

## **Item: 11**

**Development and Infrastructure Committee: 4 June 2019.**

**Economic Development Grants Budget.**

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

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

To reconsider the authority to overcommit the Economic Development Grants budget.

### **2. Recommendations**

The Committee is invited to note:

#### **2.1.**

That, in July 2008, the Council agreed that the Development Committee be authorised to overcommit the annual allocation towards development activities, now known as the Economic Development Grant budget, by a maximum of 20%.

#### **2.2.**

That, in 2011, the Economic Development Grant Fund was established to recognise the extent of grant commitments and, as at 31 March 2019, stands at £1,120,001.

#### **2.3.**

That, up until financial year 2018 to 2019, the annual Economic Development Grants budget has become fully committed earlier each financial year.

#### **2.4.**

That, due to an improvement in the number of fully delivered projects that have received Economic Development grant awards, the annual budget risks being exceeded.

#### **2.5.**

The analysis of the Economic Development Grants budget which has been carried out, as detailed in section 4 of this report.

**It is recommended:**

#### **2.6.**

That, with effect from 1 April 2019, the Development and Infrastructure Committee be authorised to overcommit the annual allocation to the Economic Development Grants budget by a maximum of 5%.

## **2.7.**

That the Executive Director of Development and Infrastructure should undertake a review of the practice, referred to at paragraph 2.6 above, which will operate within normal budgetary control limits, at the end of each financial year, with the results being reported to the Committee as part of the Budget Outturn Statement in respect of Economic Development Grants.

## **2.8.**

That a review of the longer standing grant commitments being carried in the Economic Development Grants Fund be undertaken as part of the review referred to at paragraph 2.7 above.

## **3. Background**

### **3.1.**

On 5 June 2008, the Development Committee considered a report which outlined the average annual underspend against annual commitments. The Committee subsequently recommended to Council that it be authorised to overcommit the annual allocation from the Strategic Reserve Fund in respect of economic development by a maximum of 20%. All offers of financial assistance from the Council were recommended to be subject to projects commencing within a period of one year and that all claims for assistance be received within a period of two years of the date the Council's offer is made. This was subsequently amended by Full Council on 2 July 2009 when the period for receiving claims from business start-ups and expansions was further increased from two to three years.

### **3.2.**

The authority to overcommit was thus established in order to accommodate cancelled, or early conclusion of, projects resulting in lower levels of budget being claimed.

## **4. Update and Analysis**

### **4.1.**

Financial monitoring of the Economic Development Grants budget is complex due to grants being approved in one financial year but project delivery, and thus grant payment, potentially several years later. Mechanisms were however put in place in 2011 to enable the outstanding commitments to be made available into future years through establishment of the Economic Development Grant Fund. At 31 March 2019, the Economic Development Grant Fund stands at £1,120,001.

### **4.2.**

Processes have also been put in place to monitor and assess the authority to overcommit at 20% on an annual basis. This monitoring was put in place during 2015 to 2016, with further retrospective analysis conducted on all commitments since 2007 to 2008.

### **4.3.**

Not all funding commitments are drawn down and the reasons projects fail to start, or do not claim as profiled, are varied but can include full external funding packages not being secured, final projects costing less than projected or projects simply not taking place as planned and applied for. Significant examples include Council contribution to an employability support project and more recently the Abattoir Challenge Fund. The authority to overcommit therefore provides a way to maximise actual budget spend for economic development from the approved but forecasted project spend profile that has inherent uncertainty.

### **4.4.**

During 2018 to 2019, the Committee was advised that the Economic Development Grants budget has been increasingly, and sometimes fully, committed earlier in each financial year. Analysis of the historic awards has also confirmed a general improvement in the drawdown of financial assistance from applicants. This can in part be attributed to a number of factors including, for example, improved levels of support from officers and Business Gateway advisors, resulting in the applicants being in a more advanced state of readiness and able to profile and commence the delivery stage of better-developed projects.

### **4.5.**

From 2007 to 2008 to 2018 to 2019, the total grants committed has been recorded as £6,902,120, delivering and leveraging projects valued at a total of £27,731,675.

### **4.6.**

In the eight years since the Economic Development Grant Fund was established, actual grant commitments of £4,700,438, together with other expenditure of £32,850, has resulted in the approved economic development grants budget of £4,073,700 being overcommitted by £649,588, or 15.9%. Whilst within policy, the requirement to fund this overcommitment represents an additional demand on the revenue budget albeit it is only recognised at the end of each financial year. Offsetting this, the total value of grant offers not taken up by applicants and therefore not paid out has been calculated as £495,680, equivalent to 12.2% of budget (or 7.2% of total grant commitments). The resultant net effect as at 31 March 2019 is an additional funding requirement of £153,907, or 3.8%, in excess of the actual approved revenue budget.

### **4.7.**

This analysis suggests a significant improvement in the confidence that approved projects will successfully conclude as proposed. However, it also highlights a discrepancy in the capacity to overcommit. If this is not rebalanced, it increases the incidence and risk of significant actual budget overspend when the budget, including the 20% provision, is both fully committed and awards increasingly drawn down each year.

#### **4.8.**

It is proposed that the current authority to overcommit the Economic Development Grants budget by 20% be amended, by reducing the figure to 5%, but also clarifying that this mechanism still operates within normal budgetary control limits and should therefore be subject to an annual review, to be carried out at the end of each financial year.

#### **4.9.**

As part of this process a review of the longer standing grant commitments currently being carried in the Economic Development Grant Fund will also be carried out taking into account the policy decisions referred to at section 3.1 above.

### **5. Corporate Governance**

This report relates to the Council complying with its governance and financial process and 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.

### **6. Financial Implications**

#### **6.1.**

The financial implications are addressed in section 4 of the report.

#### **6.2.**

In accordance with the Financial Regulations, authority to incur expenditure is conveyed to officers by virtue of an approved revenue budget and including any flexibility to carry out transfers by way of revenue budget virement. As in the case of ordering goods and services, this authority also extends to any commitments made against the Economic Development Grants budget.

### **7. Legal Aspects**

There are no legal implications arising directly from the recommendation of this report.

## **8. Contact Officers**

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