



Meeting: Council

Date: 28th February 2013

Wards Affected: All

Report Title: Torbay Growth Fund

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1. Purpose

- 1.1 The purpose of this report is to set out how a Torbay Growth Fund will create jobs and improve the productivity of the Torbay economy.

2. Proposed Decision

- 2.1 It is proposed that Council:

- Approve the investment of £1,000,000 into a growth fund which will generate employment opportunities through business growth in Torbay.
- Authorise a selection panel comprising of the Mayor, Deputy Mayor and Executive Lead for Finance alongside the Director of Economic Strategy and Performance (TDA) and Executive Head of Finance to determine applications to the fund. Performance will be reported through SPAR and annually to Council.
- Approve the recommendation to allow the Chief Operating Officer in consultation with the Mayor and selection panel set out above to finalise the criteria on which funding will be awarded.

3. Reasons for Decision

- 3.1 The type of growth fund proposed by this report is an innovative approach to supporting the creation of employment opportunities required in Torbay and one of a number of important mechanisms to support investment, business growth and new jobs. The fund would be the first of its kind in the Heart of the South West Local Enterprise Partnership¹ area, complementing the South Devon Link Road and marking the Bay out as an attractive place to do business.

- 3.2 The Torbay Growth Fund will offer a financial incentive, based on set criteria, to

¹ The Heart of the South West Partnership covers the administrative boundaries of Devon, Somerset, Plymouth and Torbay

new and existing businesses who can demonstrate they will create jobs in Torbay.

- 3.3 Up to 50% of the fund will operate on a loan basis, creating a revolving fund which can continue to support business growth into the future making this a sustainable option.

4. **Summary**

- 4.1 The Torbay Growth Fund will be a powerful incentive to attract new businesses to invest in Torbay and encourage existing businesses to grow. Government funded enterprise zones are a recognized tool to drive growth but there is no such zone in the LEP area. In an increasingly competitive inward investment climate the fund, when combined with the other tools available, including local development orders, will make the Bay stand out as a business destination.
- 4.2 With work beginning on the South Devon Link Road now is an ideal time to encourage existing businesses to expand and attract new businesses into Torbay, ensuring they are established before the road is completed. This will enable them to be best placed to take advantage of the improved transport links.
- 4.3 As well as marking Torbay out as a place to do business changes to business rates meaning local authorities will be able to retain any increase in rates locally means the fund may bring the additional benefit of increased rate revenue as well as new jobs.

Supporting Information

5. **Position**

- 5.1 The Torbay economy is facing a number of challenges including high unemployment and the lowest Gross Value Added in the South West. The Torbay Growth Fund has been identified as an innovative way of addressing this.

6. **Possibilities and Options**

- 6.1 There are 3 possible options for the Torbay Growth Fund. Do nothing, implement a large scale growth fund or invest in a growth fund set up as recommended in this paper.
- 6.2 Do nothing – The Growth Fund is not implemented.
- 6.3 Implement a large scale capital growth fund – This type of fund typically invests in big infrastructure projects, enabling businesses to access the finance they need to build new premises. This option is risky in that it would require significantly higher levels of investment from the Council without guaranteed returns.
- 6.4 Approve the Torbay Growth Fund – For an investment of £1m the fund will create a minimum of 250 jobs and a unique marketing opportunity for Torbay.

7. **Preferred Solution/Option**

- 7.1 The preferred option is 6.4. Doing nothing will not support the Torbay economy to

grow or create new jobs and investment is a large scale capital investment fund carries significant risks. Approving the Torbay Growth Fund brings a number of benefits including job creation and improvements in productivity as well as encouraging inward investors.

8. **Consultation**

- 8.1 Feedback from businesses suggests that access to finance is one of the biggest barriers to growth. Businesses have also suggested that Torbay needs to do more to market itself as a destination for all types of companies, something the growth fund will be a key tool in².

9. **Risks**

- 9.1 The type of growth fund recommended in this report which offers an investment based on set criteria including the number of jobs created is relatively low risk. The funding mechanism will include a number of safeguard to ensure the beneficiaries are creating sustainable jobs in Torbay.

