

Item: 16

Development and Infrastructure Committee: 6 September 2022.

Crown Estate Economic Development Fund.

Report by Corporate Director for Enterprise and Sustainable Regeneration.

1. Purpose of Report

To consider eligibility criteria and parameters for the Crown Estate Economic Development Fund.

2. Recommendations

The Committee is invited to note:

2.1.

That, on 21 June 2022, when considering the establishment of ring-fenced economic development and community development budgets within the Council's Crown Estate Fund, the Policy and Resources Committee recommended:

- That, following deduction of all funding commitments made to date, 50% of the balance of the Crown Estate Fund, plus 50% of future annual allocations of Crown Estate revenues, be allocated and split evenly to the following two new funding schemes:
 - Crown Estate Economic Development Fund.
 - Crown Estate Community Led Development Fund.
- That determination of applications for funding from the Crown Estate Economic Development Fund be delegated to the Corporate Director for Enterprise and Sustainable Regeneration, in consultation with the Leader, Depute Leader, Chair and Vice Chair of the Development and Infrastructure Committee.
- That any budget allocations to the Crown Estate Economic Development Fund and Crown Estate Community Led Development Fund that were not spent or committed within the financial year in which they were awarded be carried forward and retained as ring fenced elements within the Fund balances.
- That the Corporate Director for Enterprise and Sustainable Regeneration should submit a report, to the first available meeting of the Development and Infrastructure Committee, setting out eligibility criteria and parameters in respect of the Crown Estate Economic Development Fund and the Crown Estate Community Led Development Fund.

2.2.

That eligibility parameters and criteria for the Crown Estate Economic Development Fund have been developed that align with economic development priorities at both a national and local level and the principles for the use of the Crown Estate funding, agreed by the Council in December 2019.

2.3.

That, in October 2019, Council agreed the following Economic Development priorities:

- SME business start-up and development.
- Sustainable development of tourism and destination management.
- Energy, renewables and energy-systems management.
- Primary production challenges.
- Internationalisation and marketing.

2.4.

The proposal to introduce a new farm/croft diversification grant scheme, to be funded from the Crown Estate Economic Development Fund, to assist local farm/croft businesses to diversify, which will create additional income streams to help offset the loss of traditional Common Agricultural Policy (CAP) payments.

2.5.

The draft guidelines for the proposed new farm/croft diversification grant scheme will be developed, in line with the scheme principles outlined at section 5 of this report, which will be published, should establishment of the scheme be approved.

It is recommended:

2.6.

That the following eligibility parameters in respect of the Crown Estate Economic Development Fund be approved:

- Creating and safeguarding sustainable economic growth and jobs.
- Projects contributing to the net zero agenda, including climate change adaptation, which benefits the 'Blue Economy' such as environmental enhancement; emissions reduction or removal of waste.
- Adding value to Orkney's economy through collective efforts including supporting promotion/marketing, developing new products/facilities, and improving sustainability.
- Developing sustainable tourism.
- Diversification projects such as farming or fisheries diversification.

2.7.

That the Crown Estate Economic Development Fund be used to provide additional funding for any existing economic development grants budget, where the core budget allocation for the financial year has first been exhausted.

2.8.

That, for the purposes of disbursement of funding, the Crown Estate Economic Development Fund be recognised as constituting funding which is external to the Council.

2.9.

That a new Farm/Croft Diversification Support Scheme, to be funded from the Crown Estate Economic Development Fund up to a maximum sum of £40,000 to any project, and at a maximum rate of 30% of total eligible costs, be established.

3. Introduction

On 21 June 2022, when considering the establishment of ring-fenced economic development and community development budgets within the Council's Crown Estate Fund, the Policy and Resources Committee recommended:

- That, following deduction of all funding commitments made to date, 50% of the balance of the Crown Estate Fund, approximately £627,095 as at 31 March 2022, plus 50% of future annual allocations of Crown Estate revenues, estimated at £535,000 per annum over 2020 to 2022, be allocated and split evenly to the following two new funding schemes:
 - Crown Estate Economic Development Fund.
 - Crown Estate Community Led Development Fund.
- That up to 25% of the allocations referred to above, estimated at £134,000 per annum over the next two years, be used to cover respective associated staff and administration costs, subject to all available government funding for that purpose being claimed first.
- That determination of applications for funding from the Crown Estate Economic Development Fund be delegated to the Corporate Director for Enterprise and Sustainable Regeneration, in consultation with the Leader, Depute Leader, Chair and Vice Chair of the Development and Infrastructure Committee.
- That the unallocated 50% balance in the Crown Estate Fund, estimated at £627,000 as at 31 March 2022, together with 50% of future annual allocations of Crown Estate revenues, should continue to be applied in accordance with the guiding principles agreed by the Council on 19 December 2019.
- That any budget allocations to the Crown Estate Economic Development Fund and Crown Estate Community Led Development Fund that were not spent or committed within the financial year in which they were awarded be carried forward and retained as ring fenced elements within the Fund balances.

