

## **Item: 18**

**Development and Infrastructure Committee: 10 September 2019.**

**Economic Development Grants – Budget Priorities.**

**Report by Executive Director of Development and Infrastructure.**

### **1. Purpose of Report**

To review the past three years of Economic Development Grant funding and identify budget priorities in support of Development and Infrastructure service planning.

### **2. Recommendations**

The Committee is invited to note:

#### **2.1.**

That, in September and December 2018 and January 2019, Members' seminars were held to discuss future priorities for the Economic Development grants budget, to guide policy and service support options.

#### **2.2.**

That, following the seminars referred to at paragraph 2.1 above, the conclusion that the current suite of grant schemes, attached as Appendix 1 to this report, broadly respond to the changing needs of the private sector, with no significant policy gap being identified.

#### **2.3.**

That, in order to establish priorities to guide ongoing development of the Economic Development Service, the following themes are proposed:

- Small and Medium-size Enterprise (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.

**It is recommended:**

#### **2.4.**

That the following Economic Development budget priorities be endorsed for inclusion in the Development and Infrastructure Service planning process:

- 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

### **3. Background**

#### **3.1.**

Since 2015 to 2016, the annual Economic Development grants budget has been fully committed progressively earlier in each financial year. In addition to this budgetary pressure, other significant wider challenges have been identified that affect the local economy. Elected Members' views were sought through seminars held on 26 September 2018, 17 December 2018 and 24 January 2019, seeking guidance on future priorities for the Economic Development grants budget, and to guide policy and service support options.

#### **3.2.**

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.

#### **3.3.**

The Economic Development function and its Business Gateway service operate in a complex environment of legislation and partner agencies and seeks to utilise the annual allocation of Economic Development Grants budget to best effect to deliver on the expected outcomes noted above.

### **4. Challenges in the Economy**

Increasing pressure on public funds over the last decade, since the deepest recession in living memory, is well understood with the UK public sector experiencing the challenges of austerity measures through progressive budget cuts. The following points summarise this and the wider challenges impacting on the regional economy:

- Shrinking public sector.
- Funding pressures.
- Brexit uncertainty.

- Net out-migration of working age people.
- The aging population.

## **5. Economic Development Grant Analysis**

### **5.1.**

Briefing papers were presented at each of the Members' seminars covering the previous three financial years. Whilst a full analysis of committed grants was conducted, looking at relative levels of sector support and potential trends in the types of grants awarded, there was little by way of any material trends to report. This arguably reflects that the award of grant assistance offered by the Council and its Business Gateway service across the suite of schemes of assistance is responsive of the changing needs of the Small and Medium-size Enterprises (SME) and business sectors being supported.

### **5.2.**

Since 2010 to 2011, progressive cuts have been made to the Economic Development grants budget, resulting in an approximate reduction of 44% to current levels. A summary of the Economic Development baseline budgets is shown in Appendix 1 to this report. The last four years up to 2018 to 2019 have been relatively stable with a baseline budget of £615,700.

### **5.3.**

The Economic Development Grants budget is predominately demand-led and commitment is subject to successful applications either approved at Committee or under delegated authority. Since 2014 to 2015, the budget has been approaching full commitment by the year end, and in 2016 to 2017 and 2017 to 2018, this occurred several months before the year end. The last year, however, has seen a significant reduction in applications for assistance resulting in an under-commitment that demonstrates the challenge of projecting budget demand. It is unclear whether the lower demand reflects increased Brexit uncertainty and lack of investment confidence during this extended period.

### **5.4.**

Analysis of grant funding showed an increase in the leverage of private sector match funding as 26% public versus 74% private investment in 2017 to 2018. Whilst this shows the positive contribution of public funds into investments being made by the private sector in the local economy, recently reported Council project investments shows a higher still leverage when other external funding is included, as shown in the table below. Economic Development Grant budget often assists the initiating and application process for large scale funding bids.

### **5.5.**

Leverage of external funding from Council contributions to projects in 2017 to 2018 is noted below, showing an approximate 18% to 82% leverage ratio utilising Council funding.

Funders.	Amount.
Orkney Islands Council.	£1,052,712.
European Social Fund.	£20,465.
LEADER Programme 2014 to 2020.	£585,083.
Highlands and Islands Enterprise.	£96,240.
Creative Scotland.	£22,089.
Heritage Lottery Fund.	£552,239.
Historic Environment Scotland.	£338,193.
Private.	£3,168,402.
Total.	£5,805,423.

## 6. Economic Development Budget Priorities

### 6.1.

Following discussions during the seminars on the historical analysis of the use of the Economic Development Grant budget, it has been broadly concluded that the current suite of grant schemes listed in Appendix 1 is used flexibly to respond to the changing needs of the private sector and that no obvious policy gap is currently identified. It can further be concluded that the grant funding, in terms of leveraging private investment and supporting business start-up and growth, is working hard but also, across the period, the service has been able to react with agility to provide the SME support when it is required.

