

22nd March 2016

Agenda Item: 6

REPORT OF THE CORPORATE DIRECTOR, PLACE

THE NOTTINGHAMSHIRE ECONOMIC DEVELOPMENT CAPITAL FUND

Purpose of the Report

1. To report on progress with the Nottinghamshire Economic Development Capital Fund (NEDCF) and to seek approval to launch Round 3 of the Fund.

Information and Advice

2. This Committee last considered the NEDCF at its September 2015 Committee meeting when it accepted a progress report on Rounds 1 and 2 of the Fund and agreed that a report would come back to Committee prior to seek approval for a third round of the Fund. This report offers an update on both rounds to date and details the scope of Round 3 of the Fund following a review of the first two rounds.
3. Committee Members will recall that the NEDCF was established to support small and medium sized companies in Nottinghamshire to expand through a capital grant – largely related to equipment purchase, extension of premises or the acquisition of new premises to enable expansion. In addition, development schemes led by partners were also encouraged to bid for capital funding support.
4. The agreed overall targets and achievements over the initial three years of operation were:

| Output | Targets per anticipated £3 million spend | Actuals against spend of £2.5 million | Variance |
|--------------------------------------|---|--|---------------------|
| Jobs created | 200 | 269 | +69 |
| Jobs safeguarded | 150 | 446 | +296 |
| Apprenticeships created | <i>No target set</i> | 27 | +27 |
| Leverage – public and private sector | £6M | £17.3M | +£11.3M |
| Benchmark cost per job | £26,000 | Between £7,500 and £16,600 | Lower by min £9,400 |
| Business sites improved | 20 hectares | <4 hectares | -16 ha |
| Businesses assisted | 40 | 19 | -21 |

The table at Appendix A identifies the projects approved under the two rounds held to date and their contribution to the outputs outlined above.

5. The key points of note may be summarised as follows:

- A total of £2.5 Million has been allocated under the two rounds to date, leaving £3.5 Million unallocated and open for future rounds;
- The overall outputs should therefore be reviewed in this light, but to date the Fund has performed well against these benchmark figures, with the jobs created and safeguarded and leverage aspects meriting particular note;
- The exception would be the “business sites” aspects. This figure was set in anticipation of securing applications for opening up business sites for wider employment use. In actuality, the Fund has supported a number of projects where individual businesses have expanded their existing or developed onto new sites but together these have resulted in less than 4 hectares of new development. This matter is reflected upon within the review below;
- The number of businesses assisted reflects direct investments through the Fund. It will be noted that this figure reflects the fact that overall, approved bids have principally been for larger amounts, from fewer businesses, but creating more jobs. Again this matter is touched upon in the review;
- The investment per job has been positive. The benchmark set as part of the assessment process was £26,000. To date, the investment per job has improved over the two Rounds, being £16,600 under Round 1 and as it stands, £7,500 under Round 2.

6. It should be acknowledged that some of the projects have moved at slower pace than originally anticipated but this is manageable in the context of the Fund’s operation over its full duration. In part this is due to some economic uncertainty and hence caution in certain markets over the last year, particularly in the manufacturing and engineering sectors. The flexibility of the Fund has been welcomed by many recipients, allowing for conversations to be maintained and the expenditure profiles to be adapted accordingly. Regardless, all the businesses supported through the Fund to date do expect to have their projects completed by March 2017.

Review and Next Steps

7. This Committee has regularly reviewed the Fund in order to ensure it retains its “fit” with other related public-sourced funding available as well as ensuring that the Fund’s criteria and the adopted process achieves the appropriate balance between the needs of businesses and the importance of having due probity for limited public finances.
8. On last reporting reference was made to a review, designed to offer insight to members on when and how a further round is to be announced and to help shape the Fund to be as effective as possible in meeting gaps in business finance. Appendix B summarises the outcome of the review, reflecting on both the Fund’s fit within the wider availability of business finance (principally from other public sources) and on the Fund’s criteria and process for delivery.

Conclusions

9. It is suggested that the Fund continues to offer a vital source of finance for growing businesses across Nottinghamshire. Based on the review of supply and demand and of the Fund's operation over two rounds to date, it is proposed that the Spring of 2016 offers an opportunity for the re-opening of the Capital Fund and specifically that a third round be opened in early May 2016. Currently there are over 20 companies which have expressed an interest in making an application to Round 3 of the Capital Fund.
10. This will be subject to the minor changes to the process as referenced above with the criteria and operation of the Fund remaining largely unchanged but with some important changes as follows:
 - The benchmark cost per job created will be reduced to £10,000 to better reflect those achieved by the two rounds to date and those achieved by other funding streams operating locally;
 - In addition to the minimum amount which can be applied for (currently / remaining at £20,000) there will be a new ceiling of £250,000 of grant per project, being sufficiently high not to deter good quality and applications from ambitious companies creating significant numbers of jobs;
 - Minor adjustments will be made to the guidance / assessment process such as an expectation of compliance with the living wage (legally required from April 2016);
 - Due to State aid considerations and the nature of demand, development schemes will no longer be encouraged. In reality the amount of money required to genuinely open up a blocked development scheme will likely be greater than the Fund as a whole can support;
 - The application process will continue to be made on the basis of two stages, but with the assessment being revised to ensure a greater focus on job creation and be streamlined to encourage applications from small but expanding businesses with the balance between Stage 1 and 2 of the process being refreshed accordingly;
 - Overall, a refresh of the NEDCF's target outputs merits consideration, being proposed as follows for the remaining funding:

