ERDF funding and accelerating the speed of approvals by the Managing Authority; and

6. ensuring that all applications brought forward for ERDF funding under LUPS Priority 2: Enterprise Growth 2009/2013 are consistent having regard to local variations in terms of needs, opportunities and existing resources of LAs and their partners.

National Economic Context

The *Government Economic Strategy* (GES) sets out how the Scottish Government will support businesses and individuals and how, by working together, the following unifying Purpose can be delivered:

'to focus the Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.'

By sustainable growth the government means building a dynamic and growing economy that will provide prosperity and opportunities for all, while ensuring that future generations can enjoy a better quality of life too.

In response to the recession, the Scottish Government has tailored its approach through the Economic Recovery Plan to ensure that government and the wider public sector has been flexible and dynamic in its response to the crisis. A focused response is ensured by concentrating on three key areas: supporting jobs and communities; strengthening education and skills and investing in innovation and industries of the future.

The recession has created a very difficult climate for Scottish businesses with the well documented issue of them being unable to secure access to finance. The lack of capacity in the banking sector has also reduced the number of new businesses setting up. Data from the Committee of Scottish Clearing banks indicates a fall of nearly 40% in new business accounts – from 25,041 in 2007 to 15,726 in 2009.

A number of measures have already been supported by European Structural funds that are designed to address these issues and contribute to the Scottish Government's Economic Recovery Plan. Examples of these include: Scottish Seed Fund; Scottish Co-investment Fund; and Scottish Venture Fund together with local authority own funds (East of Scotland Investment Fund and West of Scotland Loan Fund). Together with the specific services provided by Business Gateway the Scottish Government has ensured that a consistent and equitable approach is being taken to provide a core range of services that are vital to the rate of new business formation and growth of existing businesses throughout Scotland.

Business Gateway Scotland Board

Business Gateway Scotland aims to provide an effective and consistent business advice and support service to all Scotland's potential start-up, early stage and established businesses across all sectors. Within this universal service, resources are prioritised with greatest focus on services available to firms that offer the highest potential return in terms of growth and hence contribute most to the local and national economy. In this way the Business Gateway makes an important contribution to the Government's purpose of growing the economy, a key part of which is to ensure that such businesses are referred to the appropriate Scottish Enterprise for further support in their growth.

The Business Gateway Scotland Board has however acknowledged that the needs of businesses arising from the effects of the current recession are variable across the Local

Authority network. A recent study undertaken by the Audit Commission south of the border entitled "When it comes to the crunch" fully summarises how Councils there are responding to the varying needs of local areas in the recession and highlights the need for targeted business support interventions. It also acknowledges a similar variation of business needs across Scotland and the underlying requirement to focus on helping companies to manage the worst effects of the current recession to ensure that growth is maximised as we move towards economic recovery. In short, this will need a shift of emphasis in the focus of Business Gateway contracts for a period of up to 2.5 years which will cover the remaining term of the current contracts. It is important to note, however, that this temporary shift will be aimed at continuing to achieve the growth segmentation policy but the qualifying criteria for additional products and services through the Business Gateway will be lowered to enable more businesses to be assisted. In particular the 3 year sales growth target is to be reduced from £400,000 to £200,000 by the introduction of a new service for this segment.

The measures now proposed by the Business gateway Scotland Board, for implementation during 2010 are summarised as follows:

- The introduction of a new customer segment entitled "Sub-growth pipeline" for businesses who project turnover growth of between £200K and £400K over a three year period (the existing threshold for the HIE area is already £200k)
- The setting and monitoring of targets for sub-growth pipeline
- The transfer of proportionate funding to new "Sub growth pipeline" segment
- A reduction in contract targets for businesses "into DRM" for both existing and start up businesses
- Variations to core BG contracts to be implemented on or before 1st October, 2010
- Performance to be reviewed by the BG Scotland Board on a six monthly basis

Clearly this decision by the Business Gateway Scotland Board must be taken into account when Local Authorities bring forward future applications to fund complementary measures. A summary of the paper approved by the Business Gateway Scotland Board in March, 2010 is appended to this paper for information – Appendix 1.

The Need for Complementary Business Support Outwith the Scope of Business Gateway

Further evidence supporting the need for additional interventions to assist Scotland's small business base is to be found in a recent report prepared by Slims Consulting on behalf of the Federation of Small Businesses (Slims, November 2009), the report concludes (page 49):-

"There are a number of key conclusions on the support available to small and micro businesses in Scotland at present:

- *the support available through Scottish Enterprise and Business Gateway has largely focused on new start-ups or companies with growth potential. This has meant that the majority of small and micro businesses (those in the middle) do not have a relationship with SE or BG and therefore do not immediately turn to them for support when times get tough; and*
- *furthermore, our review of the evidence has found that the majority of support available to small and micro firms is usually conditional on the business being able to demonstrate its ability to grow.*

..... We are not arguing here that growth focused initiatives should not continue, far from it, rather it is our view there needs to be greater recognition of the economic difficulties currently facing small and micro businesses and support tailored accordingly.

