



12 December 2013

Agenda Item: 5

REPORT OF THE GROUP MANAGER, CORPORATE STRATEGY

ECONOMIC DEVELOPMENT CAPITAL FUND

Purpose of the Report

1. To seek Committee approval for proposed criteria and management arrangements for the Council's Economic Development Capital Fund .

Background

2. On 16 October 2013 the Policy Committee of Nottinghamshire County Council approved reprioritisation of the capital investment that was previously assigned to the Local Improvement Scheme. It was agreed that the resources would be separated into two elements, with part of the funding being assigned to a capital fund focused on economic development and growth.
3. A £1m capital allocation for each of the next three years was assigned to the "Economic Development Capital Fund" (EDCF) with Policy Committee agreeing that the Economic Development Committee would approve the criteria and management arrangements. The fund is expected to be live from April 2014; progress on these issues is detailed in this report.
4. Background research has been undertaken to inform the development of criteria for the EDCF, particularly in relation to any direct support for businesses. Existing Government programmes for capital investment in companies such as the Regional Growth Fund (RGF) operate at a national level where competition is very strong. In the case of RGF, the minimum award threshold is £1 million. More locally, the Growing Places Fund (GPF) managed by the D2N2 Local Enterprise Partnership (LEP) operates as a loan model and has a minimum award threshold of £250,000. The D2N2 LEP's 'Unlocking Investment for Growth' (UI4G) programme offers capital grants to firms for investment in new machinery or premises. This has a minimum award threshold of £50,000, and a maximum grant ratio of 25% of total project costs.
5. Finally, the D2N2 LEP has commissioned research from Mazars consultants into access to finance in the D2N2 area and across the wider East Midlands. The findings of this research are included as appendix 3. They confirm that access to finance at the lower level (i.e. sub £50,000) for new machinery, growth and expansion is still an issue for a large percentage of small firms in the area.

Proposed Core Eligibility Criteria

6. The Fund's objective is to support economic development and growth in Nottinghamshire. It will do this by providing discretionary capital grants to organisations to support projects that will ultimately result in job growth. This will be achieved either by direct investment in Nottinghamshire businesses or in strategic economic infrastructure developed via partnership activity.
7. Previous bidding rounds for RGF and the D2N2 Growing Places Fund have been significantly over-subscribed. Evidence from the UI4G programme suggests that many companies are seeking grant support below the £50,000 level or that their grant request equates to more than 25% of the project cost. It is this latter gap in available finance that the EDCF criteria will aim to address where it proposes direct support for companies.
8. The approach recognises the fact that businesses create jobs and hence generate wealth, while the creation of a favourable infrastructure creates a climate to bring forward new opportunities for growth. In order to maximise the impact of the resources available, the following core eligibility criteria are proposed :
 - the main objective of the scheme is to promote jobs growth in the private sector;
 - the activity must be located within the County of Nottinghamshire and demonstrably benefit Nottinghamshire businesses and residents;
 - the activity supported must be able to demonstrate resultant job growth;
 - projects seeking support must demonstrate how they will make a contribution to economic development priorities within the Council's Strategic Plan and the Nottinghamshire Growth Plan and those elements of the Local Enterprise Partnerships' priorities as they impact upon Nottinghamshire;
 - the requested support must be readily identified as being the minimum net contribution required to secure the delivery of the project and its outcomes, with other funding sources having been suitably explored;
 - the Council's investment will see considerable leverage with each supported project, resulting in the release of resources from elsewhere over the duration of the 3 year programme;
 - the projects must be deemed viable with EDCF support, offering value for money, realistic and clear deliverability and a maximum impact with a measured view on risk;
 - the support offered must operate within State Aid guidelines.
9. It is proposed that the fund will be flexible in order to respond to need. Because of this, a definitive list of the types of activity that may be supported has not been drawn up. However, the following examples offer insight into the types of project meriting support :
 1. **Investments in land or property to facilitate economic development activity.** Because of the scale of funds available, this will be to support creative solutions which aim to bridge the remaining "funding gap" to

enable viable schemes bringing forward employment sites or the development of premises. The size of potential projects will be impacted by operational constraints such as State Aid regulations, but maximum flexibility is proposed within those constraints.

