

North Lanarkshire Council Report

Enterprise and Growth Committee

approval noting

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Business Transformation Fund

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Executive Summary

The purpose of this report is to provide Committee with an update on proposed changes to the Business Transformation Fund (BTF), a Council-funded grant scheme designed to help North Lanarkshire's small to medium enterprises (SMEs) grow their business and create jobs with Committee approval to implement the new scheme for the start of the 2019/20 financial year.

Recommendations

It is recommended that Committee:

1. Note the contents of this report.
2. Approve the proposed changes to the Business Transformation Fund grant scheme guidelines and eligibility criteria.

Supporting Documents

The Plan for North Lanarkshire

Ambition Statement 4: Market and promote North Lanarkshire as the place to live, learn, work, invest and visit.

Ambition Statement 5: Grow and improve the sustainability and diversity of North Lanarkshire's economy.

Ambition Statement 21: Continue to identify and access opportunities to leverage additional resources to support our ambitions

Programme of Work: P022 - Review loans and grants for local businesses

1. Background

- 1.1 For many years North Lanarkshire Council has delivered a small grants scheme for local businesses, most recently under the name of the Business Transformation Fund (BTF). During 2018-19, BTF offered grants of £245 to £6,000 (by exception up to £12,000 if certain additional criteria were met), at a fixed intervention rate of 50%. This financial support is designed to encourage business growth and sustainability, measured in particular by turnover increase and job creation within the applicant business.

The BTF scheme currently supports business growth projects which feature proposed investment by the business in one or more of the following areas:

- **Capital Expenditure** - purchase of equipment or machinery;
 - **Infrastructure Improvements** - conversion or expansion of business premises;
 - **Consultancy Support** – the securing of external expertise to assist business growth;
 - **Exhibition Support** – participation at trade shows as a first time exhibitor or visitor;
 - **Training Support** – improving staff skills and competency to drive business growth.
- 1.2 In early 2019 a review of the BTF scheme was undertaken to consider the outcomes generated from 2018/19 and to ensure the funding provided to support business growth is fully aligned with the Council's *The Plan for North Lanarkshire* and evolving Economic Regeneration Delivery Plan which underpins the long term growth of North Lanarkshire's economy and businesses. The review also sought to ensure the maximum return on investment from the Council's investment.

2. Report

2.1 Business Transformation Fund

It is proposed that the BTF budget for 2019-20 is £250,000 with £150,000 provided from the existing Enterprise revenue budget and an additional £100,000 subject to confirmation from ERDF funds. The ERDF match funding is conditional on targets being achieved. The target for 2019-20 is to support 40 unique businesses (4 of which go on to export) who create 20 Full Time Equivalent (FTE) jobs.

2.2 Eligibility Criteria – 2018/2019

- 2.2.1 As the BTF scheme is supported by the European Regional Development Fund (ERDF), eligibility criteria have been in-part based around ERDF requirements. It is proposed that 2018/2019 grant criteria are carried forward into BTF for 2019/2020, with changes and improvements implemented via the review process. During 2018/2019, any business or project seeking support had to clearly demonstrate that it complied with the core aims of the BTF scheme, namely:

- i) The proposal had to clearly demonstrate additionality and contribute directly to a significant increase in business turnover and employment within 12 months of project completion.
- ii) The applicant had to demonstrate why external financial assistance from North Lanarkshire Council is necessary to enable the project to proceed.
- iii) There had to be no indication of prior commitment. No work could start on the project in question and no expenditure could be incurred until after the applicant company received a formal decision regarding their grant application.

2.2.2 In addition during 2018/2019, the under-noted grant criteria were also in place and it is proposed that these will also be carried forward to the 2019/2020 programme:

- Applicants had to be start-ups or existing businesses
- Ventures at the pre-start/pre-trading/feasibility stage were typically ineligible
- Applicants had to comply with the EU definition of an SME
- Trading/operational address for the applicant had to be within North Lanarkshire
- Home-based businesses could be considered (except for Capex or Infrastructure grants)
- Majority of turnover (typically at least 50%) had to be derived from business-to-business trade
- Most retail businesses and licensed trades were excluded (certain exceptions were considered)
- Minimum applicant turnover had to be at or above the VAT threshold (£85,000) or forecast to reach this within 12 months

