



REGENERIS

ESIF Policy Advice to Inform PA3 Call

A Final Report by Regeneris Consulting

8th January 2018

Liverpool City Region LEP

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Contents Page

Executive Summary	9
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1. Purpose of this Report	11
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2. Analytical Framework	12
The Role of Business Support in LCR	12
Best Practice in Business Support	14

3. The Current Landscape of Support	21
Test 1: Does Support Avoid Distorting the Commercial Market?	21
Test 2: Are Services Appropriate to Strategic and Business Needs?	23
Test 3: Is the Support Easy to Access and Effectively Coordinated?	27
Test 4: Is the Support Efficiently and Effectively Delivered?	29
Test 5: Is the Support Leading to Net Additional Impacts?	30

4. Conclusions and Recommendations	35
Priority Areas for the PA3 Call	37
Other Important Principles	40

Executive Summary

- i. As the ERDF Intermediary Body, the Liverpool City Region Combined Authority (CA) is intending to publish a call via DCLG for projects under Priority Axis 3 (PA3) of the 2014-20 European Structural Investment Fund (ESIF) programme. The CA, with input from the ESIF sub-committee, will draft and agree the local development need part of the forthcoming call to ensure that it reflects the needs and priorities of the Liverpool City Region. Regeneris was commissioned to provide a programme of research and analysis to inform the focus of the forthcoming call. The research is focused specifically on the 12 revenue funded business support and innovation projects which have been funded through the City Region's ESIF programme. The study has explored the following through a combination of desk-based and primary research:
- the extent to which these projects reflect strategic aspirations for business support
 - whether there are any gaps in provision or areas of duplication
 - how effectively the services are working together and coordinating their activities
 - the overall effectiveness and potential impact of the current projects.
- ii. The ERDF funded projects which have been the focus of this study represent a large proportion of the business support capacity in the Liverpool City Region. Although it is too early to provide definitive evidence about how effectively these projects are functioning, the study has highlighted some important messages which have informed the recommendations for the focus of the PA3 call. The key messages are:
- Both fully funded and part-funded support services risk market distortion
 - The core service offer could be strengthened with a new-start focus
 - The landscape of support remains complex and there is scope to improve coordination mechanisms to maximise impact
 - Responsibility for managing long term relationships with priority clients is unclear
 - The complex delivery structures risk inefficient operation
 - Many of the projects appear to offer high gross impact potential but their net additional impact is currently unknown

- Few of the projects are selective in the assistance that they provide and this could undermine impact potential.

iii. The recommendations from the study are summarised in the table below.

Table 1.1 Study Recommendations	
1: Invite Proposals for a Programme to Support Newly Established Firms	<p>A service which reflects the support needs and priorities of newly established firms is needed to maximise the impact of investment into enterprise activity. This should seek to</p> <ul style="list-style-type: none"> • ensure high survival rates through focused effort to address common barriers and challenges faced by new starts • ensure a sufficiently tailored and targeted service which reflects the pressures that newly trading businesses face and their priorities • encourage the development of a high level of aspiration and confidence amongst newly trading firms • identify priority clients for other growth focused services which are focused on more established businesses.
2: Invite Proposals for a Selective High Intensity Growth Programme	<p>A service with capacity to identify and work intensively with high priority and high impact client is needed. This should seek to:</p> <ul style="list-style-type: none"> • work with other service offers to identify the businesses with the greatest level of growth ambition and potential • work with these clients on a longer-term basis to help guide and shape their growth journey • provide a brokerage and account management function into other sources of support (commercial and subsidised).
3: Strengthen the Strategic Role of the Growth Hub	<p>There is a gap in the management of the post-support relationship with clients which could undermine the overall impact generating potential of the ERDF projects. The call should include scope for an additional post-support IDB function which would allow the Growth Hub to fulfil this function.</p>
4: Strengthen the Assessment of Market Failure	<p>The specific requirement for the PA3 call should demand projects provide a full and specific description of the market failure case which:</p> <ul style="list-style-type: none"> • states clearly whether the project is responding to a supply or demand side market failure (or both) • provides evidence for the existence of that market failure: this should be specific and robust • clearly links the market failure to key design elements of the project (specifically the charging structure and client selection) • outlines <i>how</i> the project will operate to progress the market failure.
5: Evidence Based Decisions on Continuation Funding	<ul style="list-style-type: none"> • Projects seeking continuation funding should be required to produce evidence of their impact and additionality as part of the application. • Clarity should be sought on the nature of changes which can be made to projects seeking continuation funding where there is evidence that changes could secure greater levels of impact and additionality.
6: Take Opportunity to influence Working methods	<p>Seek to influence working methods through continuation funding:</p> <ul style="list-style-type: none"> • more prescriptive on use of CRM (including when client details are entered onto this and the level of information provided) • use of CRM to monitor referral between projects (and integration of reporting / KPIs to monitor this)

1. Purpose of this Report

1.1 As the ERDF Intermediary Body, the Liverpool City Region Combined Authority (CA) is intending to publish a call via DCLG for projects under Priority Axis 3 (PA3) of the 2014-20 European Structural Investment Fund (ESIF) programme. The CA, with input from the ESIF sub-committee, will draft and agree the local development need part of the forthcoming call to ensure that it reflects the needs and priorities of the Liverpool City Region. Regeneris was commissioned to provide a programme of research and analysis to inform the focus of the forthcoming call. The research is focused specifically on the 12 revenue funded business support and innovation projects which have been funded through the City Region's ESIF programme. It has explored:

- the extent to which these projects reflect strategic aspirations for business support
- whether there are any gaps in provision or areas of duplication
- how effectively the services are working together and coordinating their activities
- the overall effectiveness and potential impact of the current projects.

1.2 The study has explored these themes using a variety of research and analytical methods:

- **Analysis of ESIF Programme:** a desk-based analysis of the progress and performance of the ESIF programme to date and the characteristics of the business support and innovation projects receiving ERDF funding to date.
- **Review of Best Practice in Business Support:** desk-based analysis of the existing evidence base relating to best practice in the design and delivery of business support services.
- **Engagement with Projects:** one to one interviews and group discussions with key delivery staff at the organisations involved in delivering the ERDF funded business support and innovation projects.

1.3 This report provides a synthesis of the important messages emerging from this research and analysis and outlines Regeneris' recommendations for the focus of and principles underpinning the forthcoming PA3 call. It is structured as follows:

- Section 2 outlines the analytical framework for this study
- Section 3 considers how the ESIF projects perform against best practice principles
- Section 4 outlines recommendations for the forthcoming PA3 call.

2. Analytical Framework

- 2.1 This section outlines the framework underpinning the analysis of the ERDF projects. This has been designed with close reference to LCR's approach to and strategic aspirations for business support in the City Region and draws on lessons from a review of the evidence base around best practice in business support. The evidence sources and lessons from this review and are outlined in Appendix B.

The Role of Business Support in LCR

- 2.2 LCR's ESIF programme is a key funding stream available to partners in the City Region to realise their strategic aspirations, representing some €221.9m of investment into the City Region. The programme states that the ERDF component will be invested in a manner which will maximise investment opportunities, tackle barriers to growth, reverse long-term underperformance and address social inequality.
- 2.3 ERDF is a broad investment stream and as such the overall programme has a range of aspirations. These range from those explicitly related to business support (including aspirations to support more than 6,000 enterprises and 2,000 new companies), aspirations to boost the innovation infrastructure and performance of the economy and those related to the low carbon economy. So far, 12 revenue funded business support and innovation projects have been commissioned through PA1, PA3 and PA4 of the ESIF programme. These projects are expected to make a substantial contribution to the programme level aspiration to support more than 6,000 enterprises; if they perform in line with their contractual targets they will assist more than 3,000 SMEs.
- 2.4 Priority Axis 3 (PA3) is focused explicitly on the activities which will directly influence the performance and competitiveness of the City Region's SMEs. Here the focus is on activities to develop and grow existing businesses, support new business start-up, develop an enterprise culture and attract inward investment to the City Region. So far, 51% of PA3 funds have been contracted, leaving £24.5m still to invest.
- 2.5 The aspirations of the ESIF strategy closely mirror those of the City Region's Growth Strategy¹ which sets out a high level of ambition for the City Region's economy and population. The Growth Strategy is seeking to make best use of major assets and

¹ Liverpool City Region LEP and Liverpool City Region Combined Authority (2016) Building Our Future Liverpool City Region Growth Strategy

opportunities to support economic growth and success, improved prosperity and quality of life in the City Region. The core objectives of the strategy are to:

- start, attract and develop more businesses
- nurture and grow our talent base
- enhance and protect our distinctive quality of place
- create more sustainable employment and high value jobs.

2.6 The strategy's implementation will be guided by target outcomes (Table 2.1) for each of the strategy's three pillars of Productivity, People and Place. Under the Productivity Pillar, the City Region is aiming to:

- strengthen the city's **enterprise culture** and infrastructure for enterprise
- increase the **number of businesses** by focusing on business start-up and survival and attracting inward investment with a focus on high growth start-ups and those led by underrepresented groups
- support **business growth** via a focus on access to new domestic and overseas markets, product and service development and innovation and access to finance.
- promote workforce development to ensure that the City Region's businesses have access to the **skills to support growth**.

2.7 The strong sector flavour within the strategy cuts across all of these actions and a range of activities are identified in order to support the growth and success of the City Region's key priority sectors². The strategy is clear that some element of direct support to businesses will be needed to help achieve strategic aspirations for the City Region.

2.8 The ultimate objective for business support is to secure **net additional** impacts on business performance and create the conditions for the City Region to prosper. With this aim in mind, the strategic approach to the City Region's business support system has been built around the following principles:

- **Simplification:** simple access to help which allows businesses to quickly find the support which best fits their growth needs

² The priority sectors are: advanced manufacturing, digital and creative, financial and professional services, health and life sciences, low carbon and energy, maritime and logistics and the visitor economy.

