

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Executive Member for Policy and Resources
Date:	20 January 2017
Title:	Internationalising Small and Medium Sized Enterprises
Reference:	8044
Report From:	John Coughlan, Chief Executive

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1. Executive Summary

1.1. The purpose of this report is to seek approval for the County Council to participate in the *Everywhere International Small and Medium-sized Enterprises (SMEs) (EIS)* partnership project as 'lead partner'. The project will explore ways to enable SMEs to internationalise, thereby supporting Hampshire's economy.

2. Contextual information

Interreg Europe

2.1. Interreg is a European Union (EU) funding stream which seeks to bring together partners from across Europe to share knowledge and exchange good practice. A key focus of Interreg Europe is supporting SMEs in order to strengthen sustainable economic growth.

SMEs account for 99% of businesses and two thirds of all private sector jobs in the European Union¹. The global economy offers EU-based SMEs significant potential if they are able to grow their business internationally. An estimated 90% of global growth originates outside of the EU and developing and emerging markets are expected to account for 60% of world GDP by 2030. SMEs are more likely to survive in this globally competitive business climate if they internationalise.

The EIS project

2.2. The EIS project proposal was developed by nine partners across 7 EU states², including Hampshire County Council, with a view to encouraging more SMEs to internationalise. The partners will develop a collaborative tool and methodology

¹ <http://www.interregeurope.eu/policylearning/sme-competitiveness/>

² Denmark - Central Denmark Region, Central Denmark EU Office; Hungary – Kóbrivnicki Poduzetnik; Ireland – Donegal County Council; Italy – Emilia Romagna Region; Poland – Pomerania Development Agency; Portugal – Regional Development Agency of Alentejo; UK – HCC, Wsx Enterprise.

to inform robust action plans for supporting regional SMEs to internationalise. Learning and knowledge generated throughout the project will be shared across all EU regions through the Interreg programme and relevant policy platforms.

- 2.3. EIS was one of 66 projects approved in October as part of the second Interreg call for proposals. It is one of 33 projects focused on SME competitiveness approved to date. The four year project, which is due to commence by March 2017, has two phases. The first two years will focus on knowledge exchange and the development of local action plans. During the final two years, participating regions will convene a stakeholder group of relevant organisations to work through the Local Action Plans developed during phase one.

3. Hampshire County Council's involvement

- 3.1. SMEs account for over 99% of the 69,000 businesses in Hampshire. Collectively, they contribute approximately 50% to Hampshire's £48 billion economy. These businesses provide the majority of the 780,000 jobs in the county. Providing the right type of support to SMEs, particularly those with the potential to grow, is critical to the future vitality and competitiveness of the Hampshire economy. In this context, the County Council has a strong interest in supporting the competitiveness of SMEs in Hampshire through its economic development function and in collaboration with key partners.
- 3.2. In November 2014, the County Council was approached by [Southern England Local Partners](#) (SELP) to act on SELP's behalf as the 'lead partner' for the project bid. The County Council is the 'host' organisation for SELP – a partnership focused on enhancing understanding, opportunity and engagement in EU affairs across Southern England. Following two successful bid submissions, the proposal was approved by the Interreg Europe Managing Authority in November 2016. The funding agreement is currently awaiting sign-off by the County Council as lead partner.

4. Finances

- 4.1. The total project budget is €1,670,623. Of this, €1,420,028.70 (85%) is to be reimbursed retrospectively through the EU funding stream (approximately 6-8 months after expenditure is incurred). The total budget breaks down as follows across the nine partners:

Partner region	Total budget	ERDF funding	Partner contribution
1. Hampshire County Council, UK (Lead partner) – including SELP	€329,555	€280,121.75	€49,433.25
2. WSX Enterprise, UK	€171,100	€145,435.00	€25,665.00
3. Central Denmark EU office, Denmark	€163,273	€138,781.20	€24,490.80
4. Central Denmark Region, Denmark	€216,804	€184,283.40	€32,520.60
5. Donegal County Council, Ireland	€234,444	€199,277.40	€35,166.60
6. Emilia Romagna Region, Italy	€172,264	€146,424.40	€25,839.60
7. Pomerania Devt. Agency, Poland	€150,264	€127,724.40	€22,539.60

8. Regional Devt. Agency Alentejo, Portugal	€140,600	€119,510.00	€21,090
9. Kobrivnicki Poduzetnik, Hungary	€92,319	€78,471.15	€13,847.85
Totals:	€ 1,670,623	€ 1,420,029	€ 250,593

4.2. The €280,121.75 funding to be made available to the County Council and SELP over the four year period is allocated as follows:

Partner	Funding for preparation costs	Funding for staff costs	Funding for admin costs	Funding for travel	Funding for external expertise	Total funding
Hampshire County Council & SELP	€15,000	€173,136.75 (Of which the County Council element is €64,898)	€33,385	€28,800	€29,800	€280,121.75

4.3. In addition, the County Council and SELP will collectively contribute €49,433.25 to the project through officer time. Alongside the €280,121.75 funding allocation, this provides a total budget for SELP and the County Council of €329,555.

