

<b>Key Decision Required:</b>	<b>Yes</b>	<b>In the Forward Plan:</b>	<b>Yes</b>
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**CABINET**

**20 APRIL 2018**

**REPORT OF THE INVESTMENT AND GROWTH PORTFOLIO HOLDER**

**A.4 SME GROWTH FUND REVIEW AND PROPOSALS FOR EXTENSION**

(Report prepared by Laura Richardson, Funding Officer)

**PART 1 – KEY INFORMATION**

**PURPOSE OF THE REPORT**

To seek approval to extend the Council's SME Growth Fund to 31 March 2020 in order to continue to support businesses growth across the District. The report provides an update on the delivery of the Fund to date, details suggested amendments to this and recommends that Cabinet agrees to fund the extension by a £250,000 allocation from the existing SME Growth Fund budget.

The report also recommends that Cabinet agrees to receive a future report with options for use of remaining funds within the initial SME Growth Fund budget for other economic growth activities.

**EXECUTIVE SUMMARY**

The Corporate Plan Priority 'Employment and Enjoyment' aims to support business growth, create new employment and improve skills across Tendring. The SME Growth Fund is one of the key ways in which the Council provides direct support for businesses through grant support to facilitate growth. Support is aimed at small businesses across the District, recognising the vital role that they play in underpinning the stability and growth of the local economy through the provision of services and creation of employment.

The scheme was established with a focus on a number of specific business sectors using administration processes which had worked successfully in other similar programmes.

To date five businesses have been supported with awards totalling £138,250. This has created 19.5 FTE new jobs, safeguarded 3.5 FTE and leveraged £262,694 from the private sector (including £93,000 bank finance) and this is a very positive return.

The above was achieved from eleven full applications, demonstrating that the scheme delivers very positive outcomes. There have been over 100 initial enquiries about the fund and this demonstrates a positive return from the promotion of the fund. However the conversion from this into awards made is low and one of the key reasons for this was that the enquiries were from businesses not operating in one of the targeted key sectors.

Having reviewed the operation of the scheme it is clear therefore that changes can be put in place which will deliver an increase in take-up of the grants available and support greater growth across the Tendring business base.

The proposed changes to the scheme are summarised as:

- Remove the focus on a specific number of key sectors and promote it to all business sectors (except retail) - the main focus would be job creation and business growth outcomes;
- Change the funding levels within the scheme to create a Minor (£3,000 - £15,000) and a Major (£15,000 - £150,000) grant programme with a maximum intervention rate of 50% across both programmes;
- Authorise the Corporate Director (Planning and Regeneration) in consultation with the Head of Finance, Revenues & Benefits, to agree Minor applications (awards of £3,000 - £15,000);
- Retain the Grants Panel for Major applications (£15,000 to £150,000) and it will continue to meet on a virtual / electronic basis thus streamlining the process;
- Redesign of the application forms and process to ensure that it is streamlined and does not include overly excessive stages of administration for the businesses and the Council. This includes a quicker decision making process for both grants programmes.

The type of activities the fund will seek to support is outlined in **Appendix 1** and **Appendix 2** provides a flow chart outlining the stages of the application process.

The revised scheme would be funded by a £250,000 allocation from the budget approval already in place.

It is estimated that the revised SME Growth Fund will generate approximately 20 grant awards, create an additional 40 FTE jobs and leverage a minimum of £250,000 private sector investment. This will be monitored through regular reports in line with the corporate performance reporting framework.

Adopting the approach outlined above will free up the remaining £236,750 of the approved budget and a future report would be brought forward with options for the reallocation of remaining funds to support other economic growth activities.