² TDA Business Barometer Survey – Spring 2012

Appendix 1: Torbay Growth Fund

1. This paper sets out the rationale for creating an innovative new fund to support the creation of employment opportunities in Torbay. The fund would be the first of its kind in the Heart of the SW Local Enterprise Partnership area, marking the Bay out as an attractive area to do business. It will include provision for:
 - Grants to businesses to support their expansion
 - Match funding for European grants before December 2013

The fund will be used alongside other tools such as Local Development Orders and the existing soft landings programme³ to create a comprehensive package of incentives (similar to government funded Enterprise Zones) to encourage businesses to invest and grow locally.

2. The report below sets out the mechanisms for a how a growth fund based on rewarding job growth could work, but does not exclude other uses for the fund.
3. The proposal is within existing budget and policy framework so the recommendation is to:
 - Approve the investment of £1,025,000 into a growth fund which will generate employment opportunities through business growth in Torbay.
 - Authorise a selection panel comprising of the Mayor, Deputy Mayor and Executive Lead for Finance alongside the Director of Economic Strategy and Performance (TDA) and Executive Head of Finance to determine applications to the fund. Performance will be reported through SPAR and annually to Council.
4. The recommendations will lead to business growth, job creation and ultimately should increase revenue for Torbay Council, particularly through business rates.

What is a growth fund?

5. There are two models of growth fund:
 - Large scale capital growth funds which are ring fenced and recyclable and used to address the issues of development viability, encouraging development of employment space and delivering jobs
 - Grants/loans to businesses, usually through business rate reduction, for inward investors or local businesses seeking to grow and directly linked to job creation.
6. It is acknowledged that Torbay suffers from a market failure in that new employment space is not brought forward speculatively due to below average market rents. Low land values driven by perceived low levels of demand, combined

³ <http://www.torbaydevelopmentagency.co.uk/invest-in-torbay/torbay-touchdown>

with a lack of development finance triggered by the economic downturn has also created a significant viability gap for major projects.

7. It is therefore highly unlikely that the private sector alone will deliver the required levels of employment space, and in the medium term a return to higher levels of national government funding for infrastructure is equally unlikely. While the creation of a dedicated capital growth fund could be a mechanism to address this ongoing issue of market viability it is also higher risk. A large scale fund may necessitate the Council undertaking recovery or legal action and cannot be guaranteed to return to the same levels as the original investment. Essentially while it offers a longer term fund it carries greater risk and requires greater rigour in the appraisal and monitoring of the scheme and as such is not advocated by this report.
8. While Both large scale capital investment fund models and smaller business grant schemes offer incentives to encourage private sector growth they do this in different ways. Rather than large scale investment in premises the grant fund would provide funding direct to businesses which can be used for a number of activities, both capital and revenue, which will enable the company to grow. These typically include investment in new equipment, buying in support to speed up product development/innovation and increasing marketing..
9. The type of intervention enabled by this type of growth fund is required because of the historic issues we have faced in encouraging more rapid growth of local businesses, and in recognition that Torbay faces strong competition for inward investment within the LEP area and from further afield.
10. This fund brings with it significant marketing opportunities for Torbay and improves incentives for inward investment. This will make the area more attractive to growing local businesses and inward investors, particularly when coupled with other development tools and as employment sites are brought forward.
11. The proposed introduction of Local Development Orders (LDOs) as set out in the Council paper 'Planning Tools for Delivery' offers a unique opportunity to promote these alongside the Torbay Growth Fund. LDOs support the provision of new employment space through simplified planning and will encourage businesses both local and new to the Bay to utilize specific sites. As set out below the assessment criteria for the fund can be used to offer larger grants to businesses who locate in target development areas. This could be linked to the proposed LDO at Whiterock to encourage development on that site. The offer of funding combined with simplified planning would make it an attractive proposition for businesses seeking to grow and create jobs.
12. A fund offering smaller scale grants and loans based on job creation is likely to deliver jobs more quickly and carries less risk in terms of Council investment.

Financing the growth fund

13. £1,000,000 has been identified for the growth fund and endorsed by SCOPE:
14. The rate at which the fund is spent will be dependent on demand. It is anticipated it would last two years, however if it is successful and there is significant interest

early in the lifespan the fund could be fully committed more quickly than this. As grants are directly linked to jobs the faster the fund is spent the more quickly jobs are created so this is not envisaged to be a problem.

