

# Item 5

## KEY DECISION

## REPORT TO CABINET

28<sup>th</sup> JULY, 2005

## REPORT OF CHIEF EXECUTIVE OFFICER

### REGENERATION PORTFOLIO

### REVIEW OF THE CURRENT FINANCIAL INCENTIVES TO BUSINESS

#### **1. SUMMARY**

1. To present proposals for Sedgefield Borough Business Service to operate a revised financial incentives package from April, 2005.

2. To indicate that the financial resources available to operate either the current or the revised package of financial incentives are diminishing placing an increased emphasis on the Economic Development Fund to provide the budget resource, which is estimated to be exhausted during 2006/7 financial year.

3. The review was placed in to the context of a diminishing budget and the possible opportunity for the utilisation of revenue generated by the proposed capital receipts to support a future financial incentives package. The requirement for this additional allocation will need to be considered further when the Regeneration Capital Receipts Programme becomes more certain.

#### **2. RECOMMENDATION**

It is recommended that Cabinet:

1. Support the proposal for SBBS to operate the revised package of financial incentives from April, 2005.

#### **3. Background**

3.1 The rationale was to review the impact of the current financial incentives to business provided by Sedgefield Borough Business Service and to identify opportunities to update these incentives to better meet both current and future business needs.

3.2 The process for undertaking the review of the financial incentives package included: the impact of the package operated by SBBS over the previous four years; an appraisal of the financial assistance schemes to business provided by the other mainstream providers – ONE North East, County Durham Development Company and Business Link County Durham; an analysis of schemes operated by other local authorities; consideration of the remaining budget and the aims / objectives of the Regional Economic Strategy; County Durham Vision and Sedgefield Borough Community Strategy.

3.3 Appendix One provides an overview of the current financial incentives provided by ONE North East; County Durham Development Company and Sedgefield Borough Business Service. Business Link County Durham provides significant revenue support to businesses covering a broad range of specialist consultancy from Marketing; ICT; Workforce Development to Business Planning.

3.4 Over the previous financial years the impact of the current financial incentives package is as follows:

- Assisted in the creation of 330 new jobs.
- Helped to create 85 new businesses.
- Generated £468k of private sector investment.

3.5 The financial incentives package operated by SBBS was originally funded through the Economic Development Fund (Sedgefield Borough Council); Single Regeneration Budget and the European Regional Development Fund. ERDF is no longer available and SRB support will cease on 31 March, 2006.

3.6 The breath of this review was scaled to reflect the future availability of funding and this paper also highlights the need for both Sedgefield Borough Council and Sedgefield Borough Business Service to review the future provision of financial incentives to business and how this will be funded.

### **Analysis of current package against key economic development priorities**

3.7 Qualitative research undertaken by SBBS indicated a number of key points for consideration:

- The financial incentives package has assisted a broad range of businesses to expand or relocate their current activities in to the Borough, thereby creating valuable jobs.
- Payments are made on forecasted jobs and not those jobs created.
- Access to finance is the key barrier faced by residents entering self-employment and to small businesses with ambitions for future growth.

- The current financial incentives package is prescriptive in terms of the focus on manufacturing.
- Economic Policy at a national, regional and sub regional level outlines the need to support the competitiveness and diversification of the economy.
- The continued focus on the manufacturing sector by the current financial incentives package also excludes the economic potential of other key sectors, including: cultural, tourism, high tech, knowledge and the social enterprise sectors.
- Businesses increasingly operate in highly competitive markets and face pressures of global economics.
- That the revised package should not duplicate those schemes provided by key business support agencies, including ONE North East; County Durham Development Company and Business Link County Durham. Therefore, avoiding duplication of provision and maximising the use of finite resources.
- The provision of loan finance was already well provided for by a broad range of loan and equity funders, including High Street banks.

### **Proposals for the revised SBBS Financial Incentives Package**

3.8 Following the review it is proposed to operate the following financial incentives package to business through SBBS:

- **New Entrepreneur Support:** to provide financial support of 30% of eligible costs up to a maximum of £1,000 to support residents entering self-employment. The aim is to provide a flexible pot to improve the new business formation rate in the Borough.
- **New Entrepreneur Phase 2:** to provide financial support of 30% of eligible costs up to a maximum of £2,000 to support businesses moving into commercial premises for the first time. Eligible costs would cover rent and rates.

**Companies would only be eligible to access one of the above grants.**

- **Development Grant:** to provide financial support of 30% up to £10,000 to support significant expansions and inward investments. Eligible costs include: capital plant; fitting out of a unit; non domestic business rate free periods. A demonstrable needs test will be applied to grant applications and all awards will be made to cover a twelve month period, with payments made when jobs are created.
- **Business Improvement Package:** to provide financial support of 30% up to £2,000 to support the introduction of ICT in to a business to improve its competitiveness, including the ability to trade electronically. Eligible costs include hardware and software costs.

