

Item: 7

Development and Infrastructure Committee: 27 March 2018.

New Business Start Up Grant Scheme.

Report by Executive Director of Development and Infrastructure.

1. Purpose of Report

To review the eligibility criteria of the New Business Start Up Grant scheme.

2. Recommendations

The Committee is invited to note:

2.1.

That the New Business Start Up Grant scheme has been offered by the Council since 2011 and uptake has been steady.

2.2.

That the purpose of the New Business Start Up Grant scheme is to boost the business birth rate and support competitiveness, growth and survival rates of infant businesses.

2.3.

That the New Business Start Up Grant scheme was last reviewed on 5 February 2013.

2.4.

The proposal to include the currently ineligible sectors of professional services, private health care, property development and retail goods premises to the criteria of the scheme.

2.5.

That, within the annual Economic Development Grants budget, there is an annual allocation for New Business Start Up grants of £40,000, which is dependent on an appropriate budget allocation being made available to the Committee in the future, and may therefore be subject to review on an annual basis.

It is recommended:

2.6.

That the criteria in respect of the New Business Start Up Grant scheme be amended, in that the following sectors should become eligible for support:

- Professional services.
- Private health care.
- Property development.
- Retail goods premises.

3. Policy Aspects

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

4. Introduction

4.1.

At its meeting held on 5 February 2013, the Development and Infrastructure Committee noted:

4.1.1.

That the New Business Start Up Grant Scheme, which had been run as a two-year pilot jointly funded by the Council and the Orkney LEADER Programme, would close in March 2013 when the current funding arrangements ended.

4.1.2.

That, although uptake of the New Business Start Up grant was initially slow, applications had gradually increased over the period.

4.1.3.

That ongoing and recent monitoring and evaluation of the New Business Start Up grant pilot had been undertaken which indicated that the pilot had been successful, across a diverse range of businesses dispersed across the islands.

4.1.4.

That evidence obtained from the recently completed Orkney Business Survey indicated support for the continued provision of a New Business Start Up grant scheme.

4.1.5.

That the proposal to establish an annual allocation for New Business Start Up, with effect from 1 April 2013, was dependent on an appropriate budget allocation being made available to the Committee in the future, and might therefore be subject to review on an annual basis.

4.2.

The Committee recommended:

4.2.1.

That a sum of £40,000 per annum be allocated within the Economic Development Grants budget towards a New Business Start Up Grant Scheme, with effect from financial year 2013 to 2014, subject to an appropriate annual budget being made available to the Committee.

4.2.2.

That the maximum New Business Start Up grant available to a start-up business, from the scheme referred to at paragraph 4.1.1 above, should be £1,500, with a minimum threshold of £500.

4.2.3.

That powers be delegated to the Executive Director of Development and Infrastructure to determine applications for New Business Start Up grant funding.

4.2.4.

That powers be delegated to the Executive Director of Development and Infrastructure, in consultation with the Solicitor to the Council, to conclude the terms and conditions of New Business Start Up grant offers, based on the Council's standard terms and conditions of grant assistance.

5. Background

5.1.

Delivered through Business Gateway Orkney, and designed to assist business start-ups that will help grow the local rural economy, the New Business Start Up Grant scheme was launched by the Council in 2011, extending the portfolio of Economic Development schemes of assistance.

5.2.

It is a discretionary grant, offered under EU de minimis regulations, which aims to:

- Create employment opportunities within the area.
- Support communities in fragile rural areas.
- Contribute significantly to the local economy.

5.3.

Applicants must be developing a new start-up business and seeking to establish a full-time, sustainable enterprise. A grant application can consider a contribution of up to 100% of eligible start-up costs up to £1,500.

5.4.

There have been 142 successful applicants, split by financial year as follows:

Year.	Number of successful applications.	Total awarded.
2011 to 2012.	10 (pilot phase).	£12,429.
2012 to 2013.	25 (pilot phase).	£37,128.
2013 to 2014.	21.	£31,357.
2014 to 2015.	20.	£29,643.
2015 to 2016.	15.	£22,495.
2016 to 2017.	27.	£39,694.
2017 to 2018.	24.	£34,421.

5.5.

Successful applicants are active in the following sectors:

Sector.	Number of applicants.
Agriculture.	1.
Construction.	36.
Creative industries.	28.
Energy.	2.
Food and drink.	8.
Knowledge and technology.	2.
Manufacturing.	2.
Service.	50.
Tourism.	13.

5.6.

In terms of economic diversification, from the statistics set out above, it can be seen that there is a broad spread of new business start-up across several sectors. Even within the heading of service industry, the types of businesses supported include publishing, children's services, gardening, cleaning, personal training, vehicle maintenance, bookkeeping and beauty therapy. Construction has included carpentry, joinery, plumbing, fencing, masonry, electrical and painting and decorating.

5.7.