| Outputs | Targets (based on £3.5 million spend) |
|--------------------------------------|--|
| Jobs created | 350 minimum |
| Jobs safeguarded | 200 minimum |
| Leverage – public and private sector | £7M minimum |
| Benchmark cost per job | £10,000 |
| Businesses assisted | 30 |

11. While the Capital Fund has a further £3.5M available up to and including the 2019/20 financial year – with the on-going flexibility within which years it is spent – it is proposed that the third Round has an indicative total ceiling of £2M allocated to it, with the potential to exceed this depending on the quality and scope of the applications received.

12. Should the Committee decide to initiate a Round 3, further technical support in the assessment of the applications at Stage 2 of the process will be required. An allocation of £10,000 is proposed within the Economic Development delivery plan and the associated budget allocations, which is the subject of a separate report to this Committee meeting.

Other Options Considered

13. The Committee may choose not to launch a further round of the Capital Fund, accepting that it has previously agreed to the overall delivery of the Fund.

Reason(s) for Recommendations

14. To enable the launch of a third round of applications to the Nottinghamshire Economic Development Capital Fund.

Statutory and Policy Implications

15. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described within the body of the report.

Recommendations

16. It is recommended that Economic Development Committee:
 - a) notes the positive progress of the Capital Fund to date, and;
 - b) having considered the progress and the review, agrees to launch a third round of the Fund in May 2016.

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For any enquiries about this report please contact:
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Constitutional Comments [EP 08.03.2016]

The recommendations fall within the remit of Economic Development Committee by virtue of its terms of reference.

Financial Comments [SES 08/03/2016]

The financial implications are set out in the report.

Background Papers

- *The Nottinghamshire Economic Development Capital Fund* – report to Economic Development Committee – 08-09-2015, published
- *Nottinghamshire Economic Development Capital Fund* – report to Economic Development Committee -03-02-2015, published

- *Nottinghamshire Economic Development Capital Fund* – report to Economic Development Committee – 16-09-2014, published
- *Nottinghamshire Economic Development Capital Fund* - report to Economic Development Committee – 11-02-2014, published
- *Economic Development Capital Fund* – report to Economic Development Committee Report - 12-12-2013, published

Electoral Division(s) and Member(s) Affected

The NEDCF operates across Nottinghamshire, potentially impacting therefore on all electoral divisions; specific approvals will impact on specific divisions and members will again be alerted as projects are progressed.

Appendix A
NEDCF Projects Approved

| Name & Location of applicant | NEDCF Approved | Summary |
|--|-----------------------|---|
| <i>Approved Applications Round 1</i> | | |
| Aero Fabrications Watnall, Nottinghamshire | £247,500 | Manufacturer of precision fabricated details and assemblies for the aerospace industry. Award for development of new / expanded premises and new equipment for new contracts in the manufacture of aircraft wing skins. Job outputs: 15 Apprenticeships: 4 |
| Fluid Connections New Ollerton, Nottinghamshire | £145,000 | Supplier of fluid transfer products in water, drinks dispensing and plumbing/heating markets. Award for new premises, expansion and production line set up to accommodate assembly, packaging and in-house testing, plus fit out of research and development facility. Job outputs: 7 Apprentices: 2 |
| Goodman, Colwick Nottinghamshire | £178,000 | Production and supply of steel and stainless steel fabrication services. Award to increase production capacity through additional workshop and office space, refurbishment and purchase of new capital equipment. Job outputs: 13 Apprentices: 4 |
| Jelly Products, Boughton Nottinghamshire | £43,635 | Innovative product design company. Award for capital set up costs for manufacturing facility of new product, being a wheel with integral suspension. The wheel has been sold to end users and equipment manufacturers, but further development is needed to accommodate the market shift towards disc brakes and to develop and manufacture the product for use in the wheelchair and recumbent trike markets. Job outputs: 0.6 Apprentices: 1 |
| Mainline Mouldings, Langar, Nottinghamshire | £80,000 | Suppliers of picture frame moulding and picture frame accessories to independent frame manufacturers. Award to extend warehouse, office and showroom facilities to meet the needs of rapidly expanding business. Job outputs: 6 |
| Robert Woodhead Holdings Ltd | £115,000 | Construction company specialising in the design, construction, refurbishment, conservation, repairs and maintenance of buildings. The company owns and manages |