- **Marketing Grant:** to provide financial support of 30% up to £2,000 to enable companies to implement a new marketing initiative. Printing costs are not eligible.

3.9 It is envisaged that these proposals will increase both the number of grant applications and their payment rates. Although no specific numbers of anticipated applicants by category has been established the budget will be managed in a flexible way to maximise the impact of this finite resource, including utilising other sources of funding as appropriate.

3.10 The budget to support the Financial Incentives Package (both the existing and proposed schemes) comprises of SRB; ERDF and the Economic Development Fund. All three sources will come to and as follows: ERDF is no longer available and SRB will cease to be a funding source from 31 March, 2006, which will leave the Economic Development Fund as the principle funder of the financial incentives package. Therefore, the main source of funding is the Economic Development Fund, which is estimated to be fully committed during the 2006/7 financial year based on an anticipated but non quantified increase in both the number of grant awards made and the current claim rate of 80% of those grants approved.

3.11 The scope and scale of this paper has taken in to account the declining budget and the proposals will maximise the benefit of this finite resource.

3.12 The value of the Financial Incentives Package cannot be questioned in terms of its role in enabling the growth of the business community, as well as supporting the business engagement work of Sedgefield Borough Business Service. However, by reviewing the effectiveness of the grants package, it is clear that changes could be made to maximise the impact on the economy of Sedgefield Borough from this finite resource.

3.13 The importance of encouraging new start activity is apparent and would therefore suggest a refocusing of the programme to encourage entrepreneurial activity.

3.14 By supporting a broader range of business sectors under the financial incentives package, economic diversification can be encouraged, and sectors which need stimulating can be addressed through directly tackling barriers to finance.

3.15 The Financial Incentives Package operated by SBBS should not overlap with other grant providers who offer assistance in the Borough. By tailoring SBBS financial support, a more comprehensive package of support can be offered, providing the maximum impact from finite resources.

3.16 Demonstrable needs should also be taken in to account when considering grant applications.

#### **4. CORPORATE POLICY IMPLICATIONS**

4.1 The provision of the Financial Incentives Package by SBBS is an effective way of providing support to the business community, enhancing the way both SBBS and Sedgefield Borough Council engage with the private sector. It as supported a broad range of businesses; created valuable jobs and enabled the Borough to attract inward investing companies.

4.2 The proposed revised package of Financial Incentives will build on the above, but will also enable SBBS to support a broader range of businesses helping to support the continued competitiveness and diversification of the economy – key activities contained within the Prosperous Economy section of the Sedgefield Borough Community Strategy.

4.3 The proposals also reflect the need to add value to the current schemes operated by ONE North East; County Durham Development Company and Business Link County Durham. Thereby, avoiding duplication and adding value.

#### **5. RESOURCE IMPLICATIONS**

5.1 No additional resource is requested to support the implementation of the proposals. However, ERDF is no longer available and SRB will cease to be a funding source from 31 March, 2006, which will leave the Economic Development Fund as the principle funder of the financial incentives package. This resource is anticipated to be fully utilised during the 2006/7 financial year, based on an anticipated but non quantified increase in both the number of grant awards made and the current claim rate of 80% of grants approved.

5.2 The revised financial incentives schemes will be funded during the 2005/6 financial year through the Economic Development Fund and Single Regeneration Budget. The uncommitted balance of the Economic Development Fund as of 31<sup>st</sup> March, 2005 is estimated at £183,318. Subject to demand for the proposed financial incentives schemes SRB funding could amount to £38K during 2005/6 financial year.

5.3 For the 2006/7 financial year the financial incentives schemes will be funded through the Economic Development Fund.

5.4 Based on the current take up rate and claim rate for the current Financial Incentives Schemes it is estimated that the uncommitted balance of the Economic Development Fund at 31<sup>st</sup> March, 2007 will amount to £76,908. However, it is anticipated that the revisions to the schemes will increase both

the number of grant applications and their claim rate, which would reduce this balance. Based on this non quantified view it is anticipated that the Economic Development Fund would be fully allocated during the 2006/7 financial year.

5.5 Future funding support will need to be debated further during the 2006/07 budget setting process and in the annual review of the Council's Corporate Plan and Medium Term Financial Plan. The review of the current financial incentives to business was also included in the Forward Planning process.

## **6. CONSULTATIONS**

6.1 A key element of the review involved a broad ranging consultation exercise, which involved discussions with ONE North East; County Durham Development Company; Business Link County Durham; SASDA Limited Board and Executive; LSP Economy Policy Group; Sedgefield Borough Business Forum, as well as with those businesses, which had received financial incentives during the previous four years.