- **Commercialisation:** making best use of the wide array of private sector suppliers of business support and aligning public sector interventions around the commercial principles of this market
- **Coherence:** targeting investments of public money where it can best contribute to the City Region’s strategic economic objectives.

Table 2.1 Liverpool City Region Strategy Outcomes	
Productivity	<ul style="list-style-type: none"> • Create more than 100,000 additional jobs by 2040 • A net increase of 20,000 businesses over the next 25 years • Increased diversity of business ownership • Additional £22 billion GVA by 2040 • 56% in average productivity per worker to £76,000 by 2040 • Substantial increase in the number of exporting businesses and the value of exports • Substantial increase in commercialisation of research and development
People	<ul style="list-style-type: none"> • Falling unemployment with the resident employment rate of 16+ population increased to 58% by 2025 • Population increase by 83,000 to 1.6 million by 2040. With an additional 50,000 people coming to live in the City Region
Place	<ul style="list-style-type: none"> • Increased demand for public services such as health and education with additional demand for public transport • Increased demand for housing across the City Region and rising house prices in response to that demand

Source: Liverpool City Region LEP and Liverpool City Region Combined Authority (2016) Building Our Future Liverpool City Region Growth Strategy

Best Practice in Business Support

2.9 The evidence base relating to the impact and effectiveness of business support activity is extensive but fragmented and heavily reliant on project and programme evaluations. While evaluations provide a rich and often insightful evidence base, it can be difficult to draw robust and coherent messages due to:

- **Lack of Consistency:** The quality and type of research methods used for evaluations is highly variable so comparison across studies is not always possible or appropriate.
- **Breadth of the Policy Area:** Business Support services vary substantially in their objectives, purpose and intensity so the scale and nature of expected outcomes and the timescales over which they could materialise is broad. This means that there are few measures of success which can be applied consistently across projects so comparison can be challenging and potentially misleading.

- **Importance of Context:** The scale and nature of outcomes of services are heavily influenced by their operating context. It is difficult to account for the impact of local economic characteristics and wider economic conditions when comparing the performance of business support programmes.
- 2.10 These factors make it difficult to identify robust and well evidenced messages about the features of service design and delivery which lead to the strongest return on investment. For example, the major evidence review undertaken by the Centre for What Works was unable to highlight statistically significant evidence despite reviewing more than 700 project evaluations³.
- 2.11 While it is difficult to identify statistically robust patterns in the evidence base, it is possible to draw upon this to identify some best practice principles and features of project design which point towards high impact potential. Drawing on these principles (set out in Appendix A) and wider experience of evaluating and designing business support services, we have identified five simple tests which provide the analytical framework for this study.

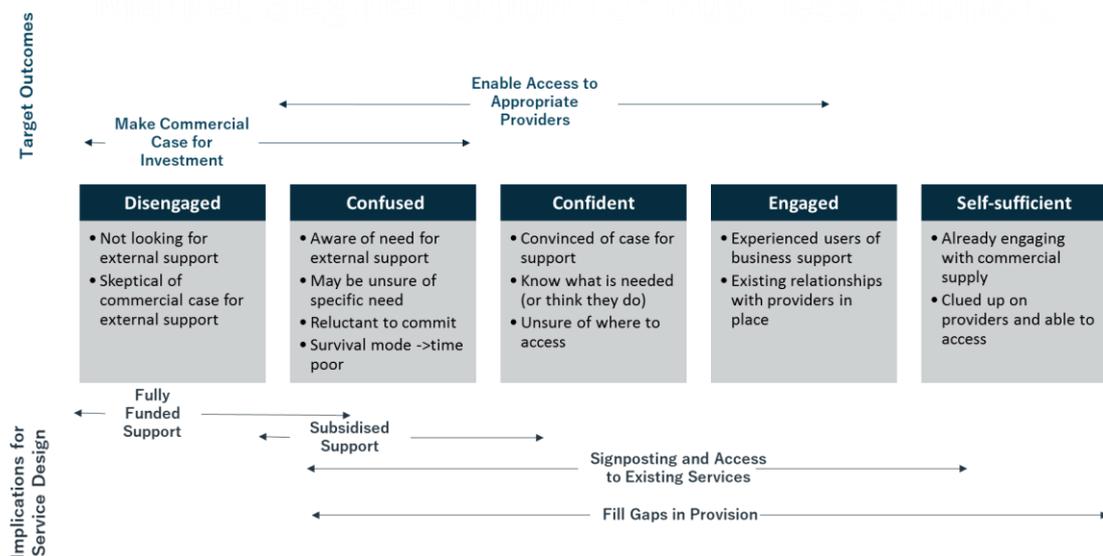
Test 1: Does Support Avoid Distorting the Commercial Market?

- 2.12 There is a strong sense amongst partners in LCR that the historic availability of heavily subsidised support has distorted the commercial business support market. The abundance of free services is thought to have duplicated commercial activity, led to a reluctance amongst businesses to pay market rates and dampened the private sector's appetite to provide services. In response to this, the LEP's approach to business support has emphasised the need to work in a way which stimulates the commercial support market and avoids any further distortion.
- 2.13 This market focused approach closely reflects the findings of the best practice review. A key theme in the literature is the need for the public sector to intervene in a way which avoids distorting the existing commercial business support market. Publicly backed services must not duplicate or compete with existing commercial provision or dampen the appetite for the private sector to provide services commercially. In practice, this means that the **public sector should only intervene in response to a clearly articulated and well evidenced market failure**. And to avoid market distortion, **the market failure must be reflected in all aspects of the intervention's design and operation**.

³ The limited depth of the findings largely reflects the nature of this analysis and in particular the highly stringent standards applied for the selection of evaluations for inclusion in the detailed review.

- 2.14 Intervention in business support markets is general justified on the basis of a supply side market failure. That is, subsidy is needed to encourage or incentivise businesses to engage with support services. The nature of the supply side failures varies but, broadly speaking, they can be summarised and understood with reference to SME's *willingness* to engage with support services. To illustrate this, Figure 2.1 provides a high-level segmentation of potential business support clients on this basis.
- 2.15 Generally, free or subsidised services can be offered when an information failure leads businesses to make sub-optimal investment decisions. Businesses which are unaware of or unconvinced by the commercial case for business change and/or external support to facilitate this will be reluctant to engage with commercial provision (where it exists). So, the public sector's intervention is designed to encourage engagement by providing services at sub-market rates.
- 2.16 Fully or part funded support can be justified to demonstrate or prove the commercial case for external support and/or business change. This means that projects which are responding to information failures of this type should be focusing on the disengaged and confused groups in Figure 4.1.

Figure 2.1 Illustrative Market Segmentation for Business Support



Source: Regeneris Consulting

- 2.17 Moving towards the middle and right side of the diagram, the case for offering free and subsidised support lessens as potential clients are more convinced by their need to access support services but may face barriers in identifying appropriate providers, either because

they do not exist or because the market is complex. It follows that the focus of public sector intervention with this type of client should be on enabling access to support and filling gaps in provision where they exist (ie dealing with coordination and supply side market failures).

- 2.18 The important point here is that subsidised services should be guided by a clear understanding of *why* the subsidy is needed and what barriers it is trying to overcome. Importantly, services should be operated with a clear understanding of its focus group and consideration for how it could potentially impact upon commercial providers operating in a similar area of the market. In short, **services should be designed and delivered to directly addresses the market failure which has been used to justify the investment.**

Test 2: Are Services Appropriate to Strategic and Business Needs?

- 2.19 At the strategic level, it is important to consider whether ERDF funding is being effectively channelled to support the City Region's economic aims and whether the appropriate linkages are in place to maximise the strategic benefits of the support. It is also important to consider whether the ERDF projects, together with other public and commercial support provision, cover the full range of potential support needs/ barriers to growth and improved performance.
- 2.20 It can be difficult to answer these questions fully as there is no simple and definitive set of problems that business support services should be looking to solve. The barriers to growth and / or improved business performance vary from one business to another, according to various internal and external business factors. And, of course, the case for public sector intervention will also differ substantially in line with the nature of business needs and the characteristics of the commercial provision.
- 2.21 This makes is difficult to assess the coverage and fit of provision in a structured way, although the best practice evidence does suggest that categorising potential clients and service offers according to a meaningful typology or market segmentation can help test whether services cover and respond to the full range of client needs. A structured approach can provide a helpful analytical tool but it does not necessarily follow that individual services should be set up to respond to each need. The public sector cannot aspire to pre-empt all of the specific support needs of businesses and should instead be looking to provide a portfolio of services encompassing:
- **broadly focused projects** which cover a range of functional business areas and which can respond to a broad array of business needs

- more **tailored services** which are designed to respond to more specific business needs.

2.22 It can be difficult to strike an appropriate balance between breadth and depth here. The broadly focused services can cover a range of potential needs but there is a trade-off with the depth of coverage and the level of specialism they can offer. Conversely, the more specialist services are naturally able to offer greater depth and tailored advice but will be appropriate to a smaller proportion of potential clients.

Test 3: Is the Support Easy to Access and Effectively Coordinated?

2.23 The need to simplify routes into support has been a longstanding feature of the national approach to business support. This means that our review of the projects needs to look beyond their individual operations and consider how they are working as a system and the structures which are in place to coordinate activities and ensure that businesses can easily identify and access services which best suit their needs.

2.24 The best practice evidence underlines the need to provide an effective needs assessment and signposting without being overly prescriptive. This can be challenging in practice and the best practice evidence is not conclusive about how best to achieve this.

