



EAST STAFFORDSHIRE BOROUGH COUNCIL

REPORT COVER SHEET

Title of Report:	Business Development Fund Round Two – internal review
Meeting of:	Cabinet
Date:	15 th February 2016
Is this an Executive Decision:	YES
Is this a Key Decision:	NO
Is the Report Confidential:	NO
If so, please state relevant paragraph from Schedule 12A LGA 1972:	
<p>Essential Signatories:</p> <p>ALL REPORTS MUST BE IN THE NAME OF A HEAD OF SERVICE</p> <p>Monitoring Officer: Angela Wakefield</p> <p>Date Signature</p> <p>Chief Finance Officer: Sal Khan</p> <p>Date Signature</p>	

EAST STAFFORDSHIRE BOROUGH COUNCIL

Report to Cabinet

Date: 15 February 2016

REPORT TITLE: The Business Development Fund
PORTFOLIO: Built Environment
HEAD OF SERVICE: Paul Costiff
CONTACT OFFICER: Ranbir Sahota Ext. No. x1625
WARD(S) AFFECTED: All Wards

1. Purpose of the Report

- 1.1. The purpose of this report is to update Cabinet on the review of the Business Development Fund round two, evaluating key successes and areas for development, in order to inform any future rounds of funding or business support.

2. Executive Summary

- 2.1. This review has been undertaken in-house to evaluate the second round of the Business Development Fund and to help inform the design of future funding or support to local businesses.
- 2.2. The Business Development Fund (BDF) is a financial, grant investment aimed at small and medium sized enterprises (SME's), both start-up's and those already established, based in East Staffordshire. The fund launched in December 2014 with a total allocation of £200,000. Businesses could apply for funding from between £500 and £10,000 – to be matched by private funds (between 35% and 50%). The fund has now been exhausted with all the money now committed.
- 2.3. The overarching aim of the BDF was:

“To support the East Staffordshire economy by providing targeted financial assistance to help local companies and entrepreneurs grow and prosper”

Final Project Initiation Document, June 2013.

2.4. **Key performance indicators for BDF round two**, identified as part of this review, are shown below:

	Round 2 (2014 / 2015)	Round 1¹ (2013 / 2014)
Number of businesses enquired about Business Development Fund (BDF)	184	203
Number of businesses receiving funding from BDF	29	21
Jobs to be created	77²	66
Jobs to be safeguarded	13³	6
Private sector money to be levered	£254,287⁴	£255,564
Wealth created	£1,248,000⁵	£1,135,737⁶
ESBC Grant Committed	£200,000	£150,000
Total cost per job including private sector match	£5,048⁷	£5,632⁸
Cost per job to ESBC	£2,222⁹	£2,083¹⁰

¹ Figures taken from the BDF round one evaluation

² At the time of this review 52 of the 77 jobs have been created and verified.

³ 11 of the 13 jobs have been safeguarded and verified.

⁴ See section 2.2 of this report for details as to why the private sector money to be levered in was similar to round one.

⁵ This is a crude but useful indicator, based on average salary calculated from the evidence of jobs created by nine BDF businesses; then applying the average salary of £24,000 across actual 52 jobs created at the time of this review

⁶ This is a crude but useful indicator, based on an average salary calculated from the evidence of jobs from seven successful BDF businesses; then applying this average salary of £21,429 across the 53 jobs created at the time of the round 1 review. There is the additional impact this has had on the wider economy – so taking people off JSA, more tax for the chancellor etc – but this assumes people were unemployed. Without knowing if this is true, we cannot make those assumptions.

⁷ This is calculated using the total private sector investment plus the ESBC contribution (£254,287 + £200,000) divided by the 90 total jobs that are being created and safeguarded.

⁸ £5,390 was reported in round 1 evaluation for the 5 businesses that had completed at the time of the review

⁹ This is calculated using the total contribution from East Staffordshire Borough Council (ESBC) divided by the 77 jobs to be created plus 13 jobs to be safeguarding (£200,000 ÷ 90)

¹⁰ £1,757 was reported in round 1 evaluation for the 5 businesses that had completed at the time of the review

3. Background

- 3.1. The BDF was launched in December 2014 with a total allocation of £200,000. Businesses could apply for funding from £500 to £10,000 – to be matched by private funds (between 35% and 50%). The fund has been exhausted, with all the money fully allocated.
- 3.2. Within the 2015 / 2016 Corporate Plan, the target was for a project review of the BDF to be completed 3 months of exhausting the fund. This report forms that review.