Further evidence to support this comes from the number of established and viable businesses we interviewed which had experienced difficulties in the current recession. Businesses which had made it out the three year 'danger period' and been trading successfully for a minimum of 5+ years simultaneously experienced a drop in demand, tightened lending conditions, downward pressure on prices and an increase in late payments. **This is uncharted territory for many businesses and as such we believe that there is scope to do more to assist these previously successful businesses through a unique and difficult period."**

The proposed adjustments to Business Gateway arrangements together with the framework outlined in this paper represent a positive response to the conclusions of this study in particular its recommendation (page 50) for

- **"more one-to-one support for existing businesses to support them through current difficulties, retain employment, and return to growth"**

The additional resource available through the LUPS ERDF Programme Priority 2: Enterprise Growth programme will encourage the provision of a co-ordinated and consistent range of BG and other complementary services to be delivered across the BG Local Authority network. This will address some of the main issues faced by the Scottish business base in the short to medium term.

Menu of Complementary Services

The following is a summary of business development and support measures which Local Authorities may consider funding across Scotland and which are aimed at providing SMEs with support that is not already provided directly by Business Gateway or other pan Scotland provisions. The main aim of the measures included below is to support the existing Business Gateway provision and increase the flow of growth businesses into the current support network. These interventions are aimed at increasing growth aspirations at a lower level and/or helping businesses to tackle various problems due to the recession which are acting as a barrier to growth. The focus is on promoting enterprise on an equitable basis amongst all target pre-start groups and helping SMEs to prepare for growth which will ultimately lead to an increased future growth client base for Business Gateway and the growth pipeline. In addition, the SME beneficiaries will be assisted to access other available Local Authority support and Scottish Enterprise's universally accessible products. Individual applications would need to demonstrate clearly differentiation and added-value from the national product offer.

In terms of sectoral coverage it is proposed that assistance would be available across all sectors with the exception of:

- Retail
- Motor Vehicles
- Real Estate/Property Development
- Professional Services
- Social and Personal Services
- Pubs, Clubs and Restaurants
- Local Services

Menu of Agreed Measures:

TARGET GROUPS	ACTIVITIES	METHODS	LINKS TO OTHER PROVISION	OUTPUTS/IMPACTS
<p>Pre-Start up SMEs</p> <p>Working with the hard to reach/Underrepresented potential entrepreneurs:</p> <ul style="list-style-type: none"> • Women • Black and Minority & Ethnic Groups • SIMD hotspot residents • Young people (18-24) • Voluntary/Social Enterprises • Rural areas 	<p>Pre Start up awareness raising</p> <p>Promoting entrepreneurial culture</p>	<p>Workshops</p> <p>Masterclasses</p> <p>Peer to Peer Mentoring</p> <p>Local Marketing</p>	<p>Progression to BG offer</p> <p>PSYBT</p>	<p>No of individuals progressing to BG Start up programmes.</p>
<p>New SME Starts with projected sales growth over 3 years less than £200,000</p> <p>New SME Starts not expected to reach VAT threshold within one year</p> <p>Existing SMEs whose sales growth projects do not exceed £200,000 over 3 years¹</p>	<p>Access to Finance</p> <p>Market Development</p> <p>Product Development</p> <p>Export Readiness</p> <p>Supply Chain Development²</p>	<p>1-2-1 support and advice</p> <p>Consultancy</p> <p>Small Scale Grants</p> <p>Mentoring & coaching</p> <p>Workshops &</p>	<p>Progression/Awareness/Referral Can be made to any of the following:³</p> <p>Access to Finance: Banks/ SE/LA/WSLF/ESIF/DSL</p> <p>Market Development Private Sector/ LA/SE/Chamber</p> <p>Product Development</p>	<p>No of firms receiving consultancy/business advice</p> <p>No of firms receiving financial assistance</p> <p>No of environmental audits</p> <p>No of e-business strategies</p> <p>Increase in turnover</p>

¹ The Business Gateway Board recently agreed to widen business support for businesses with growth sales projections of £200,000 upwards over 3 years. Previously this threshold was £400,000.

² Including the key priority growth sectors: Energy, Textiles, Life Sciences, Tourism, Aerospace, Marine & Defence, Chemical Sciences, Digital Markets, Construction, Food & Drink, Financial Services, Enabling Technologies, Forest Industries, and Manufacturing

<p>Existing SMEs facing short term reduced turnover but with growth prospects post recession</p> <p>SMEs supported through BG Growth Pipeline but not accepted into SE Account Management</p>	<p>ICT/e-business processes</p> <p>Environmental Audits/Energy Efficiency</p> <p>Renewable Energy Adaptations</p> <p>Aftercare (On-going Advisor Support)</p> <p>Workforce Planning</p> <p>Leadership & Management</p> <p>Succession Planning</p>	<p>networking</p>	<p>ICASS/ SMAS/ SE</p> <p>Export Readiness SDI, SCDI, Chamber</p> <p>Supply Chain Development SDP, LA</p> <p>ICT/e-business processes Private Sector/ LA/SE/Chamber</p> <p>Environmental Audits/Energy Efficiency LA, Envirowise, BEP</p> <p>Renewable Energy Adaptations LA, Envirowise</p> <p>Aftercare Complementary support in partnership with PSYBT etc.</p> <p>Workforce Planning Private Sector/ LA/SE/Chamber</p> <p>Leadership & Management Private Sector/ LA/SE/Chamber</p> <p>Succession Planning Private Sector/ LA/SE/Chamber/colleges</p>	<p>Jobs sustained</p> <p>Jobs created.</p> <p>Firms survival after support</p> <p>Establishment of Business Networks</p>
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³ The nature of LA and Chambers provision varies within the LUPS area and projects would need to demonstrate differentiation from this offer