2.25 The evidence emphasises the importance of **local discretion and flexibility** in the set up and operation of business support services. In particular, it highlights the positive effect that the use of local advisors who are familiar with local companies and conditions can have on take-up, impact and satisfaction. However, the evidence also underlines the need for the benefits of a more local and flexible approach to demonstrably outweigh the additional resource costs involved with this and the risk of additional complexity in the market place.

2.26 The crucial importance of centralised oversight and coordination structures is another key theme in the evidence. The hub and spoke model of business support requires a centralised management team to manage and distribute funds, coordinate partnerships, plus collect/collate and report on outcomes and results. And, a strong hub allows the delivery network (spokes) to better concentrate on providing a high- quality support service tailored to clients' needs. This means that the role of the Growth Hubs is a key consideration within this review

Test 4: Is the Support Efficiently and Effectively Delivered?

2.27 Robust evidence around effectiveness and efficiency cannot be provided without a full project evaluation which draws on engagement with clients and provides a detailed analysis

of costs and benefits. While it is too early to provide this type of analysis, we can draw upon the best practice principles from the literature which suggest that the most efficient and effective approaches to business support will:

- **Complement existing arrangements:** business support services which make use of local expertise to either fill clear and well evidenced gaps in provision, or build on the services already on offer tend to be lower cost overall and are also in a stronger position to engage effectively with clients as they can make best use of existing relationships.
- **Minimise overheads:** this principle of efficiency can often run counter to the evidence which exists around the benefits associated with more local and tailored services. There are no absolutes here and a rounded assessment is needed which considers the benefits of selected structures as well as the cost.
- **Avoid duplication:** in the same way that the public sector must invest in a way which avoids duplicating or competing with the commercial provision which already exists, the public sector must also ensure that its own services are each fulfilling a distinct need and not competing with one another. This is challenging to achieve in practice given the breadth of potential business support needs and the need for services to be flexible and responsive. It is made further complicated by the need for the public sector to balance the need to ensure that all identified needs / gaps are filled, without creating unnecessary fragmentation or complication.
- **Engage effectively:** face to face engagement and discussion is the most effective engagement approach. Although a strong brand image and large-scale marketing helps to raise awareness and drive initial inquiries, face to face engagement and active referrals tend to be most effective in bringing appropriate and well qualified leads for potential clients into more targeted services.

Test 5: Is the Support Creating Net Additional Impacts?

- 2.28 It is difficult to be definitive about the scale and nature of impacts that the services will create at this stage of their delivery. There has not yet been sufficient time for the full scale of impacts to materialise and none of the services have been evaluated yet. Having said that, it is possible to consider the design of these services in the context of the best practice literature and look at the likelihood that they will deliver the high level of net additional impacts that the City Region is seeking. Although the evidence base is fragmented, it suggests that:

- **Deeper rather than broader support delivers much greater economic returns.** Lighter touch approaches to support can provide an effective means of achieving greater levels of market penetration but they rarely translate into large net additional economic returns in their own right. Naturally, more intensive and focused assistance tends to generate a greater level of net additional impact.
- **Longer-term relationship building helps to create greater levels of impact.** Cultivating long-term relationships between advisers and SMEs should be a priority for business support services. The trust that builds up over time is important in converting opportunities into improvements. Formal aftercare and relationship management enhances the quality and impact of interventions.
- **Businesses should contribute to cost of support where appropriate:** It is generally desirable for SMEs to part pay for the support they receive where appropriate and for grants to be matched by SME contributions. This maximises the value of investments made by the public sector and fosters greater commitment to the support and can help translate into greater economic outcomes. There are instances where SME contributions are not appropriate; this is linked to the nature of the market failure being tackled.

2.29 These principles are helpful but it is important to note that they cannot and should not be applied to projects in isolation. The key consideration is the extent to which the business support system as a whole embodies these principles.

3. The Current Landscape of Support

- 3.1 This section summarises the analysis in respect of the five tests outlined in Section 3. It draws upon a review of project appraisal and application materials, findings from a workshop with the delivery organisations involved in the ERDF projects and one to one interviews with project leads.

Test 1: Does Support Avoid Distorting the Commercial Market?

- 3.2 There is always a risk that publicly-funded services could distort the commercial market, unless they are offering something which is genuinely different to commercial provision. The key question is whether the ERDF funded services are operating in a clearly defined and well-evidenced area of market failure. This question cannot be fully answered without a detailed evaluation of each service although their characteristics do provide some insight into the potential risk of market distortion. The main findings here are:

Fully funded support will always risk market distortion...

- 3.3 Seven of the twelve projects are providing advice services to established businesses on a fully-funded basis. These projects represent a large proportion of the delivery capacity of the 12 ERDF projects.
- 3.4 The rationale for most of these fully-funded services is rooted in a demand side market failure whereby the SMEs do not recognise the commercial case for investment in support and / or the need for change. This rationale of an information failure suggests an implicit focus on the disengaged / confused end of the framework outlined in Figure 3.1. That is, the target clients for most of the fully funded services are unwilling (rather than unable) to pay for support services.
- 3.5 These projects will risk distorting the market if they operate outside of the disengaged / confused groups and work (ie if they work with clients who would access the same external support by other means in the same timeframe if the project was not available). This presents a major challenge for the organisations delivering fully-funded support as it can be difficult to establish whether a client genuinely falls within the disengaged or confused group. The challenge for delivery bodies is to operate in a way which minimises market distortion.

... and it can be difficult to manage this risk in the context of contractual targets

- 3.6 It can be difficult to identify and engage with target clients for fully-funded services. By definition, clients within the disengaged group (where the demand side failure is strongest) will require the most intensive work to convince them to access support. Even if this support is offered on a free of charge basis these businesses will still need to invest time and therefore could be reluctant to engage if the commercial case is not clear.
- 3.7 This naturally means that fully funded services can run the risk of veering outside of their target client group and distorting the market. Although the review has not seen any evidence that fully funded projects are operating outside of their target group, partners should be aware of the pressure that contractual ERDF targets can place on delivery organisations and the effect this can have on operations. The risk of market distortion can be greater for projects which are operating at higher volumes and this often increases as projects get closer to their end date or when they are seeking looking to demonstrate their achievements to support new or continuation funding bids. In practice, this means that projects should not measure their success solely on the basis of the number of clients they have worked with. The fit of these clients to project objective and market failure should also be a key consideration as this has a large effect on the net additional impact of the activity.

The risk of market distortion could be greater where SME contributions are needed...

- 3.8 The City Region has made a lot of progress in setting up projects which include SME contributions. This closely reflects the findings of the best practice literature which emphasises the benefits (in terms of buy-in and commitment) associated with SME contributions and links charged for support to higher levels of impact. It also reflects the aspiration to engage private sector suppliers within the public sector support landscape and to align intervention around commercial market principles. This is a major step forward but it is important to note that the risk of market distortion remains here and in fact could be greater for projects of this type.
- 3.9 Again, looking at the framework provided in Figure 2.1, the focus should largely be on the confused group (although there is also a case to work with those in the confident group). The willingness to engage with commercial support is more marginal and a part-subsidy can tip the decision-making balance towards take-up. In short, the subsidy incentivises or de-risks the SME's investment in external support. As the decision is more marginal here, these projects are operating much more closely to commercial provision and so the risk of inadvertently operating outside of the area of market failure is greater. The evaluations of

these projects will need to fully and rigorously test whether these projects are genuinely supporting businesses to do things that they would not otherwise do. The influence of ERDF targets on behaviours is a relevant consideration here and, of course, the inclusion of commercial providers of support within the delivery structure adds a further layer to this challenge.

The scope for direct duplication of commercial supply appears limited...

3.10 Only a small number of the ERDF projects are focusing on supply side market failures:

- **The Enterprise Hub's** focus on pre-revenue businesses means that it is naturally operating in an area where the private sector is much less active. Outside of the generally narrowly focused services provided by some high street banks and accountancy firms, the commercial market does not generally provide holistic support services to pre-revenue businesses (most likely as the revenue generation potential is limited).
- **The Health Innovation Exchange:** this project is responding to a supply side failure and appears to be offering a unique service which could not be offered commercially, given that the value proposition for this is embedded in its access into and work within the NHS.
- **NPIF:** this is a predominantly supply-side intervention which deals explicitly with the supply of finance in the area of the market where the commercial providers either do not operate or have an appetite for risk which is inconsistent with the economic development aspirations.

3.11 This means that the risk of duplication and market distortion by setting up supply in competition with other services is much more limited.

Test 2: Are Services Appropriate to Strategic and Business Needs?

3.12 We have considered the coverage of the ERDF projects in the context of wider public sector provision and insights from delivery bodies into the nature and focus of commercial provision and the needs of businesses locally. The key findings here are:

The core service offer covers the key thematic support areas...

3.13 Three of the ERDF funded projects provide wide-ranging offers with designed-in flexibility to cover a broad range of client needs. These projects form the core of the City Region's support offer:

- The **Enterprise Hub** deals with pre-start businesses predominantly, but also offers some support to a small number of newly established firms.
- **LCRIBS** offers wide ranging and relatively low intensity growth focused support to a large number of clients.
- The **New Markets 2** project provides a higher intensity growth focused offer with in-built scope for tailoring towards specialist needs.

3.14 As these wider-ranging projects can operate at higher volumes they offer the greatest market penetration potential. Their flexible and broad offer allows them to work with a larger number of businesses to identify and start to explore various barriers to start-up and growth. LCRIBS and the Enterprise Hub can cover most of the major barriers identified locally (see Table 3.1) although the breath of their offer means that they are less well placed to provide in-depth and highly tailored support.