5. Risks and mitigations

5.1. As the lead partner, the County Council will be legally responsible to the programme authorities (Interreg Europe, joint secretariat, certifying authority and/or audit authority) for the successful delivery of the project, both in respect of the County Council and that of the other project partners. There are three main areas of risk as follows:

A. Financial and legal liability

Risk – If the County Council, and/ or any of the eight funding partners, is in default, breach, failure or non-compliance of the provisions of the subsidy agreement, the County Council will be liable to repay the funder (Interreg Europe) the total value of the subsidy received within one month. The total value of the subsidy could be up to €1.4 million; however, project costs will be reimbursed by Interreg Europe retrospectively, approximately every six to eight months. The County Council would have to seek recovery retrospectively from the relevant partner(s).

The County Council's responsibility under the Interreg Europe agreement is very wide and includes:

- Compliance with audit obligations both during the project term and up to seven years post project completion to the total value of €1.4 million;
- Ensuring expenditure has been verified;

- Compliance with laws and regulations under European Law and national laws (including state aid rules and procurement regulations).

As the lead partner, the County Council will execute the Interreg Europe agreement. Upon doing so, the County Council will be bound to the terms without having a back to back agreement in place with the other partners.

Mitigation – Given that the project timetable does not allow sufficient time to secure binding legal agreements with partners before signing the Interreg agreement, it is intended to pursue this retrospectively. Whilst this would not remove the County Council's obligations as lead partner, it would ensure partners were aware of, and had formally accepted, the requirement to comply with funding conditions.

Using the template partner agreement provided by Interreg Europe, the County Council will draft individual partner agreements which shall be negotiated and agreed with each of the partners to mitigate the County Council's risk exposure and liability. It is, however, unknown how amenable the partners will be to negotiating specific terms.

B. Resource effort

Risk - The amount of funding allocated to the County Council may not prove adequate to fund the range of support work required to make the project a success. Whilst it is too early to quantify the amount of additional resources required, it is likely to include the need to fund additional finance and audit support, specialist legal advice, and banking charges for foreign currency transactions, including exchange rate fluctuations.

Mitigation – The County Council intends to meet any additional costs from within the total €280,121.25 funding allocation. This means that SELP will receive less funding income than anticipated. However, as SELP intends to support delivery of this project from within its existing resource, this reduction in income should not present any financial risk to the partnership. Moreover, the two officers that work for SELP are employees of the County Council and the County Council is the only SELP partner involved in delivery of the EIS project. It is, therefore, not believed that this mitigation will impact adversely on other SELP members.

C. British exit from the EU (Brexit)

Risk - The project runs until 2021, by which point the UK could have left the EU, which could impact on the UK's ability to honour the existing funding agreement.

Mitigation - The Government has stated that it will honour payments to Structural Investment Fund projects, such as EIS, where a contract is in place before Brexit, and where the project fits with UK priorities and is shown to be value for money (see <https://www.gov.uk/government/news/further-certainty-on-eu-funding-for-hundreds-of-british-projects>).

5.2. These risks and mitigations need to be considered in view of the reputational risks to the County Council of discontinuing with the project at this late stage, and the potential opportunities and benefits that would be missed. These include: access to additional funding, access to specialist knowledge and expertise, and support for SMEs to enhance Hampshire's continued economic growth and prosperity.

6. Recommendation

6.1. It is recommended that the County Council:

- a. Accepts and proactively manages the risks and mitigations set out in section 5.1 (A) to (C),
- b. Approves the County Council's participation in the EIS project as lead partner, and
- c. Delegates authority to the Chief Executive to approve the documentation necessary to implement the project.

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

Hampshire safer and more secure for all:	No
Maximising well-being:	No
Enhancing our quality of place:	Yes

Other Significant Links

Links to previous Member decisions:		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
Direct links to specific legislation or Government Directives		
<u>Title</u>	<u>Date</u>	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- 1.2. The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- 1.3. Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- 1.4. Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

2.1. This project will have no impact on groups with protected characteristics as it focuses on supporting all SMEs in Hampshire who wish to develop their business internationally.

3. Impact on Crime and Disorder:

3.1. There will be no impact on Crime and Disorder.

4. Climate Change:

4.1. The project could have an impact on the carbon footprint of some of the participating SMEs. This is because if SMEs successfully internationalise, this could lead them to trade or provide services in foreign countries. Depending on the nature of the business, this could involve the physical transportation of goods, thereby potentially increasing the SME's carbon footprint. However, it is not possible at this early stage to know what type of businesses will benefit from the project, or what type of industry they will be providing.