4. Contribution to Corporate Priorities

- 4.1. BDF directly contributes to the ESBC corporate plan priority “Promoting local economic growth – to benefit local people by turning aspiration into reality.
- 4.2. The specific corporate plan targets are SEG19 to award £200,000 of business grant (March 2016) and target SEG18 to complete an appraisal of the BDF phase two, within three months of exhausting the fund.
- 4.3. The BDF supports economic growth as it is a funding programme aimed at local businesses that are looking to grow their operations.

5. The Business Development Fund (Round Two) Review

- 5.1. The overarching aim of the BDF was:

“To support the East Staffordshire economy by providing targeted financial assistance to help local companies and entrepreneurs grow and prosper”

Final Project Initiation Document, June 2013.

- 5.2. The main objectives of this second round of BDF have been identified in section 2.1 of the internal review (Appendix 1 of this report).
- 5.3. The review sought to assess the extent to which the BDF has met the main objectives and more importantly to answer the following:
 - Has the BDF made a difference?
 - What have been the key successes of the BDF?
 - What could the BDF have done better?
 - What should future business support look like?

5.4. BDF Round Two Performance Review: Methodology

- 5.5. Section 3 of the report highlights the methodology carried out for the review. A mixture of methods was used to inform the review, the methods varied from;
 - Emailed surveys
 - Telephone surveys

- Face to face interviews
- Monitoring visits
- Emailed comments
- Data Review
- Case Studies

5.6. A total of 45 businesses and individuals took part in the review. Section 3.1.5 provides a summary of which businesses and individuals took part.

5.7. **BDF Round Two: Performance Review: Outputs**

5.8. Section 4 of the review analyses the outputs of the BDF using secondary data. The review reflects on the statistical information and considers the impact the BDF has made. To summarise some of these key statistics; 184 enquires were made about the BDF, 22% of these enquires led to full applications being submitted, 70% of applications were successful, 19% were rejected and 10% withdrew¹¹.

5.9. The types of businesses that were supported were mainly from the knowledge and retail / customer service sector. This demonstrated that there is truly a diverse range of businesses and a thriving local economy which is not solely focused on the distribution sector¹².

5.10. BDF was used to help existing businesses to grow and to help kick start new businesses. Purchasing new equipment, promoting new products to launch them into the market, and enhancing on line marketing, as well as relocating and refurbishing business premises were the reasons why existing businesses as for BDF. Whereas for new businesses the funding was mainly used to help with refurbishment of new businesses premises and start up costs¹³.

5.11. Of the 29 companies that secured BDF, 77 jobs are to be created and 13 are to be safeguarded. Although not all businesses that have secured the BDF have completed their projects, at the time of the review 52 of the 77 jobs have been created and verified and 11 of the 13 jobs to be safeguarded have been checked and verified¹⁴. A majority of the jobs have been created in the knowledge sector¹⁵; confirming, once again, that East Staffordshire has a diverse and thriving economy and not solely focused on “low skilled” logistics and distribution sectors.

5.12. £254,287 private sector match investment was levered in during this round of BDF. Therefore achieving the project aim of levering in £200,000 private sector match. 82% of private sector investment came from the company

¹¹ See section 4.3 of the review: profile of businesses submitting applications for further details.

¹² See section 4.4 of the review: types of businesses funded.

¹³ See section 4.5 of the review: What was the fund used for?

¹⁴ Businesses need to provide signed employment contracts for the jobs created, and evidence that safeguarded staff are still on the payroll. This could be via evidence of payslips for existing staff or payroll reports.

¹⁵ See table 9 in section 4.7 of the review: Jobs created and safeguarded

reserves / cashflow or from the owner's investment; anecdotal evidence would suggest that cash rich SME's are reluctant to take risks in a slow growing economy. The BDF grant allowed them to take the risk and gave them the confidence to make the move to grow their business.

5.13. **BDF Round Two: Performance Review Outcomes**

5.14. Section 5 of the review identified the unintended outcomes that the BDF helped achieve. Most businesses that were successful with the BDF made it clear that although they would have gone ahead with their project without the funding from the Council, the delay in them realising their plans could have had a detrimental impact on their business¹⁶.

5.15. Once again, the application process proved to be useful process for local businesses, several businesses commented on how it made them reflect on how they want to take their business forward. How the application process made them change day to day operations therefore saving them time and money¹⁷.

5.16. Within section 5 of the review the quotes from the businesses provides a real insight of the bigger impact that the BDF grant has made.

