

North Tyneside Council

Report to Cabinet

8 February 2016

ITEM 6(b)

Business Factory
European Regional
Development Fund
Application

Portfolio(s): **Business and Enterprise**

Cabinet Member(s): **Cllr Bruce Pickard**

Report from Service

Area: **Business and Economic Development**

Responsible Officer: **Paul Buie – Head of Business and Economic Development** (Tel: (0191) (6436402))

Wards affected: **All**

PART 1

1.1 Executive Summary:

This report is concerned with the bid to the European Regional Development Fund (ERDF), by North Tyneside Council ('the Authority') to extend its offering of enterprise support for a further 3 years.

North Tyneside Council has delivered an ERDF funded enterprise support programme since 2009 and was awarded a national Enterprising Britain Award in November 2015 from the Department of Business, Innovation and Skills (BIS).

The proposed programme will be delivered between 1st April 2016 and 31st March 2019 with four main areas of activity: pre-start enterprise support, innovative new product development, social enterprise support and consultancy support to help new businesses to grow.

The additional ERDF funding is yet to be approved. If successful, the Authority expects to receive confirmation from the Department for Communities and Local Government (DCLG) on or around 31st March 2016.

This report seeks approval to, once it has been approved by DCLG, receive grant funding totalling £0.900m to increase the number of new business start-ups in the borough of North Tyneside and support existing businesses to grow.

1.2 Recommendation(s):

It is recommended that Cabinet:

1. authorise the Head of Finance to accept the offer of the grant of £0.900m ERDF funding (subject to formal approval of the same, as above) from DCLG; and
2. authorise the Head of Business and Economic Development in consultation with the Cabinet Member for Economic Development and Head of Law and Governance to deliver the extended business start-up programme in accordance with this report.

1.3 Forward Plan:

Twenty eight days notice of this report has been given and it first appeared on the Forward Plan that was published on 16th November 2016.

1.4 Council Plan and Policy Framework

This report relates to the following priorities in the 2014/18 Our North Tyneside Plan:

Our Economy:

Our economy will have the right conditions to support investment and create new jobs, especially apprenticeships

We will do this by:

Delivering an effective programme of business start up support for new businesses

1.5 Information:

1.5.1 Background

Cabinet approval was received in March 2009 for the Authority to accept ERDF funding of £0.749m to deliver a comprehensive programme of enterprise support ('the Enterprise Programme') from August 2009 to December 2011. Cabinet approval was then received in December 2011 to continue the Enterprise Programme from January 2012 to December 2014 with a further £0.900m ERDF funding. In March 2014 the programme was awarded a further £0.226m of ERDF funding to continue to deliver the programme from January 2015 to September 2015.

The Business and Economic Development service within the Authority has delivered the comprehensive Enterprise Programme using ERDF for over five years (as detailed above). Over the same period, the self employment rate in the borough of North Tyneside has risen from 4.7% in June 2010 to 8.3% in June 2015. In November 2015 the project was recognised by the Department of Business, Innovation and Skills and awarded an Enterprising Britain Award by the Minister for Small Business, Industry and Enterprise, as the best service in the country at promoting entrepreneurial spirit.

In April 2015, the Department of Communities and Local Government invited applications for new and extension projects to deliver projects under ERDF European Growth Programme 2014 – 2020, Priority Axis 3, Enhancing the Competitiveness of Small and Medium-Sized Enterprises.

On 12th November 2015, the Authority submitted a full business case to extend the current project for a further 3 years and to receive further ERDF funding of £0.900m. It is proposed that this will assist 400 residents to become 'enterprise ready' and support 300 existing enterprises. Over the three year period, the £0.900m of ERDF funding will be used alongside the Authority's existing enterprise budget of £0.300m per annum, to deliver a £1.800m project which will commence on 1st April 2016 and continue until 31st March 2019.

A decision from DCLG on whether the Authority's application for the funding referred to in this report is expected on or around 31st March 2016, although authorisation may come through earlier.

1.5.2 Utilisation of the ERDF Funding

The ERDF funding will be used alongside the funding provided by the Authority to provide both pre-start up support to individuals with a business idea and an interest in setting up a business, and post-start up support which will be delivered to existing small and medium sized enterprises.