- That the Corporate Director for Enterprise and Sustainable Regeneration should submit a report, to the first available meeting of the Development and Infrastructure Committee, setting out eligibility criteria and parameters in respect of the Crown Estate Economic Development Fund and Crown Estate Community Led Development Fund.
- That annual monitoring reports in respect of the Crown Estate Economic Development Fund and Crown Estate Community Led Development Fund be submitted to the Development and Infrastructure Committee.
- That the Corporate Director for Enterprise and Sustainable Regeneration should review the funding allocations to the Crown Estate Economic Development Fund and the Crown Estate Community Led Development Fund after a period of three years from the date the funds are launched, and submit a report, to the Policy and Resources Committee, detailing the outcome of that review.

4. Crown Estate Economic Development Fund Parameters

4.1.

The Crown Estate Economic Development Fund should deliver on priorities related to economic development in the Council Plan 2018-23, as well as Orkney's Community Plan 2021-23, or any updated version of those documents.

4.2.

Economic Development is a process that seeks to enable improvements to a region and bring about economic benefit for its population. The outcomes of this process, or the results of the various interventions that public funding can support and enable, are summarised as follows:

- Job creation.
- Higher wages (attracting and retaining talent).
- Increasing productivity and innovation.
- Increased new investment.
- Access to new markets.

4.3.

Following the recommendation of the Development and Infrastructure Committee on 10 September 2019, Council agreed the following Economic Development priorities:

- SME business start-up and development.
- Sustainable development of tourism and destination management.
- Energy, renewables and energy-systems management.
- Primary production challenges.
- Internationalisation and marketing.

4.4.

In defining relevant fund parameters consideration has been given to the above together with alignment with the following policy documents:

- Scotland's National Strategy for Economic Transformation.
- The National Islands Plan.
- ASPIRE Vision.

4.5.

In line with current local and national economic development priorities, it is recommended that the Crown Estate Economic Development Fund be used to support the following:

- Creating and safeguarding sustainable economic growth and jobs.
- Projects contributing to net zero agenda including climate change adaptation which benefits the 'Blue Economy' such as environmental enhancement, emissions reduction or removal of waste.
- Adding value to Orkney's economy through collective efforts including supporting promotion/marketing, developing new products/facilities, and improving sustainability.
- Developing sustainable tourism.
- Diversification projects such as farming or fisheries diversification.

4.6.

For the purposes of disbursement of funding, Crown Estate funding can be recognised as constituting funding which is external to the Council and can thus be used in a similar way to previous LEADER funds, for example to match Council funding. It is therefore prudent to keep options as flexible as possible to optimise the value of the additional Economic Development funding.

4.7.

The following criteria will be taken in account when determining funding awards:

- **Strategic Fit** – To what extent does the project align with the priorities of the national and local policies, together with scheme specific criteria listed at section 4.5?
- **Proportionality** – Does the project contribute to the aims of the Crown Estate Economic Development Fund proportionate to the funding being requested?
- **Project Need/Demand** – Does the project meet an identified need or opportunity, has this been evidenced sufficiently?
- **Need for grant** – Is the grant requested the minimum amount required for the project to proceed and have other sources of match funding been adequately explored?
- **Capacity to deliver** – Does the project plan/business plan evidence capacity of the organisation to deliver as set out and on time?

- **Sustainability** – Will the project be sustainable once grant funding has ended?

4.8.

It is proposed that new enquiries for Economic Development grant support continue to approach the service and that officers assess the relevance to existing grant schemes and/or for consideration under the Crown Estate Economic Development Fund. This approach will optimise use of the existing Economic Development Grants budget, retain flexibility to utilise the Crown Estate Economic Development Fund and keep the applicant journey simple.

4.9.

As the current suite of Economic Development Grants cover a range of support options, officers propose that additional grant schemes, to be funded from the Crown Estate Economic Development Fund, be considered following wider consultation and potential review of existing economic grant schemes to identify gaps.

5. New Farm/Croft Diversification Grant Scheme

5.1.

Erosion of Common Agricultural Policy (CAP) payments from traditional criteria towards more biodiversity linked schemes will reduce income from livestock production over the next few years. It is understood that in 2025, 50% of payments will change to biodiversity linked payments and the remaining 50% will be based on land farmed.