5.17. **BDF Round Two: Marketing and Promotion**

5.18. Section six of the review, evaluates the promotional activities and marketing strategy of BDF. This section confirms that since the last round of BDF and throughout this second round, East Staffordshire Borough Council has made a good impression within the business community. The figures demonstrate the certainty in promoting the second round of BDF.

5.19. **BDF Round Two: A review of round one.**

5.20. Section seven of the review, goes back to the successful applicants from round one to evaluate the true impact of the BDF. All but one of the companies funded in round one are still trading today. Half the companies that secured BDF in round one experienced rapid growth and confirmed their turnover and profit levels increased better than forecasted, so they had to take on significantly more staff, one of these companies even opened a site in Chesterfield. This validates the added value of the BDF grant, in supporting local enterprises and helping the local economy grow.

5.21. **Has the BDF made a difference?**

5.22. There is no doubt that the BDF continues to make a difference to local businesses operating across East Staffordshire. As a result of the investment made by East Staffordshire Borough Council, 16 of the 29 successful BDF applicants have completed their project and drawn down the BDF grant. 52

¹⁶ See section 5.2.1 of the review: Making the investment sooner.

¹⁷ See quotes in section 5.2.2 : the application process – helping business grow.

jobs have been created and 11 jobs have been safeguarded¹⁸. This represents 3 jobs filled per businesses supported¹⁹, doubling the original target of 1.5 jobs²⁰.

5.23. Section 2.2 of the internal review goes on to demonstrate what the cost per job was to ESBC and what the cost per job was to the whole project. In terms of offering value for money, this section (and further detail in section 5.3) also highlights that there was not really any other scheme that could offer a like for like comparison.

5.24. The only real comparison that could be made was against the LEP's Business Development Programme, which confirmed that the cost per job was £13,949.19. So when comparing this to the cost per job for BDF round one and round two²¹, then it certainly offered value for money.

5.25. However, what is clear is that the fund has strongly encouraged businesses owners to reflect upon their business and better articulate and realise their growth plans with the commitment of job creation. The creation of jobs was a core feature of the BDF grant, and this is likely to have ensured that businesses make this happen.

5.26. **What have been the key successes of the Business Development Fund?**

5.27. Section 2.3 of the review details the key successes of the Business Development Fund. The key headlines are;

- Job creation
- Private sector match
- Increased knowledge of the business community
- Supporting local businesses to excel
- Diverse businesses sectors supported
- Supporting businesses to grow and more importantly, encouraging entrepreneurs to start new businesses.

5.28. In addition to this another key success, particularly of round two, has been the uplift in business rates. Section 4.9 of the review illustrates that 12 of the 29 successful applicants requested funding to help them relocate to new or larger premises. The BDF grant awarded to these 12 companies was approximately £81,000. Thus creating uplift in business rates of at least £45,814²² per annum, which is 56% return on investment. East Staffordshire Borough Council would receive 40% of this uplift, therefore authenticating the success of the BDF scheme.

¹⁸ 52 of the 77 jobs have been created and 11 of the 13 jobs have been safeguarded.

¹⁹ Calculation based on 52 jobs created divided by the 16 businesses that have completed their projects.

²⁰ 1.5 jobs per business was the target in the original PID finalised before the launch of round one. This target remained the same for round two.

²¹ Please refer back to the Key Performance Indicators in section 2.4 of this report.

²² This figure was provided by ESBC business rates.

Business rates uplift divided by the actual BDF investment – the result is expressed as a percentage.
 $£45,814 \div £81,000 \times 100 = 56\%$

- 5.29. While it is important to invest in businesses that are looking to either start up or grow, the long term sustainability of the company is also a priority, not only for the council, but also in terms of offering local jobs and to strengthen the local economy. Section 5.4 of the report highlights how the BDF investment has helped growing businesses to secure a long term business presence in East Staffordshire. In fact some of the anecdotal feedback emphasises how it is important for the businesses to remain in East Staffordshire because *“family businesses need long term stability”*.
- 5.30. **What could the BDF have done differently?**
- 5.31. Many lessons were learnt from the first round of the Business Development Fund and the evaluation review helped set up and deliver an improved second round of BDF.
- 5.32. Section 8.3 of the review details what improvements were made to the second round of BDF, as a result of the recommendations made in the evaluation from the first round. Furthermore this section goes on either reaffirm the improvements – basically to reaffirm the processes and procedures in future rounds, or makes further recommendations based on lessons learn from this second round of BDF.
- 5.33. To highlight some of these recommendations;
- 5.34. **Targeting** (section 8.3.1) – If businesses are large enough to pay for the grant themselves, then the question is raised as to whether they should be included as an eligible business or not. Although the guidance notes or eligibility criteria was not amended to reflect this, this was considered as a decision making assessment by the panel during the second round. **It is recommend to keep the eligibility criteria as it is, and for affordability to be added to the assessment criteria for the decision panel.**
- 5.35. **Timing** (sections 8.3.2) – The **monthly panel meetings worked well** and should remain the same in future rounds of BDF. However **the optimum number of applicants going forward to panel should be no more than four**. For the applicants that “slip through the net” the **key criteria of additionality** is assessed by the decision panel. In future rounds of BDF, this **should remain key criteria for the decision panel.**
- 5.36. **Flexibility** (section 8.3.3) – for the second round of BDF the application forms were separated for new start up businesses and for existing businesses. This should remain the same for future rounds of BDF. **A suggestion was to have a new form for inward investment applicants, whereby information can be captured on the number of local jobs that would be created, the increase in business rates and the impact on the local supply chain.** During round two a further review of the claim forms was also carried out and amendments were made section 3 of the claim form, breaking down the Net Cost, VAT and total cost including the VAT. This made it easier to verify and