How will the Torbay fund work?

15. It is proposed that Torbay Council should be the grant awarding body and that the growth fund will offer a combination of grants and loans. The split between grant funding and repayable loan will be determined on a case by case basis but it is proposed that the loan proportion could be up to 50%.
16. All monies repaid will be recycled within the growth fund in order to create a sustainable revolving fund. It is proposed that interest rates are set at 1.5% above base rate with a 5 year repayment period. Members should note that the fund, both grant and loan element of the fund, will be classified as a state aid which is allowable under the “De-minimis” state aid regulations.
17. The growth fund will offer funding to businesses based on a set amount per new job created. Businesses moving to new and or growing within their existing premises will be eligible provided they can demonstrate they will meet the fund criteria and will create jobs in Torbay.
18. The fund will offer an important financial incentive to businesses looking to relocate and existing businesses who are looking to grow. It will operate as part of a wider package of measures which are, or will be, available including:
 - Local Development Orders (LDOs) – The new local plan identifies simplified planning through LDOs as a way of promoting the sort of development the Bay needs in its employment areas. LDOs grant planning permission for specific types of development in specific areas, speeding up the planning process and making the area more appealing to businesses. The use of LDOs alongside business rate reductions through the growth fund will make specific areas of employment space, for example, White Rock and Edginswell attractive locations for businesses seeking purpose built space.
 - The ‘Torbay Touchdown’ Soft Landings programme which provides initial free of charge advice to inward investors covering numerous business & professional services – potentially including rent free/holiday periods in TDA Innovation Centres space⁴
 - Liaison with South Devon College to provide training packages
 - Support with recruitment and links to Job Centre Plus (number dependent)
 - Assistance with finding sites or property
19. The fund will be available to businesses irrespective of if they are currently located in or outside the Torbay area. In order to avoid displacement businesses already located in Torbay will have to demonstrate that relocating to larger premises will

⁴ Subject to availability, discretion and State Aid constraints

stimulate job growth and all applications will need to comply with the criteria set out in appendix 1.

20. To ensure best value for money in terms of jobs achieved the fund will focus specifically on companies/projects which can deliver growth and jobs. As a guide we would expect the fund to deliver a minimum of 250 jobs if the full £1m is invested in grants for businesses, equating to a maximum investment of £4000 per job. The eligibility criteria will be used to ensure the fund creates sustainable, full time jobs.
21. Development of the proposal has included consideration of the potential of the fund to influence the growth of businesses we are seeking to attract through the fund. While job creation is a priority, the fund criteria can be used to encourage growth in key sectors by prioritizing them for higher levels of support.
22. It is essential that the criteria for the fund are set to optimize job creation. Some suggestions for how this could be done are set out below; however it is recommended that the final criteria are determined by the Council's Chief Operating Officer in consultation with the Mayor and the selection panel.
23. A number of criteria could be used to determine a business's eligibility to apply for funding. Each of these would carry a different weighting and grants will be offered at a level of between £1000 and £4000 per job over a period of 3 years. A more detailed example of how this could work is appended to this report. Businesses will be expected to set out how the funding will grow their business and create jobs as part of the application process. As an example some of the activity which could be supported includes:
 - Investment in equipment needed to manufacture a new product
 - Funding to buy in product development support
 - Funding to develop the businesses marketing, for example a new website
24. It is proposed that there are minimum eligibility requirements for applicants including:
 - Jobs – Creating jobs is the primary aim of the fund. As such it is recommended that the Chief Operating Officer in consultation with the Mayor and selection panel set a minimum number of jobs to be created in order for a business to be eligible for funding. .
 - Applicants must not be eligible for any form of business rate relief. This includes small businesses with a rateable value of less than £12,000 who currently receive rate relief up to the value of 100%. Torbay Council has no plans to use its discretionary powers to introduce any non-statutory rate relief meaning only businesses with a rateable value of below £12,000 should be excluded.
 - All beneficiaries of the fund must endeavor to fill vacancies locally. Jobs must be at a minimum advertised through the Torbay job centre.
 - Businesses in accommodation, retail and a number of other sectors exempt from support under EU law will not be eligible to apply to the fund.