2. **Investments in companies to enable the purchase of productive plant or machinery with a view to company growth.** Such investments will typically anticipate expansion into new markets, the fulfilment of new orders, or diversification, and hence be associated with company growth. This funding will be offered under the de minimis State Aid rules as referenced above.
3. **Investments to enable improvements to, the expansion of existing or the development of new business premises, again with a focus on job growth.** Both public and private sector property owners would be able to apply for funding for this type of project.

Projects will also be expected to consider how they may contribute to the Council's wider objectives in terms of job and training opportunities and how these could link across to additional investment by the Council in apprenticeships and youth employment activities.

10. It is proposed that the Fund does not support :

- projects submitted by individuals or sole traders which are unlikely to offer significant job growth;
- public sector projects which do not support private sector growth;
- investments below £20,000;
- start-up businesses nor direct retail businesses (except where investment in physical infrastructure is linked to wider public realm improvements);
- investments in sectors that are not eligible under the de minimis State Aid regulations;
- replacement capital kit and equipment. Investment in new equipment may apply depending on the company's job growth as a result
- generally speculative development schemes;
- housing development schemes.

Considerations

11. The need to operate within State Aid law brings some restrictions to operations. It is proposed that the maximum grant to be made for projects involving support to individual companies in respect of plant, machinery or property extensions will not exceed the maximum de minimis level of £170,000 (at current exchange rates). Sectoral restrictions also apply for grants given under de minimis. For larger land and property type investments, which may be above this level, the scheme within the General Block Exemption Regulation (GBER) known as the English Property Development State Aid Scheme may be able to be used. This permits up to 10%, 20% or 35% grant to be given for land and property schemes, depending on the size of the enterprise assisted and its geographical location, and would potentially allow larger investments to be made.
12. It is further proposed to put in place a maximum ceiling on grant to public sector bodies of 50% of eligible project costs. This will ensure that other public sector

bodies will provide at least an equal level of resources to the County Council. No defined ceiling will be set for private sector bodies. However, the fund will have an overall target of securing external leverage of approximately 3:1 over the 3 year lifetime of the programme and so preference will be given to proposals that will contribute to this target.

13. The emergence of new funding from Local Enterprise Partnerships and associated European Funding may bring new opportunities and the Fund will be reviewed in this light, both to explore an enhancement to the funding available and to consider the positioning of the Fund so as to avoid potential duplication or exploit gaps in the market.

Proposals – Selection Criteria

14. The main selection criteria are proposed to be:
 - Contribution to economic development and growth targets for which further details of proposed outputs are contained in Appendix 1
 - Value for money
 - Deliverability
 - Leverage
15. The Committee should be aware that as with any new source of support, the EDCF will likely best be judged over the course of the 3 year duration. While a robust monitoring and evaluation process will be in place, the leverage target in particular will be difficult to achieve in the first year of operation, due to known timescales of potential sources of external funding. For this reason, a three year target is proposed to be set for the leverage figure.

Proposals – Management Process

16. Appendix 2 offers an outline of the proposed two-stage process for facilitating access to the Fund. The Committee is invited to offer views but it will be noted that it is proposed that the Fund is open to applicants on a first come, first served basis and that no split is offered in amounts available to those seeking direct business investment or those seeking support for development proposals.

Next Steps

17. Should the above parameters for the Fund be approved by this Committee, the following additional work will be required:
 - Legal Services' support will be required in drawing-up outline grant agreements, to be made available at the time of the Fund's launch. The

agreements will define the terms and conditions of the grant and ensure the Council can recover its investments if the conditions are not met;

- Arrangements for credit checking, risk-assessment, overall viability, etc. Consideration of a role for specialist advisors including legal, property and financial is required;
 - Further advice will be required on State Aid aspects to ensure the Fund is compliant;
 - Arrangements for monitoring, including the development of forms, frequency and monitoring visits.
18. Further detail in respect of the following areas will be brought to the next meeting of the Committee for approval:
- Detailed guidance and application forms;
 - Detailed timeframes and processes, including suitable promotion and launch of the Fund
19. A review of the scheme will be undertaken after six months, which will consider whether the Fund is significantly responsive to demand and its criteria are fit for purpose. The results will be brought back to Economic Development Committee with proposals for any adjustments as may be proposed.