approve the claims for payment. **It is therefore recommended that the revised claim form template is used in future rounds of BDF.**

- 5.37. **Marketing** (section 8.3.4) – Further to a recommendation from the round one evaluation, a marketing plan was introduced in round two of BDF. **The Marketing Plan worked well in round two;** it ensured that the Enterprise Team remained focused in terms of promoting the BDF scheme to local businesses. **A recommendation would be that future funding programmes have a similar marketing plan with an additional section that focuses on inward investment.**
- 5.38. **Publicity** (section 8.3.5) – During the second round of BDF and mixture of publicity methods were used to promote the scheme. **A mixture of publicity methods worked well during round two,** the marketing plan helped ensure the publicity remained focused. **A recommendation would be to keep a mixture of publicity methods if a third round of BDF is launched.**
- 5.39. **Assessment Panel** (Section 8.3.5) - During round two, the Enterprise Team actively dispelled the idea that the panel meeting was a “*dragons den*” type exercise to rid the fear that some businesses had of ‘*making their pitch*’. More was done to promote the idea of the real opportunity in meeting the decision makers rather than something to fear. As recommended within the previous evaluation, **it is important that membership of the panel is refreshed.** In order to maintain continuity, **the panel appointed at the start of the BDF round should continue throughout that round,** with a new panel appointed for each subsequent round. **The diversity of panel members in any future scheme should be considered.** Finally, **consideration should be given to the panel including an accountant who can provide a short overview of their opinion on the businesses accounts.**
- 5.40. **What should future support to local businesses, in East Staffordshire, look like?**
- 5.41. **Another round of BDF?**
- 5.42. We have in the BDF a good model, with a proven track record for delivering outcomes, which the Council could continue to deliver. Section 8.4.1 of the review details some recommendation for the BDF if a third round was to be delivered again in the future.
- 5.43. To highlight some of the key changes as detailed in section 8.4.1 of the review;
- 5.44. **Use it as match funding against other schemes**
To use the investment as match funding against future European funding schemes that are due to be announced by LEP’s. To have future **BDF grants available to inward investment businesses only, because the return on investment could be made through the generation of business rates, from the company relocating to East Staffordshire at a low cost to the business.**

- 5.45. Continue with the assessment panel
The assessment panel worked well in both round one and round two, as this process works so well, it would make sense to keep this in future BDF rounds. As recommended in round one **it is important that membership of the panel is refreshed. The diversity of panel members in any future scheme should be considered. In order to maintain continuity, the panel appointed at the start of the BDF round should continue throughout that round, with a new panel appointed for each subsequent round.**
- 5.46. A further review
It is recommended a further quick review is undertaken once all the 29 successful businesses from round 2 have completed their projects and created / safeguarded the jobs forecasted. The forecast completion is quarter three 2016.
- 5.47. Jobs creation or apprenticeships (section 8.4.2)
As part of this evaluation, successful applicants, who took part in the review, were also asked whether they had or would consider taking on apprentices, though most, were unaware of how apprenticeships work they were open to the idea of taking someone on when provided with a brief overview. Consequently, they were referred to Burton and South Derbyshire College for further information and possible sign up.
- 5.48. ***This evidently works well, so any future round of BDF should keep the requirement of job creation and safeguarded, and really only consider apprenticeships as job outputs once the candidate is nearing completion of their training and can be taken on by the company as paid staff.***
- 5.49. Business Advice Service (section 8.4.3)
Businesses that were successful with the BDF were almost unanimous that the process of applying for the funding had helped them to strengthen their business model. ***Future support to local businesses should include the advice service.***
- 5.50. ***A recommendation would be for the Council to support a consortium of local business leaders, who have launched, Tomorrow's Business Champion Limited.***
- 5.51. ***The idea behind Tomorrow's Business Champion is to offer business support and assistance specifically designed for entrepreneurs. The scheme offers a three year kick start, to support new business start ups. It will offer monthly group sessions complimented by tailored 1-2-1 support. In the true style of Dragons Den, entrepreneurs will be invited to make a pitch to the TBC's Panel of experts. Interviews will be held twice a year.***