| | | |
|--|----------|---|
| Edwinstowe, Nottinghamshire | | Edwinstowe House, a business centre and conference facility. Award to enhance the fabric of Edwinstowe House to make it an exemplar building and flagship for sustainable construction. Additionally to upgrade the digital technologies available to businesses using the building Apprentices: 5 |
| Wilkins Print, Colwick Nottinghamshire | £145,500 | Printing specialists, particularly in food carton packaging for the retail market and packaging for confectionary, toiletries and household products. Award for purchase two machines to support the conversion of cardboard into food packaging for new and expanding markets. Job outputs: 15 |
| Approved Applications Round 2 | | |
| Sym-Wall Building Technologies, Beeston, Nottinghamshire | £223,500 | This innovative company produces a unique building product known as Sym-Wall a new high performance, low cost, low carbon wall panel technology designed to replace traditional “stud and plasterboard” or “cement and block-work” construction methods. The award is for the purchase of the currently rented factory premises, to adapt the premises to produce a “low-carbon factory” based on renewable energy sourcing for the whole process and the expansion of the current plant from one mould system to two. Job outputs: 20 |
| ABM Precast Solutions, Tuxford, Nottinghamshire | £89,133 | ABM produces innovative precast reinforced and pre-stressed concrete products for the UK market. Award made for the design and procurement of new moulds to manufacture pre-cast concrete bridge beams Job outputs: 4 Apprentices: 2 |
| BRC Ltd, Sutton in Ashfield, Nottinghamshire | £48,000 | BRC Ltd is a leading manufacturer of engineered steel products mainly servicing the construction and mining industries. The award is for the purchase and installation of a Rebar Double Bending machine which will increase production by 22% Job outputs: 6 Apprentices: 1 |
| Ethical Blends, Welbeck Estate, Nottinghamshire | £146,562 | Ethical Blends research, development, production and sale of high quality, healthy food and beverage products. The grant is to fit out the new premises at the Welbeck Estate and set up the production line in the new premises. Job outputs: 9 Apprentices: 2 |

| | | |
|--|----------|--|
| Far UK Ltd, Wilford Industrial Estate, Rushcliffe, Nottinghamshire | £100,000 | Far UK designs and manufactures lightweight structural composite components for the motor trade industry. Award made to purchase a resin injection machine, tool heating equipment, tooling for the component manufacture and analysis software. Job outputs: 7 Apprentices: 1 |
| Focus Consulting, Phoenix Business Park, Nuthall, Nottingham | £81,195 | Focus provides construction project management, economic development & associated construction based services. The award is to invest in new technology to improve productivity. Job outputs: 4 Apprentices: 2 |
| Griffin Freight Services, Retford, Nottinghamshire | £71,000 | Griffin provides logistics for the construction industry. Award made to erect premises on the company's new site and associated development Job outputs: 6 Apprentices: 3 |
| Newark & Nottinghamshire Agricultural Society (Newark Showground), Nottinghamshire | £170,000 | The principal objective of the Society is to promote all branches of agriculture and to encourage expertise and skills in the industry. Newark Showground is wholly owned by the Society. The award is made towards the costs of renovating the Lady Eastwood Pavilion. Job outputs: 12 |
| Primary Site, Newark, Nottinghamshire | £180,000 | Primary Site is the UK's leading provider of websites to primary schools. They have outgrown their current location and the award is made towards the purchase of the former Newark Advertiser building and associated building works, fixtures and fittings. Job outputs: 17.5 |
| Rushcliffe Borough Council: Cotgrave Town Centre Improvements | £250,000 | The Candleby Lane shopping centre is a regeneration project at the heart of Cotgrave. The overall project is a comprehensive refurbishment to improve the existing facilities in the town including refurbished retail units, a multi-service centre (housing a doctor's surgery, library and police station) public realm improvements and space for small businesses. The award is to support the development of business units above the refurbished shopping units. It is anticipated that the project will create jobs in the construction phase and once the development is complete. These jobs will come from the retail units and the new office accommodation. Job outputs: 75 |

| | | |
|---|---------|--|
| Traffic Management Services, Retford Nottinghamshire | £34,500 | TMS provides temporary traffic management works across the country. The award supports the purchase and modification of an additional 20 new vehicles for traffic management and for equipping the newly established training rooms Job outputs: 27 |
|---|---------|--|

Appendix B

Review of the NEDCF

Two considerations were central to the review, being firstly the availability of other publicly sourced funding within the market (supply) alongside the overall demand from businesses for finance and secondly, the Fund's overall criteria and process for delivery.