2.2.3 Summary of BTF outputs from 2017 to 2019

In order to inform the review process, the performance of the BTF programme for the period 2017 to 2019 has been assessed and outlined in Table 2.3.1 below:

Table 2.3.1: BTF Grant Awards, 2017-19

Sector	No of grant awards	Total grant value (£)	%
Care Sector	3	11,716.44	2.5
Construction	16	60,016.94	13.1
Creative Industries	20	100,836.85	21.9
Energy inc. Renewables	6	44,688.25	9.7
Financial Services	2	4,757.48	1.0
Food & Drink	18	99,570.27	21.7
Life Sciences	5	12,977.30	2.8
Non-Sector	22	101,382.50	22.1
Tourism	4	23,502.50	5.1
	96	459,448.53	

2.2.4 As illustrated, financial support has been provided to a broad cross-section of industry sectors in North Lanarkshire but with significant assistance provided to Construction, Food & Drink, and Creative Industries (it should be noted that manufacturing businesses fall under a number of the above sectors). The above

sectoral designations were specified by the Scottish Government for the purposes of the ERDF claims process. This also explains why many businesses are designated as 'Non-Sector' as they do not fit within one of the prescribed Scottish Government sectoral definitions for ERDF funding purposes. Non-Sector includes many manufacturing and construction-related businesses. The above figures relate to the number of grants awarded rather than the number of beneficiary companies as some companies have received multiple grant awards in a given financial year.

2.3 Proposed Changes for BTF 2019/20

2.3.1 As part of an annual review, proposals have been developed to improve the way the BTF grant scheme is administered and delivered, with a view to maximise the benefits to support business growth, create jobs and grow the North Lanarkshire economy. These proposals include:

2.3.2 **Alignment with The Plan for North Lanarkshire and the Emerging Economic Regeneration Delivery Plan:** The types of applicant businesses and industry sectors we propose to consider for grant support will be exclusively aligned to the Plan for North Lanarkshire and the emerging Economic Regeneration Delivery Plan. Key sectors to be supported were previously set out in the Delivering Inclusive Economic Growth – Ambition Update report to the Enterprise and Housing Committee on 5th September 2018. Whilst there are clear benefits in taking a sectoral approach, care will be taken to ensure there is no detrimental impact on the support available to other businesses so growth is not impeded. The following key sectors will be critical to the ongoing success of North Lanarkshire':

- Manufacturing
- Logistics
- Food & Drink
- Health & Social Care
- Life Sciences
- Creative Industries
- Tourism
- Construction
- Social Enterprise
- Energy

A sectoral classification ensures BTF outcomes accurately reflect the Council's priorities to support sectors that deliver the highest value to the North Lanarkshire economy and provides clarity to businesses. These criteria also provide a rationale for discounting enquiries or applications which stand to provide minimal benefit to the applicant business and/or North Lanarkshire's economy.

2.3.3 **Transition to quarterly application rounds:** An annual challenge for the BTF scheme relates to the management of the budget, which in most financial years is exhausted by the end of Q3 due to the continued high demand for funding. A shift to quarterly calls for applications would enable better management of the fund by enforcing a cap on the total amount of grant funding available to BTF in any given month and fairness to ensure all businesses have access to bid for grant support all year round. It is proposed that a call for submissions would be issued at the start of each quarter, with a closing date set towards the end of the quarter, at which point a panel would convene to assess the applications received

and approve/decline them on merit. The annual budget allocation for BTF grants would be evenly allocated across the year, with a cap placed on the maximum amount of grant that can be awarded in any single month. This creates a more competitive grant environment so the projects that deliver the highest benefits to both the business and the local economy are approved. It also offers improved transparency as all applications received would be reviewed and assessed by the Enterprise Development Team collectively, who would meet each quarter to discuss applications received and arrive at a decision on those which should be supported. It is proposed that decisions would be based on a score sheet methodology aligned with the Council's strategic priorities. Flexibility would still exist to ensure applications could still be considered in exceptional circumstances out with the standard quarterly applications process, but with service manager approval only.

2.3.4 **Application frequency:** At present, some businesses apply for grant support more often than others to the extent that they are almost applying on a routine basis. To ensure that the maximum number of local businesses are given the opportunity to benefit from the support available, it is proposed that the gap between applications could be increased from 12 months to 24 months. In other words, if a company applies for a given grant category (e.g. Capital Expenditure), it cannot submit another application in the same grant category for 24 months. This would not prevent them from applying for a different grant category in the meantime (e.g. Consultancy Support).

