

Key Decision Required:	Yes	In the Forward Plan:	Yes
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CABINET

18 MARCH 2016

REPORT OF THE REGENERATION PORTFOLIO HOLDER

A.5 SME GROWTH FUND PROGRESS REPORT

(Report prepared by Tom Gardiner, Regeneration Manager)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To update Cabinet on the progress being made in supporting business growth via the Council's SME Growth Fund Scheme; to seek Cabinet approval to extend the operational timeframe of the Scheme to March 2018; and to widen the geographical boundary of the Scheme to include the whole District.

EXECUTIVE SUMMARY

Plans to establish an SME Growth Fund of £500,000 to facilitate business growth in Tendring were approved by Cabinet on 12th June 2015. The Scheme was designed to support the start-up and expansion of circa 15 – 25 SME businesses in qualifying sectors located in/or locating into the District's designated Assisted Area, with the aim of creating or safeguarding a targeted total of circa 70 jobs.

The Scheme was focussed on the District's designated Assisted Area, because at that time neither Government nor the South East Local Enterprise Partnership (the principle source of economic funding in South East England), were directing dedicated resources to facilitate growth in any of the region's four Assisted Areas. This funding situation remains unchanged.

The Scheme criteria focuses funding support on new and established businesses operating in: manufacturing, engineering (electrical, mechanical); energy; low carbon; and in the marine/maritime sectors, and/or in the research and development /supply chain industries serving these sectors.

At the time Cabinet approved the Scheme it was envisaged that the SME Growth Fund would be open to applicants until the end of May 2016, provided the available funding was not fully committed and/or expended by that date.

In October 2015 Essex County Council's Capital Programme Board determined to award £250,000 to Tendring District Council (TDC) in order to expand the impact of the Scheme.

At that time it was estimated that Essex County Council's intervention would support the start-up and expansion of an additional 7 – 13 SME businesses, and create or safeguard an additional 35 jobs.

Cabinet should note that Essex County Council's funding will not be available until the start of the new financial year (April 2016), and that the County Council has now indicated that its funding will be made available in two tranches of £125k, payable in 2016/17 and 2017/18.

Since the Scheme was launched the Council has received 35 Enquiries from would be applicants, of which 11 did not qualify for funding under the Scheme (and were advised accordingly) and 24 were invited to complete and submit a formal Expression of Interest (EOI) in line with the approved application process. Of these the Council subsequently received 5 Expressions of Interest, two of which have been translated into Full Applications for funding under the Scheme.

One of these Full Applications failed at the project appraisal stage whilst the other application received a positive appraisal and was supported by the Scheme's Grants Panel.

Given the economic conditions within the Tendring Assisted Area (a deprived area of National and European priority) it was always envisaged that the Scheme would be slow to attract applicants in the weeks and months following implementation, particularly since the Scheme requires applicants to commit their own resources (50% if a new enterprise/start-up and 75% if an existing business) and to create new jobs. However it was thought that whilst the Scheme would be slow to attract applications from the business community, it would over time build an operational momentum in which the success of individual applicants (and subsequent publicity via the Tendring business network) would foster a wider understanding of the Scheme, and lead to more start-ups and established businesses applying for funding under the Scheme.

This was very much the Council's experience with regard to the Regional Growth Fund (RGF) SUCCESS Programme, which channelled government funding to creative and cultural businesses in Tendring, Thanet and Hastings. Under this programme, and after a very slow start, businesses in Tendring secured circa £300,000 over the 12 month period from April 2014.

There is some evidence to suggest that widening the operational boundary of the Scheme could yield a positive response from businesses that are currently excluded as a consequence of their geographical location. For example, the Regeneration, Inward Investment, and Growth Team is aware of five businesses in the District that would like to apply for funding under the Scheme, but are currently prevented from doing so because they are located outside the operational boundary of the Scheme.

In view of the availability of Essex County Council funding from April 2016, the slow take-up of funding under the Scheme, and the geographical restrictions currently placed on would be applicants, it would now seem appropriate for the Council to: roll forward its uncommitted SME Growth Funding into the new financial year; extend the availability of the Scheme to March 2018; and widen the operational boundary of the Scheme (from April 2016) to encompass the entire District, whilst maintaining the Scheme's focus on supporting business growth within the defined priority sectors.