## **RECOMMENDATION(S)**

### **It is recommended that:**

- (a) the Council's SME Growth Fund Scheme be extended to March 2020 and that the scheme objectives set out in the report be agreed, with a focus on job creation and growth outcomes;
- (b) the extension be funded from £250,000 of the allocation from the budget allocation already in place;
- (c) the scheme is opened up to all business sectors (with the exception of retail);
- (d) the scheme funding levels are split into two streams, namely Minor (£3,000 - £15,000) and Major (£15,000 - £150,000) grant programmes;
- (e) the intervention rate of up to 50% will be applied to all applications;

- (f) delegation is given to the Corporate Director (Planning and Regeneration) in consultation with the Head of Finance, Revenues & Benefits, to agree Minor applications (awards of £3,000 - £15,000) which will be published as Officer Decisions;
- (g) the current approval of Major applications (£15,000 - £150,000) via the Grants Panel is maintained and that membership of the Grants Panel is unchanged as set out in the report;
- (h) delegation is given to the Corporate Director of Planning and Regeneration, in consultation with the Cabinet Member for Investment and Growth, to update the scheme's Project Appraisal Manual and associated materials to reflect the changes detailed in this report; and
- (i) a future report be brought forward with options for the use of remaining funds within the initial SME Growth Fund budget to support other economic growth activities.

## **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 2016-2020 and to the objectives of the Council's Economic Development Strategy (EDS). Provision of the Fund also accords with the Council's community leadership role.

Specifically the scheme responds to the following Corporate Goals:

#### Employment and Enjoyment

- To support business growth
- To enable better job prospects

#### Our Priorities and Projects 2017/2018, Corporate Director (Planning and Regeneration Services)

- Attracting and sustaining employment and business
- Connecting our residents to business opportunities.

The scheme also responds to the following objectives of the Council's Economic Development Strategy:

- 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. The initial starting budget total was £625,000, as per TDC's input of £500,000 and ECC's contribution of £125,000. The funding utilised to date was mainly the ECC contribution.

As of March 2018, the original Council budget of £500,000 remains substantially intact with £486,748 remaining uncommitted. The revised scheme proposed in this report would be funded by a £250,000 allocation from the budget approval already in place. Options for the use of remaining £236,750 to support other economic growth activities will be brought forward in due course.

The budget position is outlined in the table below:

	Initial Budget	As at 31/3/18	Proposed Budget
ECC	£125,000	£0	
TDC	£500,000	£486,750	
<b>Total</b>	<b>£625,000</b>	<b>£486,750</b>	
Spend to Date	£138,250		
<b>Total Remaining</b>	<b>£486,750</b>		<b>£486,750</b>
SME Growth Fund 2020			£250,000
Economic Growth (TBC)			£236,750

In addition to the funding for the scheme, the Council also resources 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 resources 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. These costs are not prohibitive and are accommodated within existing budgets.

### Risk

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;
- 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

- 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 identify, track, and report on risks as part of its project management function.

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. External specialist advice may be sought where this is absolutely necessary.

## **LEGAL**

Since 1972 Local Government has been able, under a range of powers, provide financial assistance to 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.

Grants will 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.

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. As currently configured, the scheme provides detailed information on these elements, and any amendments to the scheme would be sympathetic to this approach. The Project Appraisal Manual (grant rules and criteria) adequately addresses the State Aid considerations and how these will be taken into account during the application process.

## **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 applies to all Wards in the district.

### Consultation and Public Engagement

On-going communication and participation with eligible sectors within the business community will continue to be essential if the Council is to achieve the successful implementation and delivery of the scheme. The Regeneration, Inward Investment and

Growth Team have launched a quarterly newsletter which provides a good channel through which to promote the scheme and a wide range of diverse media (local and regional press, flyers, attendance at relevant events, working with partner organisations, website promotion and targeted electronic mailshots) will be used in order to promote the availability of the scheme to businesses across the District.