2.3.5 **Application value:** In order to maximise the limited funds available, it is proposed the facility to apply for grants in excess of £6,000 is removed. This means that grant maxima would be:

- Capex/Infrastructure - £6,000
- Consultancy Support - £3,000
- Exhibition Support - £3,000
- Training Support - £2,000

The maximum amount of grant any single applicant would apply for in a 24 month period would by default also be limited to £14,000 to ensure funds reach as many businesses as possible.

2.3.6 **Target market:** It is proposed to restrict applications to small businesses only, rather than medium-sized businesses, with the aim of targeting support to those businesses that need it most and where the greatest benefit/impact is more likely to result. The current EU definition of a small business is one which has 50 or fewer staff with a turnover and balance sheet total of €10 million or less.

Specific targeting of funds in this way will likely deliver a greater economic benefit to smaller businesses. In value-for-money terms, the return on Council investment arising from every £1 of BTF funding invested is likely to be higher in smaller businesses than in larger enterprises.

2.3.7 **Thematic focus:** In addition to the sectoral focus and core aims of BTF, it is proposed that BTF applications should be framed to focus exclusively on supporting projects which generate specific outcomes around:

- creation of **employment and/or training** opportunities

- supporting **innovation** to develop new and/or improved products, processes or services
- assisting growth into **new domestic markets**
- assisting **export development** and **internationalisation**
- supporting the adoption and integration of **digital technologies** and **ecommerce** in line with the Council's Digital Economy and Place Ambition
- encouraging the adoption and integration of **green technologies** and **low carbon** products, processes or services

The current BTF guidelines make reference to the above themes but do not specifically require applications to comply with one or more themes as a condition of grant. This change will strengthen this criteria.

2.3.8 **Business 2 Business (B2B) versus Business 2 Consumer (B2C):** In order to ensure value for money, maximise impact and encourage multiplier effects within the supply chain, it is proposed to continue with the rule that only businesses trading predominantly business-to-business (>50% of turnover) should be considered eligible to apply for a BTF grant. Consequently, this means that purely retail activities would be ineligible to apply, such as restaurants, town centre businesses, motor dealers, estate agents and so on unless i) a significant proportion of their business is B2B, or ii) they are specifically looking to expand the B2B part of their business, or iii) the business directly operates in one of the key sectors set out earlier in section 2.5 of this report (e.g. tourism, social enterprise, construction etc). It is proposed that the Council would also retain flexibility to consider applications by exception based on economic merits, particularly in instances where a significant number of jobs are likely to be created.

2.3.9 **Outputs and Outcomes:** It is proposed that systematic monitoring of grant recipients will continue to be built into the BTF scheme's compliance and monitoring procedures to ensure that outputs/outcomes stated in their original application are achieved. Monitoring visits will be scheduled with all applicants 12 months after the supported project is completed, to measure forecast outputs against actual outputs.

3. Equality and Diversity

3.1 Fairer Scotland

We monitor the impact of equalities and socio-economic disadvantage as part of the Business Transformation Fund.

3.2 Equality Impact Assessment

None has been undertaken for the purposes of this report.

4. Implications

4.1 Financial Impact

It is proposed that the BTF budget for 2019-20 is £250,000 with £150,000 provided from existing Council revenue budgets and an additional £100,000 subject to confirmation from ERDF funds. The ERDF match funding is conditional on targets being achieved. The ERDF target for 2019-20 is to support 40 unique businesses (4 of which go on to export) who create 20 Full Time Equivalent (FTE) jobs.

4.2 HR/Policy/Legislative Impact

There are no HR/Policy or legislative impacts recognised.

4.3 Environmental Impact

There are no negative environmental impacts recognised. As a result of the some of the types of growth projects undertaken by SMEs to improve processes or to update equipment and property, it is expected that there will be a positive environmental impact.

4.4 Risk Impact

Risks related to both North Lanarkshire Council and ERDF funds are closely monitored and all expenditure is verified prior to the submission of claims for ERDF funding.

5. Measures of success

- 5.1 North Lanarkshire Council continues to play a leading role in supporting local SMEs and aiding their growth and prosperity. The BTF Scheme for 2019-20 will measure jobs created and growth in turnover as a result of the support provided.



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