RECOMMENDATION(S)

It is recommended that Cabinet approve:

- (a) That the Council's SME Growth Fund Scheme be extended to March 2018;**
- (b) That all uncommitted SME Growth Fund resources be carried over at 2015/16 financial year end, and be subsequently made available to qualifying**

businesses under the Scheme in the period from April 2016 to March 2018;

(c) That the Scheme's operational boundary is amended from April 2016 to include all Wards within the Tendring District; and

(d) That delegation is given to the Chief Executive in consultation with the Regeneration Portfolio Holder, to update the Project Appraisal Manual, and all relevant publicity promoting the Scheme, be updated to reflect the revised geographical parameters.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The SME Growth Fund responds directly to the corporate goals identified within the Council's Corporate Plan (Tendring Life) and to the objectives of its Economic Development Strategy (EDS).

Specifically the Scheme responds to the following Corporate Goals:

- **Corporate Goal 3:** Help children and adults achieve their full potential;
- **Corporate Goal 4:** Address deprivation; and
- **Corporate Goal 6:** Coastal opportunities and protection.

The Scheme also responds to the following EDS Objectives:

- **Objective 1:** Supporting Tendring's growth locations by intervening in areas where the potential for economic growth is highest and where there is a strong case for intervention particularly (but not exclusively) in Harwich, Clacton and West Tendring;
- **Objective 2:** Targeting growth sectors, which are best placed to support growth and job creation within the District's economy; and
- **Objective 4:** Supporting modernisation, diversification and growth within the business base, improving innovation and inward investment and creating dynamism in the economy that will make Tendring more competitive and resilient to national and international shock.

FINANCE, OTHER RESOURCES AND RISK

Finance and other Resources

Funding for the Scheme (£500k) was formally approved by Cabinet at its meeting in June 2015 utilising resources allocated in support of the Council's Regeneration, Inward Investment and Growth function. As at January 2016, the original Fund remains substantially intact with £496,309 remaining uncommitted.

In addition to the funding for the Scheme, the Council also resource the management and administration of the Scheme. For the most part these costs relate to staff time, the costs

of which have already been accommodated within the Council's staffing budget and are therefore absorbed as part of the Council's day-to-day staffing function.

The Council also resource the cost of credit checks that may be undertaken as part of the project appraisal process and also any third party specialist advice, which may be necessary to complete the appraisal of complex applications. As previously reported these costs are not expected to be prohibitive and are likely to be accommodated within existing resources.

Risk

As previously reported the successful implementation of the Scheme is subject to a number of potential risks. These include:

- An inability to successfully engage with the private sector (key businesses) to drive grant applications from eligible businesses from within the target area;
- Failure of the Scheme to meet the objectives identified and/or to secure the growth anticipated;
- The capacity within the Regeneration, Inward Investment and Growth Team to effectively manage the Scheme and to assess applications in line with the agreed governance and administrative protocols; and
- A shift in corporate priorities and policy objectives following political change (national and local);

The Regeneration, Inward Investment, and Growth Team will continue to control and mitigate these risks as part of its administrative and management function and will develop a risk register (as necessary) to identify, track, and report on risks as part of its project management function.

As previously advised Cabinet should note that State Aid rules do present a risk to the successful delivery of the Scheme, however this risk is largely mitigated via the design of the Scheme and the application of the *de minimis* rules. State Aid rules are complex and could emerge over the lifetime of the Scheme.

Staff engaged in the assessment of applications will be provided with training (as appropriate) to ensure that they have the skills necessary to interrogate business plans and to interpret the financial information provided by applicants. As referenced above external specialist advice may be sought where this is absolutely necessary.

LEGAL

Since 1972 Local Government has been able to under a range of powers provide financial assistance to external businesses to promote economic development in their area, the current and widest power is contained within the General Power of Competence under the Localism Act 2011.

European Union (EU) rules do not permit government funding ('State Aid') that distorts, or threatens to distort, market competition within the EU, except in certain permitted circumstances. However, any grant proposed under this Scheme should not contravene EU rules on state aid. To be classed as a state aid, a grant would need to satisfy all of the following four criteria:

- It is granted by the state or through state resources;
- It favours certain undertakings or the production of certain goods;
- It distorts, or threatens to distort, competition;
- It has the potential to affect trade within the EU.