Table 3.1 Summary of Barriers to Growth Identified at Workshop	
Barrier	Scope
Skills and Experience of Business Owner	<ul style="list-style-type: none"> • Management capacity and knowledge to guide and implement business growth and start up. Includes generic business management skills (finance, business planning, HR, tax matters etc) • Encompasses more specialist skills and knowledge (eg related to managing innovation within the business, managing change etc)
Ability to Access Workforce Skills	<ul style="list-style-type: none"> • Access to appropriate labour market skills is a key barrier which affects businesses at all stages of their lifecycle. More pronounced for some sectors • Strategic projects and programmes are important here
Access to Finance	<ul style="list-style-type: none"> • Relevant on the supply and demand sides • Appetite of commercial providers to offer the right quantities and types of finance to support set-up and growth is a long-standing issue, although things are improving in some areas of the market • Investment readiness is a long-standing issue which does not always receive sufficient attention.
Sites and Premises	<ul style="list-style-type: none"> • Supply is a particular issue in some areas of the City Region. Incubation and grow on space and affordable premises in short supply in some areas. There is little that support services can do to address lack of supply. • Knowledge of the offer and ability to select appropriate premises also limited and could be acting as a barrier.
Innovation Facilities	<ul style="list-style-type: none"> • Difficult to generalise as needs here are fragmented and according to particular sectors / business types.
Ambition and Confidence	<ul style="list-style-type: none"> • Relevant at all stages of the business development cycle. Can dampen appetite to and ambition of start-up. Similarly, can reduce scale-up potential. • Need to encourage businesses to trade outside of the LCR. Nationalisation as well as internationalisation needs more attention.
Internationalisation	<ul style="list-style-type: none"> • Knowledge of how to export and / or the benefits of doing so. • Financial support can be important here as are activities to highlight opportunities.

- 3.15 New Markets 2 is well placed to offer both breadth and depth and as such there is a natural progression within these three core projects whereby LCRIBS offers the broadest service which can identify and start to remove barriers (ie preparation for growth) and New Markets 2 can offer a more intensive and tailored service which is focused on growth implementation.
- 3.16 These three core services are supplemented by the more specialist offers of the other ERDF projects. Naturally, these more specialist projects will work with a smaller number of business and the balance between targets and volumes between these groups seems sensible.

...but the core offer may not be appropriate to businesses at all lifecycle stages

- 3.17 The high-level mapping of the ERDF projects against their target clients (based on ERDF contractual outputs) in Table 3.2 highlights limited capacity to deliver tailored support to newly established businesses.
- 3.18 The Enterprise Hub will work with a relatively modest number of newly established firms. Most of the other services have been asked to target some activity towards newly established firms although the new-start focus has not been designed into these projects and as a result their offer to newly established firms is not distinct from that for other clients.

Level of Targeting	Project	Pre-Start	Newly Established	Established
Broadly Targeted	Enterprise Hub	2,070	250	-
	LCRIBS	-	90	923
	New Markets	-	-	905
Specialist Offer	LCR 4.0	-	41	259
	Low Carbon Eco-Innovatory	-	32	247
	LCR Future Energy	-	5	225
	Innovate 2 Succeed	-	-	150
	LCR Activate	-	-	150
	LCR Health Innovation Exchange	-	6	80
	Enhancing International Trade	-	-	73
	Specialist Manufacturing Service	-	-	47
	Place Marketing	-	-	20

Note: NPIF has not been included in this analysis. In practice, it would work with clients at any stage although it has not explicit targets and its focus will largely be dictated by the nature and quantitative of investable propositions which come forward.

- 3.19 This does not necessarily mean that services provided by these projects are not appropriate for new start companies. But as this group's specific requirements have not been designed into these projects their engagement activities might not be best targeted to reach this

client type and the support mechanisms might not be fully suitable to the needs of new start businesses (generally speaking they are particularly revenue focused and time poor).

The appearance of a disjointed specialist offer could be misleading

3.20 At face value the more specialist offer appears to be fragmented and uneven. In particular:

- The very **limited supply of innovation focused support** appears counter to the innovation flavour to the Growth Strategy. There are a number of innovation focused projects in PA1 and PA4 which focus on particular technologies or sectors. This reflects the nature and focus of these PAs and a desire on the part of the ESIF programme to ensure the specialist innovation offer is strong. The core business support offer does not currently have a dedicated holistic innovation service, although three core projects will naturally touch upon innovation as part of their work with SMEs given that innovation is an important cross cutting theme in all business growth / productivity support. Innovate to Succeed offers a tailored and holistic innovation service which can work with a range of business looking to implement an innovation project. Arguably, this could be positioned at the slightly more specialist end of the core service offer but it is not currently fulfilling this role as it is a pilot programme operating at low volumes. The case for providing a fully or part funded innovation service at higher volumes appears strong at face value given the nature of the market failure in this area and the high cost of commercial services. This would need to be carefully tested following the completion of the pilot and consideration of evaluation evidence.
- **The level of sector specific provision is uneven:** the LCR Growth Strategy underlines the need to prioritise the development of the City Region's priority sectors, this is not wholly reflected in the ERDF projects commissioned so far. There are some sector specific projects (notably covering the advanced manufacturing sector, digital and creative sector and low carbon and energy sectors), while other priority sectors have no specific provision. This does not necessarily constitute a gap as the businesses in these sectors could be well served by the less targeted projects and might not have specific needs.
- **The capacity for internationalisation support appears to be low:** the International Trade project is an ERDF extension to DIT's core national offer so the relatively small number of assists funded via ERDF is likely to underplay the true level of internationalisation focused activity here. It is also important to note that internationalisation of activity could be a theme within other projects (LCRIBS and

New Markets in particular) although the extent to which this is the case would need to be tested by an evaluation.

- 3.21 It would be easy to conclude that the relatively narrow focus on a small number of sectors, technologies and market areas represents a gap in the specialist offer. However, the scope to provide more intensive and highly tailored support via the New Markets 2 project needs to be considered here. This project has been designed to respond to specialist needs in a flexible manner and without setting up a large number of additional projects. So, in practice, it provides a bridge between broad and specialist support by drawing in commercial support in response to specific demand. This approach is closely aligned to best practice which clearly underlines the need to enable access to existing provision rather than build new supply. However, it will be important to take stock of the actual focus of the projects which are being delivered through New Markets 2 and the extent to which these are aligned to more specialist support needs and the aspiration of the Growth Strategy.

Test 3: Is the Support Easy to Access and Effectively Coordinated?

- 3.22 It is difficult to draw well evidenced conclusions about the effectiveness of coordination mechanisms and the ease of accessing support without engaging directly with businesses to understand their experiences. However, discussions with providers highlight several important messages:

The landscape remains complex...

- 3.23 Business support in LCR is delivered through a complex network of public and private sector providers, operating in different thematic areas and at various spatial levels. At face value, the complex delivery structures run counter to the simplification agenda and the risk of confusion for businesses is quite clear. However, the persistence of this complexity reflects the decision for the Growth Hub to work within, rather than against, existing structures. The approach has been designed to avoid alienating existing delivery bodies and to enable a collaborative rather than competitive approach to develop.

...so referral between projects is essential for a coordinated approach

- 3.24 Growth Hub Brokers provide a light touch needs assessment and referral service but are not the only route into services. All projects market themselves independently under the Growth Hub banner. This approach reflects best practice lessons which show that overly prescriptive gateway processes and routes into support act as barriers to engagement and add to, rather than relieve, complexity. In practice, this means that rather than being

controlled by a strong and prescriptive central gateway, services in LCR are coordinated by referral routes between projects.

- 3.25 The relative positioning of the projects is important here. LCRIBS and the Enterprise Hub offers are very broad and so they are the natural destination for a large proportion of Growth Hub referrals. This breadth means that local brokers can confidently refer into these broad services after a relatively light touch diagnostic. Conversely, we would not expect to see a large volume of Growth Hub referrals directly to more specialist services as it can be time consuming to establish the suitability of these services (indeed, this is part of the fabric of the assistance for many of the more specialist projects).
- 3.26 Logically, the Enterprise Hub and LCRIBS are well positioned to refer into New Markets 2. There is a natural coherence here given start-up focus of the Enterprise Hub, preparation for growth focus of LCRIBs and growth implementation focus for New Markets 2. Once each of these projects has provided support, the advisor should be in a good position to advise on the next steps for the business and, where appropriate, provide referrals into other services (either within or outside of the ERDF portfolio).
- 3.27 This type of activity does not appear to be taking place in large quantities. Anecdotally, a few of the more specialist projects report substantial referral activity either from the Growth Hub or the core projects, although the actual data on referrals could show otherwise. This represents a missed opportunity to optimise the pathways through support and maximise impact of the projects.

It is not clear who owns the ongoing relationship with clients

- 3.28 The literature highlights aftercare and ongoing relationships with clients as an essential element of business support coordination. This helps to maximise impact by providing impartial guidance onto the next steps for the businesses and support which could be helpful (either commercially or otherwise). At the moment it is not clear which organisation owns the ongoing relationship with clients that have worked with any of the ERDF funded projects. Logically, the Growth Hub should have a role here but it currently lacks the resources to effectively fulfil this function.

CRM data could be used more effectively to coordinate activities

- 3.29 While the reported volume of referrals appears to be low, there is evidently a high level of commitment amongst partners to working collaboratively. Greater use of the shared CRM system has emerged as an opportunity.