### 6.2.

Recognising the increasing challenges outlined in section 4 above and the expected outcomes of economic development, there remains a need to establish priorities to guide the ongoing development of the service. The following themes have been suggested from the seminar work to inform future Development and Infrastructure service planning:

- SME business start-up and development.
- Sustainable development of tourism and destination management.
- Energy, renewables and energy-systems management.
- Primary production challenges (Brexit, policy, preparations for transition).
- Internationalisation and marketing (investment and export).

#### 6.2.1.

These would be supported by a crosscutting theme of Innovation, which is particularly pertinent to various Scottish and UK Government strategies and funding calls, ongoing engagement with Universities and Research Organisations as well as forming a significant element of the developing Islands Deal proposal.

### **6.3.**

The above priority themes are fairly broad but will allow further details to be worked into any new support initiatives in due course as details emerge. Considered at the suggested high level, these themes will also help retain the ability of the service to respond to the key sector needs with a level of agility.

### **6.4.**

Brexit uncertainty continues to impact across all aspects of the economy, subject to the conclusions of Government negotiations, and so this and other issues captured during the seminar work will continue to inform further policy development in due course across the themes. This is of significant relevance of course to Orkney's primary industries as subsidies and export tariffs remain to be clarified. The importance of primary production to the Orkney economy cannot be overstated, but the uncertainty impacts on other key sectors in Orkney too and this heightens the risk to the local economy to a high level.

### **6.5.**

Regionally prioritised initiatives such as talent attraction and retention will continue to inform and demand a local response that will influence, and be influenced by, engagement with sector groups as their development plans are further worked up. This activity will involve further work with Skills partners and indeed promotional activity with the Orkney Marketing programme.

### **6.6.**

Sustainable development has particular relevance to Orkney's more fragile areas and officers were guided to investigate options to interpret policy where possible to incentivise development for the Isles.

### **6.7.**

The Tourism economy remains a high priority with significant focus being placed on sustainable and responsible destination development following the inception of the Destination Orkney Strategic Partnership in 2018. This informal partnership body that includes the Council has the agreed stated role:

- To lead, manage and review the sustainable growth, management and protection of Orkney as a tourism destination to 2025.

### **6.8.**

Transitioning to a local carbon economy remains a priority aspiration of the Council as a key stakeholder in the Orkney Sustainable Energy Strategy launched in September 2017. The development of renewable energy generation, energy storage and management systems and associated innovation programmes remain a significant opportunity for Orkney.

## **6.9.**

An annual allocation of Orkney Marketing programme budget is currently ringfenced within the Economic Development budget and Tourism marketing is funded from a specific revenue budget. Over recent years, integration of key elements of the funded activity has considerably enhanced the digital and social media marketing that all sectors are benefiting from. Indeed, these budgets have levered significant levels of external funding to extend the Council's budget in supporting marketing activities that enable the key sector businesses to reach new markets, along with the the promotion of Orkney as a visitor destination. As existing European external funding draws to a close, marketing activities and funding options requires review, but activities remain highly valued by Industry partners represented on the Orkney Marketing Advisory Group.

## **6.10.**

A fully functioning Economic Development service needs to operate strategically towards longer term sustainable development goals as well as remaining responsive to immediate challenges and support needs. Whilst no immediate changes to grant policy or new schemes are proposed, the various priority themes noted will require flexible redirection of staff resource at an operational level in order to respond to ever changing circumstances. Such implications will inform Development and Infrastructure service planning processes.

## **6.11.**

In conclusion, whilst the demands on Economic Development Grants budget vary from year to year, demands on the staff resource outwith grant administration have increased significantly with officers being drawn into a wide range of initiatives in support of key sector developments, partnership working, external funding bids and project management responsibilities. As the activities develop under the recommended priority themes, it will likely bring, as yet undetermined, demand and challenge on the current staff resource that will need to be balanced. Care will therefore need to be taken to monitor any increasing and new demands in order to inform what current activities would not be able to be sustained across a necessarily wide portfolio of Economic Development Service activity.

## **7. Corporate Governance**

This report relates to the Council's governance and financial procedures and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

## **8. Financial Implications**

There are no immediate financial issues associated with the recommendations of this report.

## **9. Legal Aspects**

There are no immediate legal issues associated with the recommendations of this report.