## **PART 3 – SUPPORTING INFORMATION**

### **BACKGROUND**

#### Overview

Plans to establish an SME Growth Fund of £500,000 to facilitate business growth in Tendring were approved by Cabinet in June 2015. The scheme was also supported by Essex County Council by an award £250,000 towards the Scheme. Essex County Council's contribution was time limited and was to be made available in two tranches of £125,000. The first tranche was received by the Council in April 2016. The second tranche was subsequently withdrawn because the take up of grant was perceived to be slow and because of competing financial pressures within the County Council.

The scheme was designed to support the start-ups and expansion of approximately 15 – 25 SME businesses in qualifying sectors located in or relocating to the District's designated Assisted Area, with the aim of creating or safeguarding a targeted total of circa 70 jobs.

The objectives of the scheme were 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.

Businesses can apply for grant funding of between £3,000 and £150,000, to be matched with private sector funding, with an intervention rate of 25% for established businesses and 50% for new start-ups.

#### Performance

The fund has effectively been in operation since 2016 and is managed by the Council's Regeneration, Inward Investment & Growth Team. Grants are awarded through a Grants Panel comprising representatives of the Council and external partners.

The Grants Panel is currently made up of:

- Cllr. Zoe Fairley, Investment and Growth Portfolio Holder, Tendring District Council
- Cllr. Gagan Mohindra, representing Essex County Council
- Anita Thornberry, Haven Gateway Partnership
- Katie Skingle, KAT Marketing, Private Sector Input
- Ewan Green, Corporate Director (Planning and Regeneration Services), Tendring

District Council

- Richard Barrett, Head of Finance, Revenues & Benefits Services, Tendring District Council

The table below summarises the key information on the progress of the Fund to March 2018:

<b>Registrations of Interest Received</b>	103
<b>Expressions of Interest Received</b>	32
<b>Full Applications Received</b>	11
<b>Approved by Panel</b>	6
<b>Grant Agreements Signed</b>	5 <sup>1</sup>
<b>Grant Support Provided</b>	£138,251
<b>Private Sector Funding Leveraged</b>	£262, 694 (including £93,000 from banks)
<b>FTE Roles Created</b>	19.5 FTEs
<b>FTE Roles Safeguarded</b>	3.5 FTEs

<sup>1</sup> Please note that one business, although granted £20,000, decided to withdraw from the process before signing the Grant Agreement. The £20,000 is therefore not included in the overall total of money which has been granted.

There have been over 100 initial enquiries about the fund demonstrating a good outreach to businesses. However the conversion from this into awards made is low for a variety of reasons. Often businesses were not operating within one of the key sectors which made them ineligible.

A proportion of those who were invited to progress, either by submitting an Expression of Interest or further to Full Application, decided against pursuing their application, or were deemed ineligible after submission for reasons including lack of available match funding (or unwillingness to pursue other sources of match funding), unrealistic business plans and cash flows or unfavourable credit checks. The Team has at every stage endeavoured to work with applicants to ensure their application is as strong as possible with a high chance of success where feasible.

#### Promotion

The Team has worked closely with partner organisations including the BEST Growth Hub, Norfolk and Waveney Enterprise Services (NWES), the Department for International Trade (DIT), local banks, solicitors and accountants to ensure the scheme is promoted throughout (and outside of) the Tendring District; colleagues from these organisations have access to hard and electronic copies of the flyers and Information Packs to distribute these to businesses within their own areas of responsibility.

The Team have also made use of both traditional and social media formats to promote the scheme. This has included regular features in the newsletter (Tendring Business Talk), Tweets and Facebook engagement from both TDC and partner organisations as well as a dedicated webpage on the TDC website.

#### Review of the SME Growth Fund Scheme

It is clear that the scheme, whilst having achieved positive outcomes, can deliver better

outcomes for the Tendring economy. In reviewing the delivery of the scheme a number of amendments are proposed that will both streamline the application process and broaden the appeal of the scheme.

### **Scheme Objectives**

It is proposed that the scheme objectives should be revised to:

- Create a Growth Fund targeted to facilitate economic growth across Tendring through providing support for existing or new businesses;
- Concentrate assistance on those businesses which support the growth and diversification of the economy; and to
- Contribute to a sustained increase in value, job creating potential, and to the sustainability of these businesses.