25. Once businesses have confirmed they are eligible to apply it is recommended that criteria are set to determine the level of grant awarded:
- Location – In line with the new local plan we are seeking to encourage investment on specific areas employment sites linked to the LDOs – for example Whiterock, Claylands and Edginswell. Funding could be offered on a sliding scale dependent on location with these areas prioritized for higher grant percentages.
 - Sectors – Given the low productivity (GVA) levels in Torbay we are seeking to promote investment in key sectors such as advanced electronics and manufacturing. Unlike most existing funds it is not proposed to exclude businesses who do not fall into priority sectors but again to operate a sliding scale. Higher levels of support could be offered to businesses in key sectors, but any companies who meet the minimum criteria (excluding retail, accommodation and a number of other EU exempt sectors) will be eligible to apply.
 - Clusters – Growth funds can be used to encourage clustering, with higher financial incentives being offered to companies within a specific sector locating in a specific location. Encouraging advanced electronics companies at White Rock would be an example of how the fund could be used to do this. .
 - Level of jobs created – The fund can be used to encourage higher skilled higher paid jobs into the Bay. A sliding scale with applicants creating graduate/NVQ 4 jobs scoring higher would encourage this.
26. In order to ensure the fund delivers a minimum number of higher paid and higher skilled jobs there is the potential to ring-fence a proportion of the fund. This will ensure that if early applications for lower paid/lower skilled jobs look likely to absorb all the funding quickly then the Council is within its rights to hold back a proportion of the fund in order to ensure it meets its goals.
27. EU State Aid legislation will also need to be considered as part of the mechanics of the growth fund. State Aid aims to avoid the distortion of the market through public sector intervention such as the proposed growth fund. There is an exemption to this (de minimis) which the fund will adhere to allowing small and medium size enterprises to receive not more than €200,000 of public funding in any 3 year rolling period. It should also be noted that a small number of sectors do not fall within the de minimis exemption (including fisheries and aquaculture) and will therefore not be eligible for grants.
28. The maximum grant investment by the fund will be £150,000 over 3 years which falls within the de minimis exemption. It will be up to the applicant to determine whether they have received any other public sector finance which may restrict their ability to apply to the growth fund and they will be required to declare this as part of the application process.

Marketing and evidence of need

29. Recent analysis has been undertaken by UK Trade & Investment, (the UK organisation responsible for promoting the UK overseas) of all FDI (Foreign Direct Investment) enquiries on the UK National pipeline of projects. Of the projects in the period Apr-Jul 2012 over 120 FDI projects have cited incentives such as the proposed growth fund as a key location driver. The fund, when combined with the South Devon Link Road increasing market access speed, the soft landings programme, aftercare and sector specific groups means Torbay's offer will be compelling.
30. We expect the fund to be open for applications from April 2013 and will focus marketing around this. Branding for the growth fund will build on existing inward investment material to create a comprehensive offer for Torbay.
31. Marketing the package of incentives on offer within Torbay to the correct audience will be essential to the success of the fund. It is proposed a high profile dedicated enterprise area section is created on the Council and TDA websites and optimized to ensure it appears in as many web searches as possible.
32. The fund and its criteria will also need to be clearly set out to UK Trade & Investment (UKTI) to maximise the marketing potential to overseas inward investors.
33. PR and direct mail will form the basis of the campaign, which is unique within the Heart of the South West LEP, as opposed to paid-for advertising. It is believed that the offer will be sufficiently attractive to generate interest in itself through free editorial and lead generation. However should take-up be less than expected, or from sectors with lower criteria scoring, some targeted advertising through trade and property press will be considered.

Decision Making Process

34. Businesses will be required to demonstrate they meet the minimum criteria set out by the Chief Operating Officer before progressing to the full application. There will be provision for small businesses to ask questions as part of the application process. It is suggested this is through a dedicated email address – growthfund@tedcltd.com.
35. It is expected that applications will be initially assessed by the TDA, using the criteria to determine level of grant and priority. Recommendations will then be made to a panel consisting of the Mayor, Deputy Mayor, Executive Lead for Finance, Executive Head of Finance and Director of Economic Strategy and Performance (TDA) for a final decision.
36. The application process will be rolling, with the panel expected to meet and make decisions every 6 weeks.

