

## **Item: 8**

**Development and Infrastructure Committee: 27 March 2018.**

**Business Gateway Orkney: Local Growth Accelerator Programme.**

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

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

To review the Local Growth Accelerator Programme and consider an enhanced local Business Gateway service.

### **2. Recommendations**

The Committee is invited to note:

#### **2.1.**

That the Local Growth Accelerator Programme, delivered by Business Gateway Orkney, offers an enhanced, intensive business support service to potential growth enterprises in Orkney.

#### **2.2.**

That, in March 2015, the Council agreed, subject to European Regional Development Fund assistance being secured, a budget allocation of up to £201,500 over four years to deliver the Local Growth Accelerator Programme.

#### **2.3.**

That Business Gateway Orkney successfully applied for 50% European Regional Development Fund assistance, enabling it to procure and commission the Local Growth Accelerator Programme, with the Programme anticipated to commence in April 2015.

#### **2.4.**

That, as final approval for the Local Growth Accelerator Programme was not received from the Scottish Government until April 2016, together with lower than anticipated contract costs and slower uptake of the Programme, it is now unlikely that European Regional Development Fund funding criteria will be met.

#### **2.5.**

That a requirement still exists for a scaled back Local Growth Accelerator Programme service provision, as detailed in section 7 of this report.

## **2.6.**

Options in respect of the Local Growth Accelerator Programme, as outlined in section 8 of this report, with the preferred option being Option 4, namely to withdraw from the European Regional Development Fund programme, but continue to offer the service using the Council funding previously allocated.

**It is recommended:**

## **2.7.**

That the Executive Director of Development and Infrastructure should undertake to formally withdraw the Local Growth Accelerator Programme from the current European Regional Development Fund arrangements.

## **2.8.**

That Business Gateway Orkney should continue to offer a Local Growth Accelerator Programme service, utilising the Economic Development Grant budget previously committed from 2015 to 2019.

## **3. Policy Aspects**

In terms of the Council Plan 2013 to 2018, the recommendations of this report support priority 5, specifically targets 5.2: The skills our businesses need and 5.3: Helping our businesses to adapt and grow.

## **4. Introduction**

### **4.1.**

At its meeting held on 5 February 2015, the Development and Infrastructure Committee noted:

#### **4.1.1.**

That the Business Gateway service in Orkney, provided by the Economic Development service on behalf of the Scottish Government, provided one-to-one advice and training workshops, mainly to start-up businesses, and since April 2009 had assisted approximately 2,500 enquirers.

#### **4.1.2.**

That an opportunity had emerged to source European Regional Development Fund assistance which would enable the Orkney Business Gateway to complement and extend the scope of support it was able to offer to growing businesses over the next four financial years.

#### **4.1.3.**

That, in partnership with other Highland and Islands Business Gateways and Highlands and Islands Enterprise, the Orkney Business Gateway had identified a proposed menu of activity, as detailed in section 6 of the report by the Executive Director of Development and Infrastructure, which would support business growth.

#### **4.1.4.**

That the Scottish Government had confirmed an intervention rate of 50% in respect of the external funding, referred to at paragraph 4.1.2 above, with the deadline for applications being 9 March 2015.

#### **4.1.5.**

The proposal to submit an application for European Regional Development Fund assistance in respect of extending the services provided by the Orkney Business Gateway, requesting grant funding of 50%, up to a maximum sum of £201,500, based on total project costs of £403,000.

### **4.2.**

The Committee recommended:

#### **4.2.1.**

That the Executive Director of Development and Infrastructure should submit an application for European Regional Development Fund assistance, for the period 1 April 2015 to 31 December 2018 initially, with the possibility of an extension to 31 December 2020, to support delivery of an enhanced Orkney Business Gateway service to growth and potential growth companies.

#### **4.2.2.**

That, subject to the European Regional Development Fund assistance, referred to at paragraph 4.2.1 above, being secured, and the future availability of appropriate revenue budgets, the following allocations, to be met from the Economic Development Grants budget, be awarded to the Orkney Business Gateway in respect of the provision of specialist advice, training, events and key sector support:

- An allocation, amounting to 50% of project costs of £84,000, up to a maximum sum of £42,000, for financial year 2015 to 2016.
- Allocations, amounting to 50% of project costs of £116,000, up to a maximum sum of £58,000, in respect of each of financial years 2016 to 2017 and 2017 to 2018.
- An allocation, amounting to 50% of project costs of £87,000, up to a maximum sum of £43,500, in respect of financial year 2018 to 2019.

## **5. Background**

### **5.1.**

Business Gateway is the Scottish Government's branded provider of universal support services to small business across Scotland. In their respective geographic areas, Scottish Local Authorities are responsible for the delivery of Business Gateway services.

### **5.2.**

The Business Gateway Orkney service commenced in April 2009 providing access to free and impartial business support services, giving assistance and impartial advice to people starting or growing their business predominately through:

- National Business Gateway website ([www.bgateway.com](http://www.bgateway.com)).
- Business skills workshops: a wide range of practical workshops relevant to local businesses.
- One-to-one advice and practical support provided by business advisers.