3.30 A lot of progress has been made in getting the shared CRM up and running although the overriding view amongst projects is that its use as part of delivery is currently limited. Information is currently flowing into the Growth Hub and projects report that they do not have access to the type of information which would be useful to them operationally. In time, the lack of perceived benefit could undermine commitment to the shared CRM so the Growth Hub should consider how it can use and disseminate this data in a way which helps providers. The following would be useful next steps:

- **Sharing information on referral flows:** some organisations are involved in both coordination and delivery activity there will inevitably be a risk that they could be perceived to be acting in a non-impartial manner (irrespective of the reality of how these services are operating). Sharing information from the CRM about referral and engagement activity (the destinations of prospects and flows of clients between services) could help to make progress with this ensure that the true level of referral activity is clearly shared.
- **Sharing information on client characteristics:** similarly, understanding the profiles of clients that other projects are working with might be helpful to test whether reports of some projects encroaching into others' territory are accurate.

3.31 Moving on from data sharing via the CRM, there is also an opportunity to enhance wider knowledge and information sharing. In particular, the knowledge of each others' service offers appears to be patchy across the projects.

Test 4: Is the Support Efficiently and Effectively Delivered?

3.32 Although it is too early to fully assess each projects' efficiency and effectiveness, our review of the design and delivery approaches highlights the following:

The experience of providers should minimise risk and enhance quality of delivery

3.33 The projects are being delivered by a broad group of delivery bodies each bringing particular strengths and expertise. Most of the projects are being delivered by organisations with a strong background in ERDF delivery and management. This brings a lot of benefits for the efficiency and effectiveness of delivery as experienced organisations will have:

- insight, capability and processes to effectively manage and administer the ERDF funding stream
- an understanding of the important principles around additionality and impact, which can feel more nebulous to less experienced delivery bodies; and

- existing networks, relationships and reputations in place with other providers and businesses to help enhance delivery.

3.34 Given the breadth of experience across the portfolio of providers there could be an opportunity for greater knowledge sharing and exchange amongst the group, as part of the commitment to collaborative working. The diversity of the group, in terms of the organisation types and cultures, means that the providers will inevitably have a lot to learn from one another. The three monthly meetings of the business support projects have been and will continue to be an important mechanism for knowledge sharing and exchange amongst the organisations delivering ERDF funded business support services.

Overheads could be high

3.35 Local advisors, familiar with local companies, sectors and economic conditions have a positive effect on take-up, impact and satisfaction, however the benefits of a more local approach need to demonstrably outweigh the additional resource costs involved as well as the risk of additional complexity in the market place.

3.36 Naturally, the number of providers involved could lead to higher administrative and management overheads, with activity being fragmented across a larger number of organisations. However, only an evaluation and analysis of service costs will tell us anything about that. Also, it is important to make sure that this is balanced against the achievements of the projects and the particular outcomes / benefits that they achieve.

Test 5: Is the Support Leading to Net Additional Impacts?

3.37 It will take time for the achievements of the projects to be evident and measurable, although it is possible at this stage to explore the potential impact of the projects drawing on key features of their design and market positioning. The important points here are:

It is important to be realistic about the impacts of fully funded activity...

3.38 As outlined earlier, fully funded projects implicitly are focusing on the businesses which are less convinced of the need for public sector support (ie the disengaged / confused groups). This has a number of implications for the likely impacts amongst these groups:

- **This group is less likely to be growth-ready.** Reluctance to access external support does not necessarily mean that these businesses have less growth potential, but generally speaking, a greater amount of preparation work and support will be needed to get these businesses to a point where they are ready to implement major

growth plans. This means that major and transformational changes (and the associated high level of impact) will not be imminent for this group.

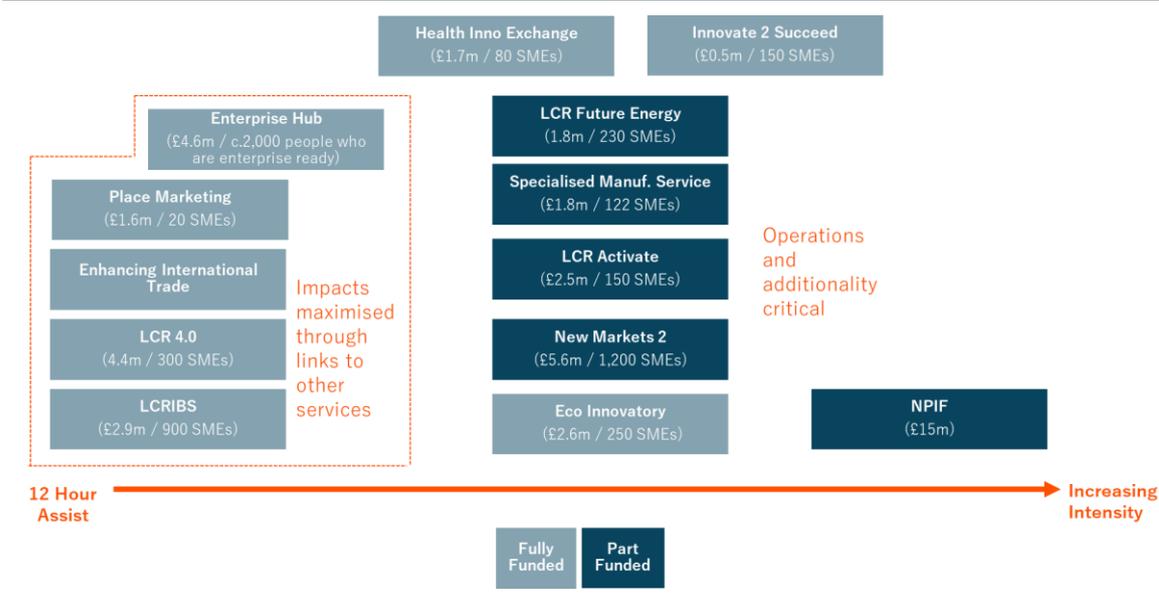
- **Higher intensity support is not generally appropriate for this group.** In the same way that clients could be unlikely to invest financially in external support, they could also be unwilling to invest substantial time if not yet convinced of the potential benefits. This is why fully funded services tend to be lower intensity (as shown in Figure 3.1).
- **Lower intensity support rarely results in high levels of net additional impact.** The evidence (and logic) generally points towards higher intensity projects having greater levels of impact. So projects which are providing lower intensity support to businesses which are further away from implementing transformational change will rarely create high levels of impact in their own right.

3.39 These messages need to be interpreted carefully. It does not necessarily follow that fully funded projects have no place in a support system which is seeking to create high level of impact. When operating effectively, these projects can stimulate demand for other more intensive projects and help to extend the reach of public sector business support services. This can have important strategic benefits and play an important role in realising wider strategic aspirations.

...and recognise that the full impact of this support is realised through the next steps

3.40 The challenge of working in this part of the market should not be underestimated. Projects seeking to prove the case for external support and leave these businesses willing and able to access provision on a charged for basis (either subsidised or fully commercial). For this case to be proven, businesses will need to see some evidence of impact on their bottom line performance. This can be difficult to achieve with a relatively low intensity assist, especially when a large proportion of clients in this area of the market could have less appetite for change and face a range of wider barriers. These projects are often the start of the journey for many of their client businesses so maintaining a relationship is critical to realising impact.

Figure 3.1 Charging Structure and Intensity



Note: NPIF and how this varies from deal to deal because of the nature of the project.

- 3.41 The means that **ongoing relationship management and links to other projects** are essential to maximise the returns from support of this type. As outlined earlier, there is scope for some improvement in this regard.

More intensive projects will offer greatest scope to deliver impact...

- 3.42 The link between intensity of support and scale of impact is not a particularly surprising finding from the literature review. It follows that projects which offer more intensive support to clients will create the greatest levels of impact. The ERDF project portfolio contains a number of projects which offer higher intensity support as shown in Figure 3.1. It is reasonable to assume that this will give rise to a client base which is more engaged with and committed to realising the benefits of the assistance, given that clients of most of these projects are making contributions to the cost. These design features point towards higher impact generating potential, subject to the quality of project delivery.

...but this depends on whether delivery focuses on additionality

- 3.43 We can reasonably predict that the more intensive and charged for projects will go on to create the most significant impacts on business performance, we cannot assume that this will translate in to high levels of net additional impact. This will depend on the way that these projects operate in practice and specifically how they select the clients that they will work with. As outlined earlier, the projects will need to operate within their target area of market failure in order to secure high levels of additionality.

- 3.44 The greatest additionality is to be secured by using the subsidy to encourage clients to implement projects that would:
- not otherwise go ahead
 - happen at a smaller scale
 - be implemented to a lesser quality
 - go ahead at a later date.
- 3.45 If SMEs could use part-subsidy to implement projects that would go ahead anyway, the net additional impact will be much lower. The ERDF performance monitoring framework does not include any KPIs which encourage delivery bodies to focus on additionality and there is a risk that organisations less experienced in delivering public sector support could overlook this important point.

More selective projects deliver more impact

- 3.46 The evidence base is clear that projects which are selective about their clients tend to deliver the highest levels of gross and net additional impact. This is not necessarily about backing winners, it is about identifying the businesses or individuals who can benefit most from public sector backed support and ensuring that they can access sufficiently intensive and appropriate support to help them.

Project	Target Number of Business Assists		
	Open to All ERDF Eligible	Objective Eligibility Criteria (eg by sector)	Subjective Eligibility Criteria
Enterprise Hub	2,070*		
LCRIBS	923		
New Markets	905		
LCR 4.0	300		
Low Carbon Eco-Innovatory	-	247	
LCR Future Energy		230	
Innovate 2 Succeed			150
LCR Activate		150	
LCR Health Innovation Exchange		80	
Enhancing International Trade	73		
Specialist Manufacturing Service		47	
Place Marketing		20	
NPIF			TBC

*Note: target for the Enterprise Hub relates to the number of people who are enterprise ready

- 3.47 Looking across the current suite of ERDF projects, there is a clear lack of targeting. Some are targeted objectively (eg towards particular sectors, businesses with a need for a particular technology) but only Innovate 2 Succeed and NPIF report that they are overtly selective about which clients they work with.
- 3.48 This lack of targeting within the ERDF projects, together with the lack of clarity about which organisation manages the ongoing relationships with SMEs is a weakness in the current portfolio of projects. This could undermine the overall impact creating potential of the projects as it leaves the City Region without a means to maintain relationships with the companies which have potential to implement transformational change and create the highest net additional impacts.