Safeguards

37. The growth fund will offer grant funding over a period of 3 years and will be subject to an agreed number of jobs being created within Torbay. The level of grant

awarded (between £1000 and £4000 per job) will be dependent on how many of the criteria applicants meet. Applicants will be expected to demonstrate their ability to create jobs through:

- A business plan for at least the length of the investment (3 years)
- Clear evidence of past performance
- Financial forecasts and evidence of financial backing for the investment
- Evidence of demand
- Evidence they will recruit from within Torbay

38. Businesses will only be eligible to make one application to the fund. In order to ensure additionality applicants must demonstrate that the additional jobs proposed could not be created without support from the growth fund.

39. The total grant awarded will be paid over a 3 year period with 40% paid in year 1 and 30% in years 2 and 3.

40. The grant will be subject to annual monitoring to make sure that the company is still eligible, namely to ensure that they are still growing. Job outputs will be monitored closely and if these are not being met funding will cease.

41. All applicants will be required to sign a declaration confirming that they owe Torbay Council no current business rate or rental arrears. Part of this contract will include consent from the business to allow the growth fund administrators to liaise with the business rates team in order to confirm this.

42. The purpose of the growth fund is to create long term jobs and businesses receiving funding will be expected to remain in Torbay for a fixed period after this has ended or be subject to claw back. It is suggested that this works on a sliding scale:

Number of years after grant payment ends	Percentage of grant clawed back
1	75%
2	50%
3	25%

Conclusion

43. A Torbay growth fund will be a powerful incentive to attract new businesses to invest in Torbay and existing ones to grow. Government funded enterprise zones are a recognized tool to drive growth but there are currently very few independent enterprise areas. In an increasingly competitive inward investment climate the fund, when combined with the other tools available, including local development orders will make the Bay stand out as a business destination.

44. With work beginning on the South Devon Link Road now is an ideal time to encourage businesses into Torbay, ensuring they are established before the road is completed. This will enable them to be best placed to take advantage of the improved transport links.

45. The type of growth fund recommended above which offers a grant based on job creation is relatively low risk, and will incorporate a number of safeguards to ensure beneficiaries are creating long term jobs within Torbay.
46. With the changes to business rates meaning local authorities will be able to retain any increase in rates locally the fund could offer the additional benefit of increased rate revenue as well as new jobs. While at this stage we are not suggesting the increased revenue is ring-fenced to increase the growth fund this is something which could be considered to continue the fund in the future if it is successful.

Appendix 1: Suggested Assessment Criteria

Minimum Requirements – To be set by the Chief Operating Officer in consultation with the Mayor and the selection panel but could include a number of safeguards to ensure the fund delivers job creation and economic growth.

In order to be eligible to apply to the fund all potential applicants must confirm that they:

- Will create a minimum number of new FTE jobs in Torbay;
- Cannot create the additional jobs proposed without support from the growth fund;
- Do not owe Torbay Council any business rates or rent arrears;
- Are not receiving any other form of rate relief;
- Do not have a rateable value below £12,000;
- Will use Job Centre Plus as a minimum to ensure vacancies are advertised within Torbay;
- Understand State Aid law and that the amount they are applying for will not exceed the de minimis total of €200,000 over a rolling three year period (including any other sources of public funding);
- Are not within the accommodation or retail sectors or any other sector excluded from investment under EU legislation.

It is suggested if these minimum requirements cannot be met an application cannot be submitted.

Scoring Criteria

Applicants will be scored using criteria to be determined by the Chief Operating Officer. An example scoring matrix is set out on the next page, demonstrating how a higher total score equates to a higher level of grant. The example is set out to prioritize value for money and investment in key sectors and areas.

In order to ensure compliance with State Aid legislation the value of grant will be £150,000 over 3 years. The total grant awarded will be paid over a period of 3 years with 40% in year 1 and 30% in years 2 and 3.

Applications will be scored using a matrix like the one below before being referred to the sign off panel for a decision.

Should the fund be oversubscribed then the amount of grant awarded may be reduced on a pro rata basis or scores may be used to rank applications.