1. Supply of and Demand for Finance

Regarding supply and the NEDCF's fit within the wider availability of business finance, principally from other public sources:

Regional Growth Fund (RGF) sources

- Since September 2015, the two main publicly funded sources, the **N2 Growth Fund** and the **Invest to Grow Fund** have been actively supporting investments across Nottinghamshire. Up until the end of this financial year, both were experiencing particular pressures from their sponsoring Government Department to finance projects in strict accordance with their profile.
- In addition, the N2 Fund is a relatively new Fund and was looking to secure its position in the market and maximise its early impact. It was thus deemed appropriate both to delay any further rounds of the Capital Fund and to actively promote the above Funds to maximise their spend and the Economic Development team worked with them to ensure they were promoted to Nottinghamshire based businesses. That pressure will have eased into the new financial year.
- Both Funds are as of January 2016 now restricted to Assisted Areas only, thus limiting the respective reaches of both funds; both offer grants with the Invest to Grow offering both grants and loans.
- Both operate under the State Aid General Block Exemption Regulation (GBER) alone, which require significant additional contributions from the applicant / other sources to keep the public sector intervention within defined parameters.

EU / LEP-related sources

- The D2N2 LEP has made a call for applications for capital loans via its **Growing Places Fund**. Loans are available between £200,000 and £2Million and must be to finance capital (building and infrastructure) investment. At the time of writing, the closing date is the 26th February 2016 and while the outcome is awaited, it will be noted that the Fund covers the entire LEP area and the total Fund is limited to c. £5M. No other round is anticipated over the next year.
- The respective **LEADER programmes** in the north and south of the County have now been launched. The detail has been the subject of previous reports to this Committee but in summary, grant finance is available to businesses operating under de minimis at around a 40% intervention rate and being the subject of defined geographies and rural-related priorities.
- A range of **ESIF EU funding-related programmes** are likely to be approved over the spring of 2016, potentially being operational from the summer. However these are likely to be limited in terms of direct finance and grants, majoring on

business support activity and within key sectors and on accelerated growth start-up businesses. Discussions regarding new investment funding vehicles are being developed but these are likely to be developed at a joint, pan-LEP level and are not sufficiently progressed at this stage given significant procurement and legislative clearance. No proposals appear to be being developed for grant finance.

On the demand side, historic and more recent research including the above-referenced work on new funding vehicles demonstrates a continued demand for finance. In summary:

- The RGF sponsored sources continue to experience healthy demand;
- The Mazars Study noted that 60% of applicants were unsuccessful or only partially successful in securing finance;
- The majority of applications for finance (around a third) were for capital investment in kit and equipment and while the majority of applications were seeking below £100,000, a significant proportion were seeking up to £200,000;
- There is a particularly strong demand for micro and small business expansion finance, an area which has traditionally been seen as risky by mainstream providers – the size of businesses which now dominate the local economy;
- Despite a general decrease in confidence as reported within the EM Chamber's Quarterly Economic Survey (Qtr 4 2015) planned investment by companies in new kit, plant and equipment (and notably in engineering /manufacturing) remains good and has increased over the last quarter.

2. The NEDCF in Operation

The following reflections are drawn from a review of the two Rounds to date and feedback from applicants:

- The key expectations of the Fund are growth and job creation. Jobs are clearly being created but there is some evidence that this could be better prioritised within the assessment process. The 3 factors most impacted are jobs created, jobs safeguarded and specifically, the cost per job.
- The State aid rules generally dictate the maximum amount available. Clearly the larger amounts carry the greater risk but potentially bring greater benefits in terms of impact and outcomes. On balance, given experience from the rounds to date and the factors referenced in section 1 above, a ceiling, still relatively high, might usefully be imposed on the grant award.
- The flexibility of the Fund in its ability to deploy different intervention levels and secure differing leverage dependent upon the project is one of the Fund's best assets and should be retained.
- The minimum level of investment in this context is felt to be appropriate; any lower would likely reduce its impact in creating jobs.
- The Fund received very few strictly development-led applications. This may be due to the State aid issues in part but more likely due to the total amount available. Development schemes as witnessed by applications to other sources of funding (eg the D2N2 LEP's Local Growth Fund) see the requirement of much larger sums, even for what might be deemed speculative development.
- Feedback suggests a general satisfaction with a two-stage process, being all but universal with other funds. Key to the Fund's success is the correct balance

between encouraging applications with an ease of process and the ability to make a sensible judgement with sufficient information provided. Related to the above, some additional minor changes to the detail requested on the Stage 1 form and an earlier engagement with the technical assessors merits consideration.

- Regardless, the role of the external technical support is suggested as absolutely vital as a safeguard in the process, in minimising risk and bringing a critical / experienced eye to the assessment.