4. Conclusions and Recommendations

4.1 Partners in the LCR have achieved a lot in progressing their vision for a more strategic approach to business support. The aspiration for a more commercial approach is starting to come to fruition with a greater number of private sector providers becoming embedded into the business support landscape and the delivery of projects which include SME contributions. The City Region has sought to progress towards a more commercial model without alienating valued providers of fully funded support. While all partners acknowledge that the journey towards a fully effective and efficient system of business support is not yet complete, there is a broad acceptance of the strategic aspiration and acknowledgement that the direction of travel is positive. Importantly, there appears to be a high level of commitment to a collaborative and constructive approach and this should help to maintain momentum within the process of change.

4.2 The ERDF funded projects which have been the focus of this study represent a large proportion of the business support capacity in the Liverpool City Region. Although it is too early to provide definitive evidence about how effectively these projects are functioning, the study has highlighted some important messages which have informed the recommendations for the focus of the PA3 call. The key messages are:

- **Both fully funded and part-funded support services risk market distortion.** The extent to which any distortion takes place is closely linked to the way in which the services operate and whether they provide support to clients within the area of market failure they are targeted upon. This can be difficult for delivery bodies to manage, especially when faced with contractual targets for the number of clients they have worked with.
- **The core service offer could be strengthened with a new-start focus.** The three core projects offer a sufficiently broad and coherent coverage but the lack of focused support for newly established firms is surprising given the importance of survival rates to maximising the economic benefit of enterprise activity. The priorities of newly formed businesses and the pressures that they are under are distinct from those of more established firms and support should ideally be configured in a way which reflects this. Greater penetration into this part of the market could be achieved with a more tailored offer.
- **Uneven specialist provision is notable but not necessarily problematic.** The specialist offer appears, at face value, to be disjointed but this could be misleading

as the New Markets 2 project offers built-in ability to provide specialist services. The coverage of the specialist offer should be reassessed once what the actual spread of activity provided by this project it is clear. This will provide some indication of the demand for an additionality of different types of specialist activity to guide future specialist provision.

- **The landscape of support remains complex and there is scope to improve coordination mechanisms.** A lot of progress has been made in simplifying the landscape and the distinction between the three core and wider, more specialist projects is helpful. The Growth Hub does not directly deliver intensive support services to businesses as it is a coordinating function rather than a delivery mechanism. Its activities are therefore focused on coordination, engagement, and referrals to the core services. The initial referral relationships between the Growth Hub and core service offers are reportedly working reasonably well but more work is needed to embed the more specialist projects into the referral network. The three core projects, rather than the Growth Hub, could be best placed to fulfil this need given that they will naturally develop insight into the next steps for their clients over the course of their work with them. There could of course be a role for the Growth Hub in facilitating and coordinating this important function.
- **Responsibility for managing long term relationships with priority clients is unclear.** This is important to maximise the benefit and impact of support provided by the projects individually and the current absence of a clear post-support process is notable. The Growth Hub is the logical body to take responsibility for this longer term relationship management task but it currently lacks the resources to allow it to fulfil this role.
- **The complex delivery structures present a risk of inefficient operation.** The large number of delivery bodies involved in the landscape naturally poses the risk that overheads and administration costs could be high. However, any additional overheads associated with the current operational approach should be considered in the context of the benefits that more localised approaches might deliver.
- **Closer linkages between projects will help to maximise the impact of fully funded support.** It is important to be realistic about the scale of impact that will materialise as a result of projects which are focused on harder to engage groups which may be further from the transformational change needed to realise major impacts. These projects need to be viewed as the first step in engagement and partners should acknowledge that follow on support via links to other services is needed to realise

the full benefit of this first engagement. This means that ongoing relationship management and links to other projects will be essential to maximise the returns from support of this type.

- **Many of the projects appear to offer high gross impact potential but their net additional impact is currently unknown.** Higher intensity projects with SME contributions offer scope to support more substantial gross changes in business performance but it is important to bear in mind that it is the net additional impact which really matters. How projects select their clients and the extent to which the subsidy is used to encourage clients to implement projects that would not otherwise go ahead is currently unknown. There are some risk factors here; the pressure that ERDF contractual targets and commercial benefits of working on a part-subsidised basis could act to move projects away from target clients, although this would need to be tested.
- **Few of the projects are selective in the assistance that they provide.** The best practice evidence is clear that projects which operate more subjective eligibility criteria tend to realise greater levels of impact as they can focus their attention on the clients which have potential to deliver the highest levels of additional impact. These criteria need to be subjective rather than objective.

Priority Areas for the PA3 Call

- 4.3 Drawing on these messages, the PA3 call should seek to fill the following key gaps in the service offer:

1: Support for Newly Established Firms

- 4.4 The City Region's core offer would be strengthened by a service which closely reflects the support needs and priorities of newly established firms which:
- maximise the impact of investment into enterprise activity by ensuring high survival rates through a focused effort to help address the common barriers and challenges faced by new start-up businesses
 - ensure a sufficiently tailored and targeted service which reflects the pressures that newly trading businesses face and their priorities
 - encourage the development of a high level of aspiration and confidence amongst newly trading firms

- identify priority clients for other growth focused services which are focused on more established businesses.

4.5 Business support organisations that are most active in this part of the market would be well placed to provide evidence and insight into how best to configure services which deliver on these objectives. We would expect this to reflect the following issues:

- **Duration and Intensity:** we would expect that longer term and lower intensity support is likely to be most suitable given the tendency for new starts to be time poor.
- **Support mechanism:** we would expect mentoring programmes to have a lot to offer given the continued skills development required for entrepreneurs in their early years of trading and the breadth of challenges which could be encountered.
- **Cost:** there could be a case for this being provided on a free of charge basis for firms in their first two years of trading although this would need to be tested.

2: Selective High Intensity Growth Programme

4.6 There is currently limited capacity to select and work with high priority clients which have potential to deliver large net additional impacts. These businesses are difficult to identify and engage with and we would not expect them to be present in large numbers in the City Region. In line with the best practice literature, a more intensive growth focused project would need to:

- work with other service offers to identify the businesses with the greatest level of growth ambition and potential
- work with these clients on a longer-term basis to help guide and shape their growth journey
- provide a brokerage and account management function into other sources of support (commercial and subsidised).

4.7 Organisations which are more active in delivering support would be best placed to provide evidence and insight into the optimal configuration of a service of this nature as part of their response to the call. We would expect this to reflect the following in particular:

- **Engagement:** target clients for a service such as this need to be carefully selected so providers should be invited to suggest how clients will be identified and

particularly the extent to which the service might draw on and work with the other ERDF funded projects.

- **Targeting:** we would anticipate that the targeting mechanisms for this service would need to be quite subjective, drawing on the judgement or experienced and highly skilled business advisors about the growth potential and suitability of businesses, rather than an objective set of criteria. The key question here should be the scope and appetite for transformational change within the business.
- **Intensity and duration:** given the transformational nature of the business change here, we would expect assistance would need to be longer-term in nature although potentially less intensive given the emphasis on guiding and shaping the growth journey rather than delivering value adding services directly.
- **Links to other provision:** the brokerage and account management function needs to be delivered by advisors / organisations with close links to and knowledge of the full business support market (both commercial and non-commercial).
- **Charging structure:** reflecting the best practice lessons this would need to be guided by an understanding of any market failures which prevent access to value adding services. The case, for example, for any part-subsidy to access commercial support as part of this assistance needs to be carefully considered in light of the market failure evidence. Generally speaking, we would expect there to be a valid case for a fully funded brokerage and account management function although this would need to be tested as part of the appraisal process.

3: Strengthen the Strategic Role of the Growth Hub

- 4.8 The evidence clearly points to a gap in the management of the post-support relationship with clients of other services. A targeted high growth focused programme would fill this gap for a selected group of businesses but the gap would remain for a large proportion of the 3,000 clients that the ERDF funded services will work with.
- 4.9 Given the headroom in relation to the IDB support target, there is an opportunity for the Growth Hub to lever in additional funding which could be used to fulfil this function and provide additional, light touch follow on advice and guidance to help clients of the ERDF funded services to consider the next steps and identify providers of additional support on either a subsidised or commercial basis. This will help to ensure that the full impact of the projects can be realised.

- 4.10 Levering additional funding into the Growth Hub in this way could also provide additional capacity to help to strengthen the Growth Hub's ability to fulfil its coordinating function. For example, the additional capacity could be used to further develop the use of the CRM and disseminate data on referrals and prospects amongst projects.

Other Important Principles

4: Strengthen the Assessment of Market Failure

- 4.11 The importance of market failure to realising the City Region's aspiration for a more commercially focused business support system cannot be overstated. The market failure rationale is a key part of the ESIF development and appraisal process so this must be rigorously tested as part of the investment decision. The requirement for the PA3 call should demand projects provide a full and specific description of the market failure case which:
- states clearly whether the project is responding to a supply or demand side market failure (or both)
 - provides evidence for the existence of that market failure: this should be specific and robust
 - clearly links the market failure to key design elements of the project (specifically the charging structure and client selection)
 - outlines *how* the project will operate to address the market failure.
- 4.12 Importantly, this should be tested rigorously at appraisal and evidence of additionality needs to be sought. Projects often make the case for the project's additionality on the basis that the service could not be delivered without ERDF support. While this largely reflects output focus of ERDF contractual targets. However, to ensure that projects also deliver net additional outcomes and impacts, this alone should not be accepted as a rationale for ERDF investment. As part of their application, all projects should be required to provide a full and well-evidenced description of why the *outcomes that the project is looking to achieve* will not occur without the project. The Logic Model will be a helpful tool to achieve this.