### **5.3.**

A National Service Specification for Business Gateway sets out the services to be delivered throughout Scotland. In addition, each area also has dispensation to incorporate the provision of 'local services' to ensure that it can respond to local changes in the needs of the business base and reflect the specific pressures felt by local businesses. This activity makes up the core Business Gateway Orkney service.

### **5.4.**

In addition to the core elements of the service, Business Gateway also delivers two additional initiatives: the Scottish Government funded DigitalBoost Programme and the European Regional Development Fund supported Local Growth Accelerator Programme, which is match-funded by the Council. Business Gateway Orkney also plays a pivotal role in organising the biennial Orkney Business Festival and Orkney Business Survey.

### **5.5.**

To date Business Gateway Orkney is estimated to have assisted well over 3,000 enquirers, and has provided direct one-to-one consultancy support to just under 950 individuals, and held over 270 workshops for almost 2,200 attendees.

### **5.6.**

In 2016 to 2017, Business Gateway Orkney recorded the highest number of business start-ups against other Business Gateways in the Highlands and Islands. Also, the most recent customer-satisfaction tracking survey showed Business Gateway Orkney performing above the 12 month Scottish average in each key performance indicator.

## **5.7.**

Business Gateway Orkney has become well-known locally. In the 2016 Orkney Business Survey it ranked highest in local support services respondents were aware of (93.4%). While it is considered firmly established in the territory of start-ups (representing 70% of enquiries) there are continued efforts to increase engagement with existing businesses.

## **6. Local Growth Accelerator Programme Overview**

### **6.1.**

Business Gateway Orkney successfully secured a 50% European Regional Development Fund grant, of up to £201,500, for the Local Growth Accelerator Programme, to provide an enhanced, more intensive business support service to potential growth enterprises in Orkney. The grant was for the procurement of specialist services to deliver the following support, which was developed in conjunction with other Business Gateways in the Highlands and Islands and in collaboration with Highlands and Islands Enterprise:

- Specialist advice.
- Recruitment advisory service.
- Growth workshops.
- Key sector entrepreneurial support.

### **6.2.**

At the point of application, it was anticipated that the Local Growth Accelerator Programme would run from April 2015 to December 2018 (45 months), however, the Council did not receive an offer of grant from the Scottish Government until April 2016.

### **6.3.**

Following this delay in the Programme's start date, it became operational in April 2016, promoted as the 'Business Improvement and Growth Service' (<http://bit.ly/BIGservice>). However, it was a soft, cautious launch as there were still compliance checks to be conducted by the Scottish Government on the Programme's procurement and operational systems. If any issues had arisen from those checks, claims on the grant could have been subject to a penalty of up to 100%. These checks were not completed until April 2017.

### **6.4.**

In part due to these delays, but also as a result of lower than anticipated contract costs and slower than anticipated levels of demand, total spend on the Programme to date is £35,725. So far, £8,004.21 of the European Regional Development grant has been claimed from the Scottish Government.

## **6.5.**

The Local Growth Accelerator Programme has a target of 60 local businesses receiving extra support (engagement must be a minimum of seven hours). To date 21 businesses have engaged with the Programme, of which only six currently meet the minimum hours criteria and can be formally declared against this target.

## **6.6.**

An amended spend profile projects that expenditure to the end of the Programme will be too low to allow any European Regional Development Fund grant claimed to be kept, and it will have to be repaid to the Scottish Government. It is a condition of the grant that “in the event of an underspend, the European Structural Funds Grant will be the net amount required after the full value of confirmed Match Funding has been taken into account”.

## **6.7.**

Aware of this, officers considered withdrawing the Programme from the European Regional Development Fund arrangements earlier, as it would not be a prudent use of officer time (an ineligible project cost) to claim funds and meet the associated compliance and audit requirements, when ultimately any grant drawn down would be reclaimed by the Scottish Government. However, in May 2017 the Scottish Government confirmed that an option to extend current operations to June 2020 had been approved, which would give the Programme an additional 18 months to carry forward the projected underspend.

## **6.8.**

Guidance on applying for this extension was only released in February 2018 and states:

“When considering applications and extensions, the Managing Authority will assess the contribution towards both the targets, outputs and results set out in the Operational Programmes and the annual financial targets...The Managing Authority therefore needs commitment to the pace of spend and deliver to minimise any losses to the programmes.”

## **6.9.**

Officers consider it extremely unlikely that the European Regional Development Fund requirement referred to above will be met by the Local Growth Accelerator Programme and a grant extension offered.

## **7. Local Growth Accelerator Programme Review**

### **7.1.**

As Business Gateway's support for established businesses is less well known, promotion of the Local Growth Accelerator Programme has been more proactive. In addition to wider methods of promotion in the Orcadian, a feature on Radio Orkney, leaflet distribution and posts on social media, prospecting has included direct phone calls with almost 150 target businesses, as well as individual invitations to events and emails to existing clients.

### **7.2.**

Uptake however has been slower and lower than anticipated. Going forward further prospecting is proposed that includes making personal contact with established businesses to promote the Programme and ensure that activities meet their needs.