In an Assisted Area it is possible to offer increased levels of aid to those sectors associated with energy and the environment. However, Grants will generally be made under the *de minimis* regulations for State Aid. Under *de minimis*, a business may not receive more than 200,000 Euros assistance from state sources within any rolling 36-month period. This would include, but not be limited to, any grant awarded under the Scheme.

If grant support through the Scheme would exceed the *de minimis* level, businesses may consider their potential eligibility under General Block Exemption Regulations (GBER). The likelihood of this is considered to be very low and so the GBER framework is not detailed in this Report.

The Project Appraisal Manual, approved by Cabinet in June 2015 does adequately address the State Aid considerations and how these will be taken into account during the application process, although this will need some amendment to reflect the proposed and revised geography for the Scheme.

As with any Scheme, under which various applications could be received, it is essential that the eligibility and assessment criteria are clearly set out and the decision making process is robust and transparent. The Scheme provides detailed information on these elements.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed recommendations in respect of: Crime and Disorder; Equality and Diversity; Health Inequalities; Area or Ward Affected; Consultation and Public Engagement; and any significant issues are set out below:

Evidence suggests that there is a direct link between economic prosperity and social inequality. The Scheme seeks to improve the economic performance and vitality of the District by creating growth in the economy. In so doing the Scheme will help secure the economic opportunities that exist within the District whilst indirectly tackling the broad range of deprivations and inequalities prevalent in the area.

Area or Ward Affected

The Scheme currently focusses on those Wards within the Tendring Assisted Area. It is proposed that from April 2016 the operational boundary of the Scheme be extended to include all Wards within the District.

Consultation and Public Engagement

On-going communication and participation with eligible sectors within the business community will be an essential ingredient if the Council is to achieve the successful implementation and delivery of the Scheme.

Essex County Council

Cabinet should note that as things stand Essex County Council's contribution to the Scheme (£250,000) is currently ring fenced to the Tendring Assisted Area. Subject to Cabinet's approval to extend the Scheme to include the whole District, officers will liaise with senior representatives of the County with the aim of securing ECC's approval for its resource to be utilised on a District-wide basis. Given the County Council's support for the use of "growth products" to stimulate economic activity, it is not anticipated that this request will present any difficulty for the County.

In the event that ECC do not allow the money to be spent outside of the Assisted Area, then their funding would be ring-fenced accordingly, which can be accommodated within the proposed changes to the Scheme.

PART 3 – SUPPORTING INFORMATION

BACKGROUND

Plans to establish an SME Growth Fund were announced by the then Leader and Portfolio Holder for Regeneration, Inward Investment & Growth and Asset Management at Full Council on 10th February 2015.

Proposals to establish the Scheme were linked to the Assisted Area designation conferred on parts of the District in May 2014. Whilst this UK and European designation provides some financial benefits to businesses, Government is yet to announce any bespoke funding (Regional Aid) in support of the English Assisted Areas, and has recently announced (as part of its 2015 Autumn Spending Review) that it has no plans to re-open bidding for the cross-sectoral Regional Growth Fund (RGF), a mechanism through which Government has historically supported Assisted Areas.

Members will recall that the SME Growth Fund Scheme approved in June 2015 is based on the governance, management, and administrative protocols developed and implemented by Hastings, Thanet, and Tendring Councils for the RGF SUCCESS Programme Fund, which provided grant funding throughout 2014 to new and established businesses in the creative and cultural sector.

The mechanics for the SUCCESS Programme were also endorsed and approved by the Department of Communities and Local Government (DCLG) and the Department of Business, Innovation and Skills (DBIS).

The approach has therefore been tried and tested and has proven to be an effective mechanism through which financial support can be targeted on SMEs.

Under the Scheme grant funding is paid to successful applicants retrospectively on the achievement of agreed and approved outputs or milestones, such as the creation of a job or the purchase of capital equipment.

The Scheme is managed on a day-to-day basis by the Council's Regeneration, Inward Investment & Growth Team and a Grants Panel comprising representatives of the Council and external partners has been established to make investment decisions on the grant applications received based on the recommendations of the Appraisal Team led by the Council's Regeneration Manager.