Exclusions

The grant may not be used for:

- The repayment of existing loans or debts
- Recurring revenue costs (including stock, utility charges, subscriptions etc.)
- The reimbursement of goods/services already purchased prior to the date of an offer letter
- Items subject to hire/lease agreements

Appendix 2: Example Appraisal Matrix

Score	1	3	5
Sector – encouraging investment in key sectors	Any (aside from exclusions noted above)	Priority sectors (listed in strategy): <ul style="list-style-type: none"> Professional services Manufacturing Call Centres 	Priority inward investment sectors: <ul style="list-style-type: none"> Advanced electronics Medical / Healthcare Research / Technologies Marine Industries
Location/clustering – encouraging investment from businesses in key sectors at key locations.	Located outside identified key sites	Key site - Whiterock, Claylands, Edginswell. Business not specifically linked to cluster in that area	Key site - Whiterock, Claylands, Edginswell. Business specifically linked to cluster in that area Deprived Area
Section Total - /10			
Score	1	2	3
Skill level of jobs created	NVQ1 and NVQ2+	NVQ3+	NVQ4+
Section Total - /3			
Grand Total - /13			

Torbay Council reserves the right to either refuse applications to the fund if it is felt they will not be beneficial to the Torbay economy or to make higher awards to applicants in special circumstances.

It is proposed that the grant will be awarded based on a cost per job basis, with higher scores equating to a higher amount awarded per job, as set out below:

Total Score	Amount awarded per new job created
3-4	£1000
5-6	£1500
7-8	£2000
9-10	£2500
11	£3000
12	£3500
13	£4000

The total grant will be based on the formula –

(Total Score = amount per job) x number of jobs created = grant

Example 1

Business A is proposing to relocate from Newton Abbot to new premises at Woodland Road in Torquay. They are a professional services company and will create 13 new jobs at NVQ3 and above. Using the matrix on the previous page their score would be:

Sector – Professional services, priority sectors (Score of 3)

Location – Non key site (Score of 1)

Skill level – NVQ3+ (Score of 2)

Total Score = 6 (£1500 per job) x 13 jobs created = £19,500 grant

This would be paid over a 3 year period –

Year 1 – £7,800

Year 2 – £5,850

Year 3 – £5,850

Example 2

Business B is an advanced electronics company looking to move from Torquay to a new purpose built site at Whiterock. They plan to expand and take on 5 new full time staff as technicians skilled to at least NVQ4 level.

Sector – Electronics, priority inward investment sector (Score of 5)

Location – Whiterock, key industry at key site (Score of 5)

Skill level – NVQ4+ (Score of 3)

Total Score = 13 (£4000 per job) x 5 jobs created = £20,000 grant

This would be paid over a 3 year period –

Year 1 – £8,000

Year 2 – £6,000

Year 3 – £6,000

Funding is subject to the agreed job numbers being delivered.

Appendix 3: Enterprise Zones

24 centrally funded Enterprise Zones went live across England in April 2012. Businesses in these areas will benefit from:

- A business rate discount worth up to £275,000 per business over a five year period – up to 100% discount;
- Simplified planning through local development orders;
- Superfast broadband.

Many of the zones are still in development but we have used a number of them to demonstrate how locally funded enterprise areas within Torbay could work using tools such as the growth fund and local development orders.

Birmingham

Birmingham has identified six strategically important geographic areas as Economic Areas (one of which is funded through government as an enterprise zone), each targeting businesses in different sectors with the aim of building clusters. These areas will all benefit from simplified planning (LDOs) and financial support. Businesses will be required to work with the Council to generate jobs for local people.

Tees Valley

The Tees Valley Enterprise Zone is sector led. Sectors identified as being key to the future growth of the Tees Valley are the focus of a number of sites where incentives are offered. Only companies in specific priority sectors will be able to take advantage of the reduced business rates.

Sheffield

LDOs are in place on a number of the business rate relief sites, setting out precisely the range and classes of development that will be permitted and promoted. This gives investors in these types of development the certainty that they can proceed without the need for planning permission. It also means that any planning-related issues can be dealt with very quickly, usually within four weeks. Only companies from across the region's target sectors of modern manufacturing and technology are eligible for business rate discounts.