Other Options Considered

20. The Committee may choose not to progress with the Fund. This has been rejected as it would be contrary to the Policy Committee resolution to bring forward the Fund and would not support the Council's ambitions to support economic growth.
21. The Committee may choose to vary grant levels, the percentage contributions and payment terms. The report's proposals have been set to be State Aid compliant and any suggested changes will need to be reviewed in this light.
22. The Committee may also choose to offer funding as a mix of grant and loan. Loan funding has an attraction given it will remain competitive within the wider market and helps address certain State Aid limitations. It may also be argued that some proposals may be able to service a loan. However, it is suggested that such an approach will act as a disincentive to bringing forward growth projects at a time when lending remains constrained. In addition, the availability of grant will allow the applicant to be able to maximise its leverage through additional loan, grant or equity funding to deliver its plans.

Reason/s for Recommendation/s

23. The Economic Development Committee was assigned the future management of the Economic Growth Capital Fund by Policy Committee.

Statutory and Policy Implications

24. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described in the report.

RECOMMENDATIONS

25. It is recommended that the Committee agrees:
- (a) the proposed criteria and management arrangements as set out in the report; and
 - (b) that further details as set out in paragraph 17 be brought to the next Committee meeting for consideration.

Report of the Group Manager, Corporate Strategy – Celia Morris

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Constitutional Comments (NAB 29.11.13)

Economic and development Committee has authority to consider and approve the recommendations set out in this report by virtue of its terms of reference.

Financial Comments (SEM 02/12/2013)

The financial implications are set out in the report.

Background Papers

Report to Policy Committee, 16 October 2013, Establishment of an Economic Development Capital Fund and Supporting Local Communities Fund.

Electoral Division(s) and Member(s) Affected

All

Appendix 1

Outputs and targets

1. Proposed output targets are as follows:

Output	Target (over 3 years of scheme operation)
Jobs created	200
Jobs safeguarded	150
Leverage – public and private sector	£6m
Business sites improved	20 hectares
Businesses assisted to improve performance	40

2. Additionally, individual projects may be set additional targets relevant to the project type. Examples could include commercial property floorspace improved/created (Sq metres); apprenticeship places associated with developments, value of locally awarded contracts (within procurement rules)
3. A set of wider expectations will be incorporated into the process. Dependent on the size of any grant award, recipients of Council support will :
- be required to recruit locally and develop an action plan for training and apprenticeship opportunities;
 - consider local supply chain opportunities in the development and operation of their projects;
 - undertake the project in line with accepted environmental standards and practice.
4. These wider outcomes reflect the Council's priorities of contributing towards the creation of sustainable, quality jobs and of treating people fairly. Although targets may not necessarily be set for them, monitoring will review how the applicant has attempted to address them in the project's execution and whether this has been effective.

Appendix 2

Proposals - Management Arrangements

Application and Approvals Process

1. A two stage application process is proposed in order to minimise the level of work at risk for applicants.
2. At Stage 1 the following information will be requested, to ensure that information is provided in line with the identified selection criteria at para 13 of the report:
 - Outline of proposal; explanation of how it will result in economic growth.
 - Estimate of jobs safeguarded and created.
 - Total cost of project
 - Amount of funding sought.
 - Explanation of where other funding will come from
 - Short explanation of how the project will be delivered and identification of any barriers to delivery and how these might be overcome (Planning consent, land assembly etc)
3. In assessing Stage 1 proposals, the focus will be on whether the scheme is economic, the anticipated results of the project, value for money in terms of cost per job and whether it is affordable from within available resources.
4. Stage 1 proposals will be brought to [Committee, Board (with details of composition?)] for endorsement. Prior to bringing the list of schemes to Committee, local Ward Councillors will also be consulted.
5. Committee will be asked to endorse proposals for funding.
6. Proposals endorsed at stage 1 will be invited to submit a Stage 2, detailed application. This will need to cover the following:
 - Detailed explanation of the proposal and its resulting economic growth.
 - Analysis of the job impacts including the quality of jobs involved (hourly rates, full or part time, level of qualification required).
 - Details of other output targets to be met with supporting evidence of how they will be calculated and monitored
 - Detailed business case demonstrating viability of the project
 - Demonstrated evidence of need of the project and why this particular funding is required.
 - Confirmation that the applicant has relevant equalities and environmental policies in place
 - Confirmation if the applicant is able to receive a grant under the de minimis State Aid rules
 - An explanation of how the applicant will use the capital grant to support opportunities for training, apprenticeships or work experience. This may be made a condition of grant
 - An explanation of how the applicant will use the capital grant to support development of local supply chain opportunities. This may be made a condition of grant.