1.5.3 Procurement Process

The Authority will carry out four separate procurement exercises and advertised on the NEPO portal and where the Public Contract Regulations 2015 require, in the Official Journal of the European Union (OJEU), in order to deliver both the pre-start up and post-start up services. The four separate procurement exercises will be as follows:

1. The pre-start service – estimated value £0.952m,– this will be procured by the Authority’s North Tyneside Council procurement team, and due to the value of the contract will be an OJEU compliant tender process

The post-start service will consist of a number of support areas:

2. The Social Enterprise Service - £0.045m
3. Innovation programme - £0.045m
4. Consultancy for small to medium sized enterprises (SMEs) £0.300m – This will consist of one procurement exercise divided across a number of different specialisms This will be procured through an open procurement split into lots and awarded to a minimum of 5 organisations.

All four procurement exercises will utilise the ‘open procedure’, will be carried out in accordance with the Public Contracts Regulations 2015 and will have regard to the European Treaty principles of openness, fairness and transparency.

The remainder of the funding for the project will be utilised as follows:

In order to run the Business Factory, staffing will be required. The staffing element is over £0.360m and this will be made up primarily of existing Authority staff

The remaining £0.098m will be used to market and evaluate the project. All marketing and evaluation services will be procured in accordance with European requirements (where applicable) and the Authority’s Contract Standing Orders. These elements of the project will be procured as and when required.

1.5.3 Priority Groups

Although a non-exclusive project, the priority target groups for this project extension are:

1. Individuals located within North Tyneside’s areas of disadvantage. Within this group, it is anticipated that this will include: individuals with a disability, ex-offenders, long-term unemployed, young people (aged 16-24), older people (aged over 50), women, black and minority ethnic people, lone parents and people with care responsibilities.
2. Those that have become unemployed through redundancy.
3. Under-represented groups, in particular budding women entrepreneurs. For example, the project will target lone parents and, as part of the new programme, it will work in schools not only to encourage enterprise among 16-18 year olds, but also to access parents, especially women. The Authority also intends to hold “enterprising mums” workshops which have proved highly successful in the current project.
4. People currently in employment, especially those with skills and resources to start a business and/or those who may be at threat of future job losses.

5. Those new and existing businesses in the borough with potential to grow and go on to create employment opportunities; and
6. Individuals wishing to explore Social Enterprise

1.5.4 Key delivery initiatives:

- Business Factory

This will build on the work of the current Business Factory in providing advice, workshops and business planning support to those residents of North Tyneside interested in starting a business. Significant progress has been made in North Tyneside with a large increase in the number of self-employed residents; however, the borough still ranks lower than other parts of the country in terms of business start-ups particularly from those living in the more deprived areas. Accepting the ERDF funding to extend this project will ensure that the current work in breaking down these barriers continues. This service is a vital component of enterprise support provision for the borough, which may not otherwise be tackled or commissioned through other funding sources.

The Business Factory will consist of a four-strong team of business start-up advisers, who will be supported by an administration assistant and team leader offering direct interaction and support through the initial stages of the enterprise journey. Unlike the current project, this team will be extended to have additional support of two North Tyneside Council Business Development Officers and the North Tyneside Business Forum to increase the support for new and existing businesses in the borough. In addition to helping beneficiaries in disadvantaged areas, the Business Factory team will also focus on both public and private sector redundancies involving people who have either been made redundant or who are at risk of redundancy.

- New product development / intellectual property support

This service will support beneficiaries who have ideas for a new product or innovation, but do not know how to take their idea forward. The extension of our product development/intellectual property support service will provide the necessary information to help these people through the early steps in taking their idea to the point of becoming a viable business. This element will also be available to the existing businesses to help them embrace innovation and growth, and give those businesses with new product ideas access to a 3-D printer to help with rapid prototype development.

- Encourage and develop social enterprise activity

Social enterprise support, helping to put more power and opportunity into the hands of local people. The service will support a new generation of community organisers, especially those based in the most deprived areas, giving them the opportunity to work with a social enterprise specialist. The project will encourage those non active members of local communities to raise their levels of aspiration by encouraging and helping beneficiaries create mutuals and social enterprises. Help will be given to the 40 plus social enterprises supported to start-up in the previous programme to survive and grow.

- Innovate, Consult and Expand

This support will assist new and existing businesses to thrive by offering a minimum of two days intensive one to one consultancy in areas such as marketing, social media and design. It is expected that this support will help business stock grow and create further job opportunities in the borough.

1.5.5 Delivery Model

The project extension will be openly procured (as identified in 1.5.3 above) to identify a partner to deliver the Business Factory, specialist consultancy support (this will be a number of different organisations delivering across a number of topical areas such as social media, marketing and sales), new product development and social enterprise initiatives within the project. This has worked successfully with the existing project which has been delivered through a performance-related contract. There will be significant interest in the tender which will enable the Authority to achieve financial efficiencies, and value for money over the lifetime of the project.