The aims and objectives of the Scheme are to:

- Create a Growth Fund targeted on the: manufacturing; engineering (electrical and mechanical); energy; low carbon; and maritime sectors; and/or the research and development / supply chain industries serving these sectors, to incentivise investment by businesses in these sectors;
- Concentrate assistance on these sectors to support the growth and diversification of the economy within the District's designated Assisted Area; and to
- Contribute to a sustained increase in value, job creating potential, and to the sustainability of these sectors.

The primary targets for the Scheme are to:

- Support investment in 15 – 25 new/existing businesses to achieve growth;
- Create or safeguard at least 70 full-time equivalent (FTE) jobs; and
- Leverage £1,750,000 of private investment in addition to the Scheme Fund of £500,000.

As outlined elsewhere in this report, in October 2015 Essex County Council determined to contribute £250,000 towards the budget allocated by TDC to the Scheme, and this funding will be made available to the Council in April 2016. It is estimated that this contribution will:

- Support investment in a further 7 – 13 new or existing businesses;
- Create or safeguard a further 35 full-time equivalent (FTE) jobs; and
- Leverage a further £850,000 of private investment in addition to ECC's contribution of £250,000.

Notwithstanding the pedigree of the Scheme (being as it is modelled on the Government approved RGF SUCCESS Programme Fund), its implementation has thus far been disappointing, with only one application being awarded grant funding in the five months since the Scheme was launched.

Since August 2015 the Council's Regeneration, Inward Investment and Growth Team has:

- Prepared and distributed an informative brochure detailing the availability of grant funding via the Scheme;
- Advertised the availability of the Scheme on the Council's website;
- Promoted the Scheme via local media;
- Promoted the Scheme via partners (e.g. the Haven Gateway Partnership) and the BEST Growth Hub (a Greater Essex website with dedicated staff, directing businesses to information, advice, and guidance, and informing businesses of grant and loan funding opportunities);
- Promoted the Scheme amongst the principal business advice agencies operating in the area, including Ignite Business, Norfolk and Waveney Enterprise Services (NWES), Colchester Business Advice Agency (COLBEA), and the Manufacturing Advisory Service (MAS), part of the Government's Business Growth Service;
- Informed the primary high street banks of the Scheme, with the request that their business liaison staff promote the Scheme to their customers;
- Informed local accountancy businesses, book keepers, and solicitors of the Scheme with the request that these businesses inform their clients; and
- Promoted the Scheme at Council led business events (e.g. the Jobs Fair held at the

Town Hall on 13th October 2015 and the business event held at the Clacton Enterprise Centre on 26th November 2015).

In addition the Regeneration, Inward Investment and Growth Team have targeted businesses using the Team's business contact database, and have visited in excess of 50 businesses in the target area, using these visits to promote the availability of the Scheme.

Discussion with the primary high street banks suggests that these private institutions are experiencing the same difficulty in channelling available resources (albeit loan funding) to the District's business community, and have expressed the view that post recession, those businesses wishing to expand their operational activity and/or workforce, appear to be utilising their existing resources and financial reserves to facilitate growth, in preference to borrowing money from the high street banks.

For information Braintree District Council launched its district-wide 'Business Growth Loan Fund' at roughly the same time as Tendring launched its SME Growth Fund. Braintree also has a funding pot of £500,000. Officers managing the Braintree Fund have reported the same difficulty in channelling resources to their target audience, and have thus far received no (zero) applications for funding.

With this backdrop, and with the advent of additional funding being made available via Essex County Council, it is proposed that Cabinet determine to: roll forward its uncommitted SME Growth Funding into the new financial year; extend the availability of the Scheme to March 2018; and widen the operational boundary of the Scheme (from April 2016) to encompass the entire District, whilst maintaining the Scheme's focus on supporting business growth within the defined priority sectors.

CURRENT POSITION

The SME Growth Fund Scheme is currently operational. Subject to Cabinet approval, the recommendations set out in this report can be implemented at no additional cost and in line with the timetable referenced in this report.

FURTHER HEADINGS RELEVANT TO THE REPORT

None

BACKGROUND PAPERS FOR THE DECISION

Cabinet Report of the Regeneration Portfolio Holder dated 12th June 2015 setting out proposals for a Small and Medium Sized Enterprise (SME) Growth Fund.

APPENDICES

None