5: Ensure Evidence-Based Decisions on Continuation

- 4.13 Some of the ERDF funded projects are likely to be seeking continuation funding in 2018. The ESIF application process for projects seeking continuation funding is less onerous than that for new projects, although applications will still be tested rigorously. Although the

application is shorter, projects should still be required to demonstrate that they have taken the opportunity to consider and reflect on the lessons which have emerged from the delivery of the first phase of these projects.

- 4.14 We strongly recommend that projects which seek continuation funding are required to produce evidence relating to the scale and nature of emerging impacts and the level of additionality they have secured. The ERDF Summative Assessment requirement means that all ERDF funded projects need to be evaluated. These evaluations should ideally be timed so that they coincide with applications for continuation funding so that lessons relating to the design, delivery and impact of the projects can be objectively identified and reflected in the investment decision. If this is not possible, then projects should still be required to reflect on lessons from delivery and encouraged to provide evidence of the impact of their activities.
- 4.15 We understand that there is limited scope to make material changes to the design of projects which are seeking continuation funding. However, we strongly recommend that clarity is sought on the nature of changes which can be made to projects seeking continuation funding where there is evidence that changes could secure greater levels of impact and additionality.

6: Use Opportunity to Be Prescriptive on Working Methods

- 4.16 Given that the key to realising impacts and additionality is based on how the projects are operating, and particularly how they are working *together* we would recommend that the Investment Body use the continuation of projects as an opportunity to influence working methods. In particular:
- more prescriptive on use of CRM (including when client details are entered onto this and the level of information provided)
 - use of CRM to monitor referral between projects (and integration of reporting / KPIs to monitor this?)

Appendix A - LCR's ESIF Programme

A.1 This section provides a brief overview of the progress to date in implementing the ERDF stream of the LCR ESIF programme. It draws upon spend and output information provided in October 2017.

Liverpool City Region's ESIF Programme

A.2 LCR's ESIF Programme is a key funding stream, representing some €221.9m of investment into the City Region. The programme states that the ERDF component will be invested in a manner which will maximise investment opportunities, tackle barriers to growth, reverse long-term underperformance and address social inequality.

A.3 ERDF is a broad investment stream and as such the overall programme has a range of aspirations. These range from those explicitly related to business support (including aspirations to support more than 6,000 enterprises and 2,000 new companies), aspirations to boost the innovation infrastructure and performance of the economy and those related to the low carbon economy.

A.4 Priority Axis 3 (PA3) is focused explicitly on the activities which will directly influence the performance and competitiveness of the City Region's SMEs. Here the focus is on activities to develop and grow existing businesses, support new business start-up, develop an enterprise culture and attract inward investment to the City Region.

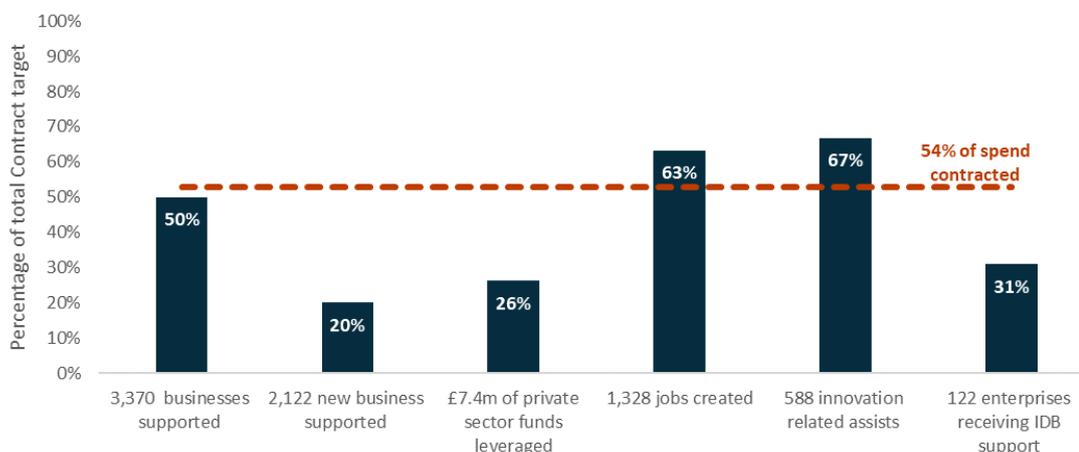
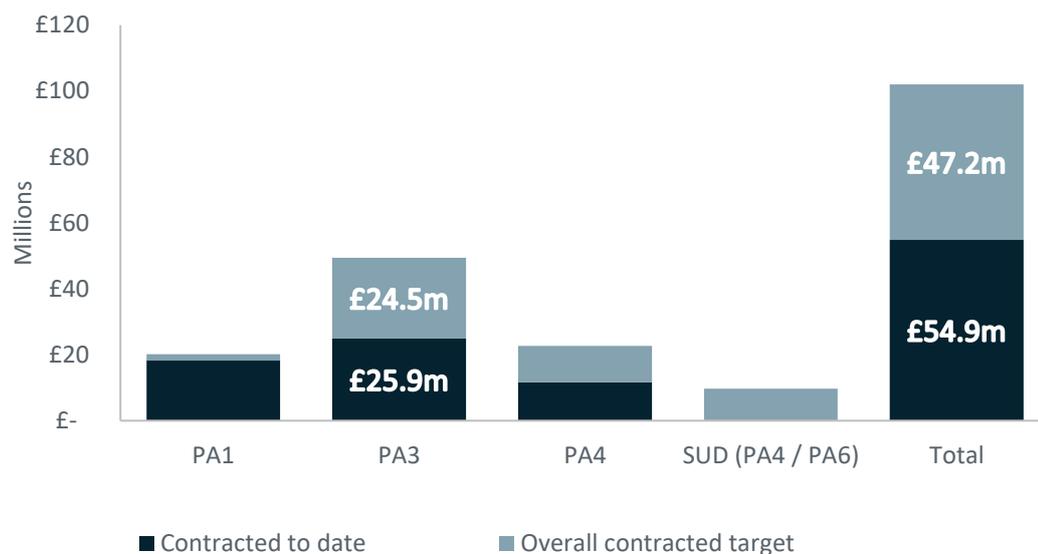
Progress to Date

A.5 The charts in **Error! Reference source not found.** summarise the progress made to date in implementing the ERDF stream of the ESIF programme. Looking at the ERDF programme as a whole (and including both capital and revenue) it is clear that contracting activity has been strong so far. The £54m contracted to date represents 54% of the overall ERDF allocation.

A.6 At face value, the analysis suggests that some output targets could be difficult to achieve. Contracting activity to date suggests that the rate at which the programme has contracted new businesses supported, private sector funds leveraged and enterprises receiving IDB support has not kept pace with expenditure. However, it is important to note that the overall analysis is significantly skewed by the significant allocation (£15m) to the Northern

Powerhouse Investment Fund. This is a large, pan-LEP investment fund which is expected to deliver against various targets, including private sector funds leveraged. Because of the way the fund operates, it does not have contractual LEP level targets and so the analysis in Figure 3.2 below presents a partial picture of the potential outturn. This means that the analysis in the figures below should be views as indicative only.

Figure 4.1 Summary of ESIF Progress



Source: LCR Outputs by Priority Axis - Target v Allocated to Date, Spreadsheet provided November 2017. N

A.7 Looking in more detail at PA3, progress here largely reflects the picture for the overall programme:

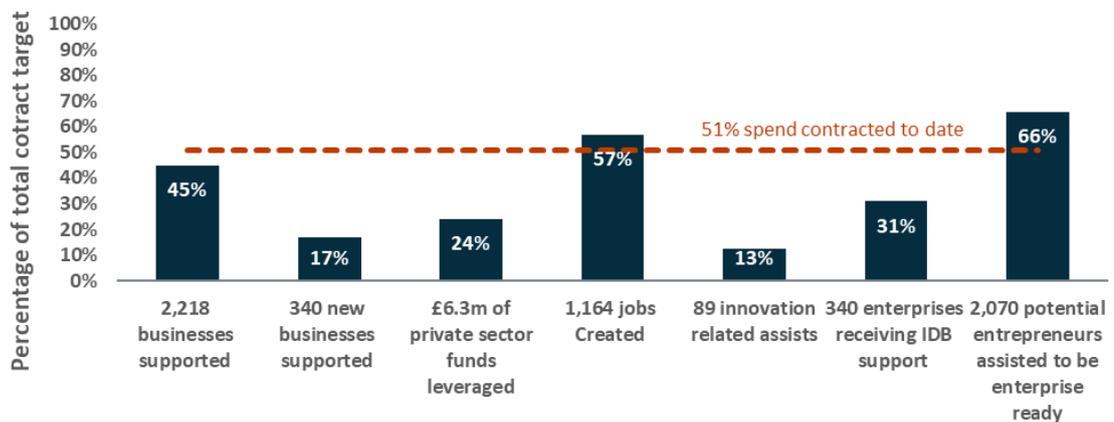
- **Variable progress against output targets:** job creation and potential entrepreneurs assisted to be enterprise ready on track in relation to proportion of overall spend

contracted to date while progress against targets for other outputs appears to be lagging.

- **There is a substantial gap in contracting for new businesses supported:** so far, just 17% of overall target has been contracted for this indicator. Private sector funds leveraged (24%) and innovation related assists (13%) and IDB support (31%) are also behind the spend profile.