- Confirmation that the applicant will comply with PR / publicity requirements which will certainly be a condition of grant
 - Permission to conduct a credit check on private sector applicants to ensure the business is viable.
 - Analysis undertaken by Economic Development staff of the fit within the context of the Nottinghamshire Growth Plan to ensure there is no disconnect with overall strategy. Note: the applicant will also be expected to provide this information as part of the application. This step provides for independent review.
7. Following a technical assessment of the Stage 2 applications, it is proposed that the results will be signed off by the Corporate Director of PPCS in consultation with the Chair of the Economic Development Committee. The Council will then proceed to contract with approved projects.
 8. For any Stage 2 project which is not authorised for final approval, explanation will be provided to Committee as part of an annual monitoring report.

Advertising and promotion of the scheme

9. Promotion of the Fund is proposed to be done partly through web channels and traditional PR, but also through referral, working closely with partners and other economic actors to ensure a joined up approach. Examples: innovation centre operator (managing three innovation centres, and providing business support to centre customers, through a contract with the County Council; EMB; NBV (business start-up support contract with the County Council); NCC Econ Dev service Key Account Management approach; district Councils.

Acceptance of applications

10. It is proposed to operate the Fund on a first come, first served basis, in order to maximise the speed at which funding can be committed during the first year. The success of this approach will be analysed at the six month review point and further recommendations made to Economic Development Committee if evidence indicates a change is needed.

Contracting

11. Legal will be involved in drawing up outline grant agreements in order that these documents can be made available at the time of application. Agreements will define the terms and conditions of the grant and ensure the Council can recover its investments if the conditions are not met. They will particularly ensure that the Council's contribution is publicly acknowledged and define specific targets to be met.
12. No payments will be made until legal agreements are in place with applicants.

Arrangements for payment of grant

Grant will be paid in instalments.

Monitoring

Each project will be required to complete quarterly monitoring forms in order to claim grant.

Appendix 3 – extract from Mazars’ study for D2N2

Detailed Market Assessment – Demand for Finance

The survey data suggests that approximately 20% of businesses in the East Midlands have requested loan financing for business activities in the last five years primarily from commercial banks and small percentage applied for funding from public sector funds. Amongst the businesses that did not apply for finance responses indicated that a combination of reasons was driving their business decision not to seek funding, including: poor market conditions, low market confidence, high financing cost, general perception of the lack of finance available, or that the businesses had no need for external finance.

Based on the survey, the majority of businesses (60%) requested small-scale funding of less than £50,000, followed by 15% of businesses requesting amounts of £50,000 to £100,000. Extrapolating the data, it is estimated that approximately 23,560 businesses could be seeking financing of approximately £50,000. Reasons for funding include: purchasing equipment or vehicle for business operation (30%); cash flow or working capital needs (25%); and business expansion and acquisition (23%). Investments of this nature into business activities are indicative of future business growth potential, and hence economic growth.

Analysing the survey data, amongst the businesses that applied for funding, over 35% were successful in securing the full amount, however, 45% did not secure any of the funding, while a further 15% secured partial funding. Based on this, it can be estimated that approximately 17,600 businesses across the East Midlands were not successful in securing funding, majority of which were microbusinesses.

In the data analysis, whilst a significant number of businesses were not successful in securing the level of financing required, this does not necessarily equate to unmet demand as some business propositions are not viable or the business plans were not robust enough for commercial loans through banks. This also does not mean that simply providing an alternative form of investment will unlock latent growth potential, rather a range of business support activities will be required alongside accessibility to financing.

The analysis and stakeholder consultations support that access to finance is an issue for East Midland based businesses. There is strong need for funding for micro businesses for sums less than £50,000 as well as provisions for riskier and/or new businesses entering the market. There was consensus amongst the stakeholders interviewed that the most appropriate product to meet this demand would be loan finance. Some stakeholders expressed a view that in some cases businesses sought loans when some form of seed capital might be more appropriate.