## **7. OTHER MATERIAL CONSIDERATIONS**

## **8. OVERVIEW AND SCRUTINY IMPLICATIONS**

8.1 There has been no previous consultation or engagement with the Overview and Scrutiny Committees.

## **9. LIST OF APPENDICES**

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**Ward:** Borough Wide

**Key Decision Validation:** involves a budget in excess of £100,000

**Background Papers:** None

### Examination by Statutory Officers

	Yes	Not Applicable
1. The report has been examined by the Councils Head of the Paid Service or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Councils S.151 Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. The report has been approved by Management Team	<input checked="" type="checkbox"/>	<input type="checkbox"/>

## **APPENDIX ONE – CURRENT SCHEMES OPERATED BY SBBS AND KEY BUSINESS SUPPORT AGENCIES**

1 The mainstream business grant providers within Sedgefield Borough are ONE NorthEast; County Durham Development Company and the Borough Council via Sedgefield Borough Business Service.

### **ONE NorthEast**

1.2 One NorthEast (ex DTI), who until April 2004 had two grants schemes associated with jobs, premises and capital expenditure, known as Regional Enterprise Grant & Regional Selective Assistance. The former paid out grant from as little as £1,000 up to £75,000, whilst the latter dealt with projects in excess of £500,000. As Sedgefield Borough is a Tier 2 area, the maximum amount of public intervention money is 20% of the project qualifying costs.

1.3 Both schemes have now subsequently been replaced by a single grant, still up to 20% of qualifying costs, known as SFI, (Selective Finance for Investment), but there is now a minimum grant payout of £10,000 which at the normal grant level of 15% for the area, represents a minimum spend for the business of £63,000, paid out at the rate of a minimum of £5,000/job created or saved, in arrears to the jobs created. This grant is now aimed at higher technology jobs, and business profitability as a consequence, and if awarded would normally represent the maximum amount of public money available for the project.

### **County Durham Development Company**

1.4 County Durham Development Company had until October 2004 two basic grants known as Rates Equivalent Grant, paying up to £25,000 on qualifying projects, and paid out before the jobs were created based upon a 3 year forecast, and a Small Business Grant of maximum £3000 again paid out before forecasted jobs have been realised.

1.5 Both schemes have now been replaced with a Business Development Grant, (BDG) which is a mini One NorthEast SFI grant with broadly the same conditions and rationale, and a Strategic Investment Grant which is aimed at carrying out scientific and technological research and development.

1.6 The BDG pays out a maximum of £10,000 whilst the SIG is a 30% grant of up to £50,000, but whereas the previous grants would have recognised people working from home, the new grants will not.

### **Sedgefield Borough Business Service**

1.7 SBBS's financial incentives package contains a Small Business Grant (SBG) and a Development Grant (DG). To be eligible for incentives from the Borough Council, a business should be:



- Manufacturing, or providing a service to industry,
- Serving at least a regional market,
- Operating from industrial premises,
- Creating jobs within a 3 year forecast period.

1.8 The SBG is available throughout the Borough, to assist businesses moving into industrial premises of less than 300sq.m. in size. It is not aimed solely at business start-ups, and may in certain circumstances, (e.g. size of project), be applicable to businesses already established. Criteria includes:

- Up to 50% of eligible expenditure and a maximum grant of £2,000.
- Maximum limited to £1,000 per job, forecast over 3 years.
- Eligible expenditure to cover costs associated with the establishment of a new business, and eligible costs, include fitting out of a business unit; stationery; provision of mains services; purchase of machinery; PC's and ancillary equipment.

1.9 The Development Grant is available throughout the Borough and is designed to assist businesses with the costs associated with building, leasing or purchasing **additional** industrial floorspace, up to a maximum of 1,400 sq.m.(15,070sq.ft.). Criteria include:

- Maximum 100 Employees within Sedgefield Borough.
- Maximum grant £10,000, paid on the basis of £10 per sq.m. or £1,000 per new job created (whichever is the lesser).
- The size restriction of 1,400sq.m. relates to the additional floorspace constructed, leased or purchased, irrespective of where the business is currently located, and it is this additional floorspace that is grant aided.
- For example, a business currently located in a 1,000sq.m. unit in Wear Valley, moving to a 1,400sq.m. unit in Sedgefield Borough would be grant aided on the additional 400sq.m. only. This restriction is aimed at ensuring that businesses do not simply 'border hop'.
- A business moving into Sedgefield Borough but retaining an operation outside of the Borough will be grant aided on the full amount of any expansion up to a maximum of 1,400sq.m.

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