A.8 The analysis suggests that some of the key targets could be stretching, although again the potential contribution of NPIF to some of these indicators is not reflected in this analysis so it is difficult to draw conclusions about the implications for future contracting activity.

Figure 4.2 Progress across headline indicators in PA3



Source: LCR Outputs by Priority Axis - Target v Allocated to Date, Spreadsheet provided November 2017

Business Support and Innovation Projects

A.9 So far, 12 revenue funded business support and innovation projects have been commissioned through PA1, PA3 and PA4 of the ESIF programme. Table 4.1 provides an overview of the spend and output targets associated with these projects. If they perform in line with their targets some 3,000 SMEs will be assisted. The majority of this assistance will be delivered by the LCRIBS and New Markets projects.

Table 4.1 Summary of ESIF Business Support and Innovation Projects

Priority Axis	Project Name	ERDF Value (£m)	Targets				
			Number of Enterprises Receiving IDB (P13)	Potential Entrepreneurs Assisted to be Enterprise Ready (P11)	Enterprises Receiving Support (C1)	New Enterprises Supported (C5)	Enterprises Supported to Introduce New to Firm / Market Products (C28 and C29)
PA1	Innovate to Succeed	£0.5	-	-	150	-	142
	LCR 4.0	£4.2	-	-	300	41	120
	LCR Health Enterprise Innovation Exchange	£1.6	-	-	80	6	29
	LCR Activate	£2.5	-	-	150	-	88
PA3	LCRIBS	£2.6	87	-	923	90	-
	New Markets 2	£3.9	35	-	905	-	81
	Specialist Manufacturing Service	£0.3	-	-	47	-	8
	The Enterprise Hub	£4.6	-	2,070	250	250	-
	Enhancing International Trade	£0.4	-	-	73	-	-
	Northern Powerhouse Investment Fund (NPIF)*	£15	-	-	-	-	-
	Place Marketing for Investment	£1.4	-	-	20	-	-
PA4	Low Carbon Eco-Innovatory	£2.6	-	-	247	32	120
	LCR Future Energy	£1.9	-	-	225	5	-
TOTAL		£42	122	2,070	3,370	424	588

*receives funding from PA1, PA3 and PA4; Source: LCR Pipeline Programme, spreadsheet provided November 2017; Note: figures are rounded so may not sum exactly

A.10 Looking at the targets in more detail:

- **There appears to be a gap in support for newly formed enterprises:** the focus on newly formed enterprises is low in comparison to existing SMEs. Just 13% of total enterprises supported are expected to be newly formed enterprises.
- **Current unit cost per P11 assist is low:** the Enterprise Hub is the only project focused on supporting potential entrepreneurs to be enterprise ready, offering low-cost assists to 2,070 potential entrepreneurs at approximately £2,200 (ERDF funding) per assist.
- **Variable cost per business assist across the programme:** the ERDF cost per assist for LCRIBS and Innovate to Succeed is low at £2,800-£3,300 per enterprise supported. The ERDF cost per assist for New Markets 2, the Specialist Manufacturing Service and LCR Activate are also low but this underplays the intensity of the assistance provided by these projects, as they include significant SME contributions.

Appendix B - Best Practice Review

Table 4.2 Important Messages from Review of Best Practice Literature

Message	Issue	Source
Understanding market failure at the design stage is critical	<ul style="list-style-type: none"> Understanding the nature, extent and effect of market failure in the business environment is important in underpinning an effective programme to fill gaps in private sector provision. 	<ul style="list-style-type: none"> Enterprise Research Centre (2013) Supporting sustained growth among SMEs BIS (2011) Research to understand the barriers to take up and use of business support NWRDA (2011) ENWORKS Environmental Business Support Programme BIS (2011) Business Support for Social Enterprises BERR (2006) Economic impact study of Business Link local service
Programmes should complement existing business support arrangements	<ul style="list-style-type: none"> Programme proposals should set out how they will make use of local expertise to either fill gaps in provision, or build on the services already on offer. Building on existing working partnerships and tried and tested delivery models allows for smooth delivery and sharing of best practice. 	<ul style="list-style-type: none"> The Work Foundation (2011) Ready, Steady, Grow? How the government can support the development of more high growth firms What works (2014) Business Advice Evidence Review Birmingham City Council (2011) Evaluation of Working Neighbourhoods Fund Projects
Clear role for a centralised management team	<ul style="list-style-type: none"> The hub and spoke model of business support requires a centralised management team to manage and distribute funds, coordinate partnerships, plus collect/collate and report on outcomes and results. A strong hub allows the delivery network (spokes) to better concentrate on providing a high-quality support service tailored to clients' needs. 	<ul style="list-style-type: none"> ICF GHK (2013) Evaluation of the ENWORKS Project: "Embedding Resource Efficiency in Key Sectors" 2009-2013 BIS (2011) Evaluation of Leadership and Management Advisory Service
Market segmentation allows for prioritisation	<ul style="list-style-type: none"> Categorising potential clients according to a typology allow services to better match support available to businesses' needs in the most cost-effective way. A targeted approach to identifying clients allows services to concentrate resources on beneficiaries with the greatest scope to generate positive impacts on the economy. 	<ul style="list-style-type: none"> Ekosgen (2011) Business Gateway National Evaluation BIS (2011) Evaluation of Leadership and Management Advisory Service Mole et al (2008) Assessing the effectiveness of business support services in England: Evidence from a theory based evaluation

		<ul style="list-style-type: none"> Arts Council England (2014) Creative Industry Finance Pilot Programme Saïd Business School (2013) Stimulating Small Growth Progress Report on Goldman Sachs 10,000 Small Businesses UK
Marketing, profile and publicity are important demand drivers	<ul style="list-style-type: none"> A strong brand image encourages potential beneficiaries to enquire about services (Business Link and Business Gateway successful brand identity vs SMART Cymru struggling brand). Word of mouth and personal contacts are the strongest channels for driving demand – followed by referrals from professional service providers (eg banks, accountants, lawyers) and business networks. Marketing campaigns are needed for visibility but need not be large scale. 	<ul style="list-style-type: none"> BERR (2006) Economic impact study of Business Link local service Ekosgen (2011) Business Gateway National Evaluation CM International (2014) Mid-term Evaluation of the SMARTCymru RD&I Financial Support for Business Programme
Deeper rather than broader support delivers greatest economic returns	<ul style="list-style-type: none"> While light touch approaches (eg business MOT/diagnostics) achieve greatest market penetration, they do not translate into substantial economic returns. More focused and intensive assistance generates higher and more persistent economic impacts. Nb However, RTDI businesses innovation credits have proved more cost-effective than more intensive forms of business support. 	<ul style="list-style-type: none"> Mole et al (2011) Broader or deeper? Exploring the most effective intervention profile for public small business support. What works (2014) Business Advice Evidence Review Saïd Business School (2013) Stimulating Small Growth Progress Report on Goldman Sachs 10,000 Small Businesses UK One North East (2010) Evaluation of Business and Enterprise Ekosgen (2011) Business Gateway National Evaluation Regeneris Consulting (2013) ERDF 2007-2013 Evaluation for DCLG
Local discretion and flexibility is important	<ul style="list-style-type: none"> Local advisors, familiar with local companies, sectors and economic conditions have a positive effect on take-up, impact and satisfaction. However, the benefits of a more local approach need to demonstrably outweigh the additional resource costs involved and the risk of additional complexity in the market place. 	<ul style="list-style-type: none"> Bennett (2008) SME policy support in Britain since the 1990s: what have we learnt? Birmingham City Council (2011) Evaluation of Working Neighbourhoods Fund Projects

		<ul style="list-style-type: none"> • DTZ (2007) Evaluation of the Manufacturing Advisory Service • ICF GHK (2013) Evaluation of the ENWORKS Project: “Embedding Resource Efficiency in Key Sectors” 2009-2013
Effects of assistance quickly seen	<ul style="list-style-type: none"> • Improvements in performance and employment creation can be monitored in the short term (1-3 years). • Cultivating long-term relationships between advisors and SMEs are highly valued by businesses and important for converting opportunities into improvements. • Formal aftercare enhances the quality and impact of interventions. 	<ul style="list-style-type: none"> • Koski and Pajarinen (2011) Do business subsidies facilitate employment growth? • Creative Credits Commentary (2013) • Ekosgen (2011) Business Gateway Evaluation • Regeneris Consulting (2013) ERDF 2007-2013 Evaluation for DCLG • Enterprise Research Centre (2013) Supporting sustained growth among SMEs • SQW (2003) Small Business Gateway high growth start-up support Evaluation
Grant funding should be matched by recipient	<ul style="list-style-type: none"> • To maximise the value of grant funding, all grant contributions should be matched by participants. This should be affordable and proportionate to the size of the business. • Match contributions foster greater commitment to programmes, and translate into greater economic outcomes. 	<ul style="list-style-type: none"> • BIS (2011) Evaluation of Leadership and Management Advisory Service • AKF (2009) Evaluating the Effect of Soft Business Support to Entrepreneurs in North Jutland • BIS (2014) Growth Accelerator commentary on Year 1 monitoring survey • Nesta (2014) Creative Credits a randomized controlled industrial policy experiment • DTZ (2007) Evaluation of the Manufacturing Advisory Service
Critical mass required for A2F projects	<ul style="list-style-type: none"> • Considerable expertise and judgement are required to balance the costs of setting-up and managing funds and securing returns and good deal flow. The risks involved in managing a portfolio of investments demands are schemes are sufficiently large to be viable. 	<ul style="list-style-type: none"> • Regeneris Consulting (2013) ERDF 2007-2013 Evaluation for DCLG



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www.regeneris.co.uk

London: 0207 336 6188

Manchester: 0161 234 9910