## **10. Contact Officers**

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## **11. Appendix**

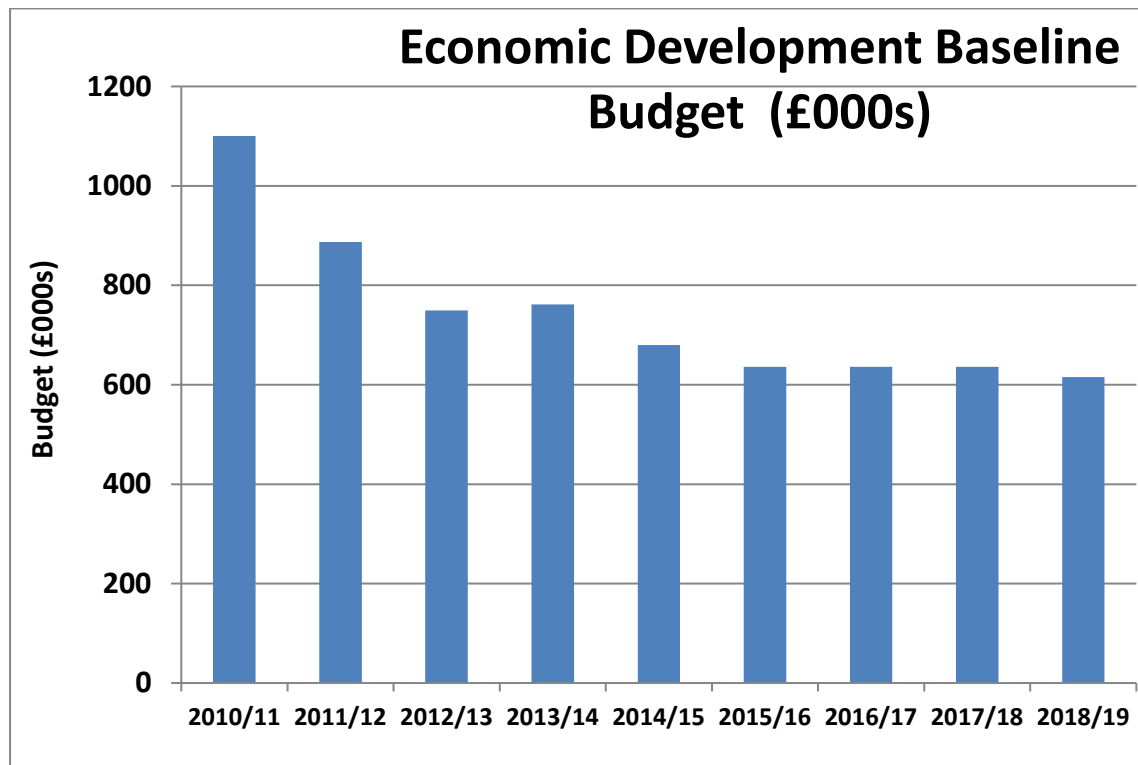
Appendix 1: History, structure and schemes of assistance of the Economic Development Grants budget.

## Appendix 1.

The history, structure and schemes of assistance of the Economic Development budget.

Economic Development budget analysis has been provided in briefing reports that informed discussion at the series of Members' seminars held in September and December 2018 and January 2019.

The following graph shows the historical context of budget reduction from 2010 to 2019.



The baseline budget set each year has various policy commitments that need to be taken into account as follows.

Ring fenced budgets.

- Orkney Marketing: Committee approval is sought for each year's programme of marketing activity joint funded, and programme managed, by Highlands and Islands Enterprise. The Council's contribution varies subject to an annual proposal but it is generally estimated at £93,500.
- Strategies, Studies and Project Initiation: In line with Committee approved Policy, this has been set at £50,000 for 2018/19 onwards.

Once ringfenced budgets are accounted for, the past practice to overcommit increased the available budget by 20%. However, in July 2019, this was reduced to 5% and will be kept under review.



Archaeology Investigations: Approvals are considered by Committee at its February meeting for the following financial year, committing £40,000.

All other commitments made during the financial year are either approved under delegated authority from the various schemes of assistance or by Committee decision.

For reference the Council's suite of delegated schemes of grant assistance are listed below:

- NBSU: New Business Start-up Grants - 100% up to £1,500.
- FBDG: Flexible Business Development Grant - 50% up to £5,000.
- Economic Development Grant - 30% up to £55,000.
- Tourism Upgrade - 30% up to £55,000.
- Tourism Facility/Attraction - 30% up to £20,000.
- Graduate/Postgraduate Placement - 50% up to £15,000/30% up to £10,000.
- Rural Shop Improvements - up to £10,000 per shop over 3-year period.

In July 2019, approval was given to pilot a Small Business Training Grant over 12 months:

- SBTG: Grant of up to 90% of costs up to £1000 per company application - to be reviewed.

A running tally of approvals with application detail is presented to each Development and Infrastructure Committee meeting from the September cycle onwards.

Approvals and allocation against budget is demand-led and thus impossible to profile applications nor indeed grant payments with any accuracy. Sectoral trends are also not discernible from an analysis of the demand pattern.