5.2.

The replacement LEADER Programme, Community Led Local Development, does not include farm diversification as eligible criteria. A gap in funding support for farm diversification projects has, therefore, been identified.

5.3.

The introduction of a new farm/croft diversification grant scheme, funded from the Crown Estate Economic Development Fund, should help local farm/croft businesses to diversify through non-agricultural diversification projects, which will create additional income streams to help offset the loss of traditional CAP payments.

5.4.

It is proposed that the new Farm/Croft Diversification Grant Scheme should provide grant assistance to eligible applicants, up to a maximum sum of £40,000 to any project, and at a maximum rate of 30% of total eligible costs.

5.5.

It is proposed that a cap of £100,000 on gross livestock output (detailed in business accounts) be applied to ensure that the scheme targets smaller farms/crofts, which are more vulnerable to the impact of eroding CAP payments.

5.6.

It is also proposed that diversification projects targeted at creating additional bedspaces for tourism accommodation be permitted in this instance, due to the exceptionally challenging circumstances facing the farming industry in light of CAP payment changes.

6. Links to Council Plan

6.1.

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Council Plan strategic priority theme of Enterprising Communities.

6.2.

The proposals in this report relate directly to Priority 4.3. Reprioritise economic development activity and funding to focus on inward investment and facilitating projects and support programmes which will have the highest/transformational impact in relation to job creation, inward migration/retention of working age population and community enablement.

7. Links to Local Outcomes Improvement Plan

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Local Outcomes Improvement Plan priority of Sustainable Recovery.

8. Financial Implications

8.1.

The balance remaining in the Crown Estate Fund at 31 March 2022 was £1,897,195 with further commitments of £643,005, leaving an unallocated balance of £1,254,190.

8.2.

The Policy and Resources Committee recommended that 25% of the unallocated Crown Estate Fund at 31 March 2022 be allocated to the Crown Estate Economic Development Fund, amounting to £313,547.

8.3.

Internal Council estimates for future annual allocations are outlined below:

Year.	Estimated annual Crown Estate allocation.	25% Crown Estate Economic Development Fund allocation.
2022/23.	£1,009,813.	£252,453.
2023/24.	£1,130,388.	£282,597.

2024/25.	£1,281,106.	£320,276.
2025/26.	£1,431,825.	£357,956.

8.4.

Any allocations that are not spent or committed within the financial year in which they are awarded will be carried forward and retained in fund balances.

8.5.

Annual monitoring report of the scheme is required at the end of each financial year to the Development and Infrastructure Committee.

8.6.

The financial implications of the fund have been approved, with a review required prior to the 2025/26 financial year, to be reported to the Policy and Resources Committee.

9. Legal Aspects

9.1.

The Council has a statutory duty to ensure best value. The Council must take this into account along with the expectation of Scottish Ministers that local authorities use the revenues generated from Crown Estate marine assets for additional expenditure to specifically benefit coastal communities.

9.2.

The State Aid (Revocations and Amendments) (EU Exit) Regulations 2020 revoked EU state aid law from the scope of domestic law. However, the UK's Subsidy Control Act 2022 (expected to come into force later this year) retains similar concepts but uses different terminology. The 'Minimal Financial Assistance' route is a subsidy control exemption that allows up to £315,000 of subsidies to be awarded to an enterprise within a three-year period. Any proposed award would require to be considered along with any others which may have been made over a three-year period. If the limit is exceeded, the new Subsidy Control Act 2022 will require further consideration to see whether another exemption may apply, failing which the subsidy control rules will require to be adhered to.

9.3.

If grant assistance is to be provided by the Council, a legally-binding agreement will require to be entered into between the Council and the recipient setting out the terms on which the funding is being provided. This may include specific conditions of award such as maximum amounts and intervention rates, evidence of match funding and expiry dates as any investment decisions made by the Council in relation to the Crown Estate funding must comply with all Scottish Government conditions and guidelines for the funding.

10. Contact Officers

Gareth Waterson, Corporate Director for Enterprise and Sustainable Regeneration, extension 2103, Email gareth.waterson@orkney.gov.uk

Sweyn Johnston, Head of Enterprise and Economic Growth, telephone 852271, Email sweyn.johnston@orkney.gov.uk

Stuart Allison, Service Manager (Enterprise), extension 2514, Email stuart.allison@orkney.gov.uk

Jordan Low, Economic Development Officer, extension 2538, Email jordan.low@orkney.gov.uk