The application procedure includes the preparation and submission of a business plan and a two-year cash flow forecast, which is normally supported by a Business Gateway Adviser. This is considered to be a key strength of the scheme as it encourages applicants to undertake a sound planning process, which increases their skills and preparedness, and increases the quality of new starts.

5.8.

The scheme also encourages the number of start-ups approaching and engaging with Business Gateway, accessing their free business support services. This can include potential signposting and engagement with wider Economic Development and Highlands and Islands Enterprise services. Research shows that businesses that have engaged with Business Gateway have a significantly better chance of surviving beyond three years than the national average.

5.9.

Of the new start-ups supported:

- 83% are still trading.
- 5% are yet to start trading, having recently been approved.
- 6% have ceased trading.
- 6% could not be contacted.

6. Review of New Business Start Up Grant

6.1.

The New Business Start Up Grant scheme was last reviewed in 2012 and reported to the Committee on 5 February 2013, as outlined in section 4 above.

6.2.

The Council's approach to economic development has traditionally focussed on the expansion of existing companies in eligible sectors, diversification of the economy, and attracting inward investment. Businesses serving the local market only have been largely and historically excluded from much of this support to avoid displacement of local economic activity. This general approach was taken forward in the design of the New Business Start Up Grant scheme and subsequently the following have been excluded:

- Professional services e.g. solicitors, accountants, consultants (where there is no significant displacement of other Orkney businesses, and where the business will benefit either the local economy or tourism may be eligible on a discretionary basis).
- Private health care.
- Property development.
- Retail goods premises (where there is no significant displacement of other Orkney businesses, and where the business will benefit either the local economy or tourism may be eligible on a discretionary basis).

6.3.

However, unlike the Economic Development schemes of assistance that focus on growth businesses in key sectors, the New Business Start Up Grant scheme has the broader purpose of boosting the local business birth rate, and supporting the competitiveness, growth and survival rates of infant businesses.

6.4.

In order to better achieve this across a broad spread of sectors and to support more people starting successful businesses, it is proposed that excluding these few sectors is unnecessarily discriminatory, as any displacement of local economic activity from the relatively low level of grant would be insignificant, and to include them would better support the purpose of the grant scheme. It would also complement Business Gateway's continued efforts to support people with ambitions to start a business, who may otherwise not do so due to lack of access to start-up capital, fear of failure or lack of skills to start a business.

6.5.

The New Business Start Up Grant would continue to be allocated on the basis that applicants must be developing a new start-up business and seeking to establish a full-time, sustainable enterprise. Businesses should create employment and contribute to the local economy.

6.6.

Highlands and Islands Enterprise does not generally offer support to new businesses unless they have a very high growth potential and exist within their key growth sectors. The Prince's Scottish Youth Business Trust was previously active in Orkney, but took the decision in 2016 not to work with a local delivery partner, which, coupled with stricter eligibility criteria, has resulted in fewer local young people receiving business support.

6.7.

The Scottish Government considers new business formation to be one of the key drivers of economic growth, with a high business birth rate driving up levels of innovation, competitiveness and productivity. Through the provision of both funding and advice, the New Business Start Up Grant scheme aims to drive up the competitiveness, growth and survival of new businesses in Orkney,

6.8.

Historically, the eligibility criteria of the New Business Start Up grant has assisted start-ups across a number of sectors, and only a limited number of approaches have been unsuccessful on the basis of operating within an ineligible sector, therefore it is anticipated that they could be accommodated within existing budgets.

6.9.

It is therefore proposed that the eligibility criteria of the New Business Start Up Grant Scheme is widened by including the currently ineligible sectors referred to at section 6.2 above.

6.10.

This would effectively remove all sector restrictions, though certain business activities as detailed in the current guidance (<http://bit.ly/2pBRtIF>) would remain ineligible.

7. Equalities Impact

An Equality Impact Assessment has been undertaken and is attached as Appendix 1 to this report.

8. Financial Implications

8.1.

An allocation of up to £40,000 is currently set aside within the annual Economic Development Grant budget towards New Business Start Ups.

8.2.

Based on the current uptake of New Business Start Up grants there would appear to be sufficient headroom within the existing allocation to accommodate additional applications should the eligibility criteria be widened. That said, this view is subject to both an appropriate level of budget being made available through the Council's budget setting process, and this scheme remaining a priority of the Service Committee, in future years.

9. Legal Aspects

9.1.

Any assistance awarded to businesses under Commission regulation (EC) No.1407 / 2013 on de minimis aid is subject to a ceiling of €200,000 (with the exception of certain sectoral restrictions, eg agriculture and fisheries) for all de minimis funding provided to any single recipient over a rolling, three-year fiscal period. There is a requirement to inform recipients that the aid being given is de minimis, and for recipients to keep records of de minimis aid received for three years.

9.2.

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 will require to be signed and returned to the Council in advance of any funding being paid.

10. Contact Officers

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11. Appendix

Appendix 1 – Equality Impact Assessment.