### **7.3.**

The intentions and activities offered by the Local Growth Accelerator Programme are in line with a Scotland-wide approach and cannot be met from the core Business Gateway Orkney budget, as it is normally fully committed and offers little scope for supporting the more intensive support growing businesses often require.

### **7.4.**

There is a gap between the core support provided by Business Gateway and the specialist support provided by Highlands and Islands Enterprise. Support from Highlands and Islands Enterprise is also heavily targeted directed towards account managed companies in sectors identified in the Scotland's Economic Strategy:

- Creative Industries.
- Energy.
- Business Services.
- Food and Drink.
- Life Sciences.
- Tourism.

### **7.5.**

While there is still a need for the support offered by the Local Growth Accelerator Programme, and the business case and scope are still considered valid, the level and pace of spend indicate that corrective action is required to reduce the scale of the Programme, which regrettably results in an insufficient level of expenditure to retain any European Regional Development Fund funding that has been, and would be, claimed.

## **8. Options Appraisal**

### **8.1**

Options considered include:

#### **8.1.1.**

Option 1: to continue with the Local Growth Accelerator Programme and the European Regional Development Grant arrangements until its conclusion on 31 December 2018.

#### **8.1.2.**

Option 2: to make an application to the Scottish Government for an extension to June 2020 for the European Regional Development Grant whilst continuing with the Local Growth Accelerator Programme to 31 December 2018. Officers consider it highly unlikely that an extension would be approved.

#### **8.1.3**

Option 3: to end the Local Growth Accelerator Programme and withdraw it from the European Regional Development Fund with immediate effect.

#### **8.1.4.**

Option 4: to withdraw the Local Growth Accelerator Programme from the European Regional Development Fund programme with immediate effect, but use the Council's funding already allocated from financial years 2015 to 2016 through to 2018 to 2019 to meet the full costs of the Programme. Going forward the Programme would remain focussed on identifying and meeting the needs of local businesses.

### **8.2.**

Options 1 and 2 would require investing further staff time in meeting the requirements of the European Regional Development Fund when ultimately any grant drawn down will be reclaimed by the Scottish Government.

### **8.3.**

In options 1 to 3 most of the remaining commitment from the Economic Development Grants budget would be unavailable to reallocate to alternative economic development purposes. Of the £201,500 that was committed to match fund the Programme, £158,000 was committed from the Economic Development Grants budget in the three financial years 2015 to 2018 and is therefore effectively ring-fenced and cannot be reallocated. As the budget is not yet in place for 2018 to 2019, the £43,500 nominally allocated could be released for other purposes in line with the policy for this budget.

### **8.4.**

The European Regional Development Fund Grant is due to finish on 31 December 2018, at which point, for the reasons outlined in section 6, expenditure on the Local Growth Accelerator Programme will be less than the Council's match funding of



£201,500. As such, it is an assumption in all options presented that an element of the Council's funding will be required to repay European Regional Development Fund grant monies already claimed, effectively meeting all costs incurred by the Local Growth Accelerator Programme.

## **8.5.**

Having invested in the design, development and promotion of the Local Growth Accelerator Programme, it is proposed that the original business case and scope remain valid, but at a reduced scale. Subsequently officers support Option 4 as the preferred option.

# **9. Financial Implications**

## **9.1.**

On the basis that prior years' funds have been set aside in the Economic Development Grants Fund for this purpose, there is no direct impact on current year budgets.

## **9.2.**

As it is projected that total spend in the Local Growth Accelerator Project will be significantly less than originally projected, an element of the Council's match funding will be required to repay the European Regional Development Fund grant monies already claimed totalling £8,004.21. This effectively means that the Council would meet the full costs incurred by the programme, rather than 50% as originally approved.

## **9.3.**

Albeit that the ability to lever in external grant funds was a key driver behind this project at the time, the report considers a number of options to mitigate the identified risks to the Council.

## **9.4.**

While the recommended option is for the Council to deliver a scaled down version of the Programme utilising the Council funds previously set aside for this purpose, this approach does conflict with the existing practice of over-committing the current year Economic Development Grants budget by 20%. On the basis that grant commitments are typically made to third parties, this practice is predicated upon the underlying assumption that not all offers of financial assistance will be taken up by the applicants. In this case, however, this assumption is not being realised.

## **9.5.**

By contrast, a Council promoted initiative would normally expect to be funded from within the Service's current year's revenue budget allocation, and without any ability to overcommit.

## **10. Legal Aspects**

### **10.1.**

The Council must make arrangements which secure best value. Best value is the continuous improvement in the performance of the authority's functions. In securing best value, the local authority must maintain an appropriate balance among:

- The quality of its performance of its functions.
- The cost to the authority of that performance.
- The cost to persons of any service provided by it for them on a wholly or partly rechargeable basis.

### **10.2.**

In maintaining that balance, the local authority shall have regard to:

- Efficiency.
- Effectiveness.
- Economy.
- The need to meet the equal opportunity requirements.

### **10.3.**

In respect of the Local Growth Accelerator Programme, a contract exists for the delivery of enhanced business growth support services. The recommendation of this report would be accommodated by this existing contract.

## **11. Contact Officers**

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