5.52. **Increasing business awareness of future funding** (section 8.4.4)

The recently announced allocation of European funding for the period 2014 to 2020 will be confirmed in the New Year. It isn't clear yet how these funds will be allocated, but a key challenge centres on raising business awareness of what funds are available. A key priority for ESBC's Enterprise Team will be to **ensure that the business databases are as up-to-date as can be in order to develop a detailed knowledge of the business community to enable marketing to be effectively targeted and to ensure local businesses are aware of what is available to them and how to apply.**

5.53. **More work can be done to identify what these business do, what services or product they provide, their turnover, staff numbers and so on and this will help to shape a future funding programme by mapping the business landscape across the borough.**

5.54. **Finally, the ESBC's Enterprise Team should be encouraged to promote the schemes to businesses outside the East Staffordshire boundary, encouraging and supporting them to relocate to East Staffordshire, because it is really these types of inward investment opportunities that will have a positive impact on the local economy and bring the return on investment for the Council.**

5.55. **Support for Rural Enterprises** (section 8.4.5)

In the next round of European grants programme for 2014 - 2020, grant funding will be available to rural businesses in East Staffordshire to support growth plans. **The Council could enhance the EU funded support through a small grant contribution from ESBC²³, for the match funding required by businesses.** Anecdotal evidence suggests that businesses find it challenging to provide the match funding required, which often prohibits them from accessing grants. This may be due to possible restrictions on cashflow, or existing loans repayment or even the scale of the project.

5.56. **A recommendation is that contribution from ESBC should only be made to businesses, where the scale of the project is such that the investment would assist the businesses to growth further and sooner with the guarantee of job creation.**

6. **Financial Considerations**

This section has been approved by the following member of the Financial Management Unit: [Lisa Turner, Chief Accountant]

6.1. The one-off funding approved by Cabinet in September 2014 to fund Round 2 of the Business Development Fund has now been fully committed.

²³ For example; 10% ESBC 50% business 40% EU funding, therefore the 10% council contribution would lever in 90% investment into the rural economy.

7. **Risk Assessment and Management**

7.1. The main risks to this Report and the Council achieving its objectives are as follows:

7.2. **Positive** (Opportunities/Benefits):

- The project has, and future funding will, lead to continued support of the economy across East Staffordshire, supporting SME's that wish to expand their operation take on more staff.
- The BDF has raised the profile of ESBC as a key source of advice and help to local businesses
- Future funding will enhance the borough as a place of companies to relocate to.

7.3. **Negative** (Threats):

- A risk of the job outputs not being met when a further review of the successful applicants is carried out in 2016.

7.4. The risks do not need to be entered in the Risk Register.

8. **Legal Considerations**

*This section has been approved by the following member of the Legal Team:
[Angela Wakefield]*

8.1. The main legal issues arising from this Report are as follows;

8.2. The 13 businesses that have been allocated the BDF grant and have yet to complete their projects will need to be monitored by the Enterprise Team.

8.3. The Team will need to make certain that their projects spend is as shown within the funding agreement and the jobs are created and safeguarded contractually agreed within the funding agreement.

Equalities and Health

8.4. **Equality impacts:** The subject of this Report is not a policy, strategy, function or service that is new or being revised. An equality and health impact assessment is not required.

8.5. **Health impacts:** The outcome of the health screening question does not require a full Health Impact Assessment to be completed. An equality and health impact assessment is not required.

9. Human Rights

9.1. There are no Human Rights issues arising from this Report

10. Sustainability (including climate change and change adaptation measures)

10.1. Does the proposal result in an overall positive effect in terms of sustainability (including climate change and change adaptation measures) **N/A**

11. Recommendation(s)

11.1. Cabinet note the review of Business Development Fund Round Two.

11.2. Cabinet note the recommendation for the Council support Tomorrow's Business Champions Limited.

12. Background Papers

12.1. None

13. Appendices

13.1. Appendix 1: The Business Development Fund (Round Two) internal review December 2015.