The change to the objectives is primarily a move away from specific sector based approach in order to support a wider range of businesses.

### **Eligible Business Sectors**

The current scheme is targeted at a number of specific business sectors. This is limiting and it is proposed that the revised scheme be open to all businesses, with the exception of retail. Retail would not be an eligible sector due to factors of displacement although there may be elements of an application that indirectly support a minor element of retail.

It is proposed that the scheme should be open to businesses which demonstrate growth potential, with the creation of permanent jobs and leverage of private sector investment being the key outcomes.

### **Minor and Major Applications**

The scheme in its current format allows applicants to apply for grant funding of between £3,000 and £150,000. Feedback received from potential applicants indicates that the scheme would be more attractive to businesses requesting small amounts of grant funding (£3,000 to £15,000) if the application process was streamlined to reflect the level of funding required (i.e. small grant awards carry less risk to the Council and therefore require a less stringent assessment processes).

It is therefore proposed to separate the fund into grant streams: Minor (£3,000 - £15,000) and Major (£15,000 - £50,000). This would allow for some relaxation in the current administrative arrangements, simplifying and streamlining both the paperwork and the decision making process whilst ensuring that the depth and rigour of the appraisal is not compromised.

### **Application Process**

The application process can be made more 'customer friendly' through a number of revisions:

- For Minor and Major applications, remove the requirement for applicants to register their interest, prior to the submission of an Expression of Interest (EOI);
- Provide a downloadable Expression of Interest form on the Council's website, which would be available to all applicants, rather than this being sent manually to an



applicant after registering their interest in the Scheme;

- Review all application forms associated with the scheme to ensure they are fit for purpose, appropriate for the level of grant requested and easily accessed electronically;
- Ensure that officers continue to commit time to working closely with applicants from the outset, helping them to tailor their investment proposals to satisfy the application process. The delivery of the fund is and will remain a priority for all officers within the Regeneration, Investment and Growth team (no additional staff or funding would be required to continue to facilitate this).

### **Intervention Rate**

The scheme would be more attractive to established businesses if the intervention rate were to be increased from 25% to a maximum of 50%, mirroring the current arrangements for start-up businesses. This would result in more applications being received and help secure the primary objectives of the scheme - growth in Tendring's economy and the creation of new jobs.

### **Funding and Performance Targets**

The revised scheme would be funded through recommitting a £250,000 allocation from the budget approval already in place.

It is estimated that the revised SME Growth Fund will generate approximately 20 grant awards, create an additional 40+ FTE jobs and secure a minimum of £250,000 additional private sector leverage.

### **Assessment and Grant Awards**

The approval process should be more expedient and quicker whilst maintaining an appropriate level of due diligence and scrutiny required when managing a public sector grant programme.

It proposed that the approval of Minor grants (£3,000 - £15,000) be delegated to the Corporate Director (Planning and Regeneration) in consultation with the Head of Finance, Revenues & Benefits, thereby negating the need for Minor applications to be referred to the Grants Panel. This would be a published Officer Decision and it is intended that a decision would be reached within two weeks following an application.

The Grants Panel will remain in place for Major applications (£15,000 to £150,000) and will continue to meet on a virtual / electronic basis thus streamlining the process. It is intended that a decision would be reached within four weeks following an application.

If Cabinet determines to extend the SME Growth Fund to March 2020, and approve the amendments referenced in this report, members of the Grants Panel will be advised that the scheme is to be updated and at that time members will also be asked to reaffirm their commitment to the scheme and their willingness to continue their role.

**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**

There are none.

**BACKGROUND PAPERS FOR THE DECISION**

There are none.

**APPENDICES**

Appendix 1 Outline of Activities Supported by the SME Growth Fund  
Appendix 2 SME Growth Fund Grant Approval Flow Chart