1.6 Decision options:

The following decision options are available for consideration by Cabinet:

Option 1

Cabinet to approve the recommendations set out in paragraph 1.2 of this report to accept the offer of ERDF funding (once approved) and delegate authority to deliver the project as set out in this report.

Option 2

Cabinet not to approve the Authority's offer of grant funding (if approved) and for the Authority to continue to invest in a reduced business start-up service without external funding.

Option 1 is the recommended option.

1.7 Reasons for recommended option:

Option 1 is recommended for the following reasons:

Accepting the ERDF grant offer (if approved) will provide the resources needed to deliver a comprehensive business start-up programme. Significant progress has been made since the commencement of the project in 2009 to close the gaps in business start ups identified earlier in this report between the borough of North Tyneside and the national average, but there is still some way to go.

The North East traditionally falls behind the rest of the UK in business creation rates and the project has already proven its value in closing the gap and creating record breaking numbers of new businesses and job opportunities, achieving national recognition from the Department of Business, Innovation and Skills (BIS) Enterprising Britain competition.

1.8 Appendices:

Appendix: ERDF Bid Summary Outcomes

1.9 Contact officers:

Paul Buie – Head of Business and Economic Development, tel. 0191 643 6402
Sean Collier – Senior Manager Business and Enterprise, tel. 0191 643 6409
Alison Campbell – Senior Business Partner, tel. 0191 643 7038

1.10 Background information:

The following background papers/information have been used in the compilation of this report and are available at the office of the author:

(1) ERDF Business Case

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

The Authority is accountable to the European Regional Development Fund and DCLG for the financial management of the grant. The Authority's existing business and economic development budget will be used as match funding for the project extension. Other than this, no additional funding is required.

The Authority will use ring-fenced account and additional financial controls to maintain transparency in the flow of funding in and out of this account. This will ensure that upon auditing the flow, and utilisation of the grant funding and that provided by the Authority can be checked.

2.2 Legal

2.2.1 Funding Terms and Conditions

In terms of the ERDF grant funding, the Authority must adhere to the European Regional Development Fund's terms and conditions of funding these terms shall be reviewed by the Head of Law and Governance.

2.2.2 Procurement

All procurement activity, utilising the ERDF grant funding, and the funding provided by the Authority will be carried out in accordance with the Authority's Contract Standing Orders and the Public Contracts Regulations 2015.

2.2.3 State Aid

In utilising both the grant funding and the Authority's own resources in the manner set out in this Report, the Authority will need to be mindful of the European rules on State aid.

The purpose of the State Aid Rules is to ensure that public money is not used to give financial advantage to businesses or 'undertakings' in such a way that would distort competition.

The State aid rules apply when assistance is given using public resources on a selective basis, to Undertakings (organisations that put goods and services on the market). The proposed use of the project funding (both ERDF and Authority funding) to individuals (pre-start up support) prior to them setting up an Undertaking is therefore not caught by the State Aid Rules.

The proposed post-start up support that will be given to existing Undertakings and consequently does have State Aid implications for the Authority. An explanation of these implications is given below:

2.2.4 De-Minimis regulation

The De-Minimus regulation declares that aid of up to €200,000 to an individual Undertaking over a rolling period of 3 years will not distort competition between the European Member States and as such, is not notifiable aid for which European Commission approval is not required.

Although the financial limit of €200,000 aid over a 3 year period applies to each individual Undertaking, the obligation to ensure that each individual Undertaking is within this limit rests with the Authority. With this obligation comes a risk. Should an individual Undertaking be found to be in receipt of aid given on the basis of the de-minimis rule which pushed the Undertaking over the limit of €200,000 in the 3 year period, the funding provided over and above the €200,000 limit will be impermissible aid and will be recoverable from the Authority by the European Commission.

2.2.5 The Authority's obligations in relation to Deminimis-Aid

The Authority must ensure that the aid provided by it does not exceed the €200,000 limit over the previous 3 year period detailed above. To meet the obligation placed on the Authority, it will:

- ask the Undertaking about any de-minimis aid it has received over the last 3 years, to ensure that there is scope within the limit for the aid proposed by the Authority.
- accurately value the aid it is providing to the Undertaking and inform the Undertaking that this valuation must be provided in the future, if the Undertaking is to receive any further de-minimis aid from the Authority or any other organisation providing State aid.

The Authority will also seek an agreement from the Undertaking to financially indemnify it should the Authority rely on information provided by the Undertaking which is incorrect or misleading in order to provide the de-minimis aid.

2.3 Consultation/community engagement

Consultation has been sought from a wide range of service users, partners and stakeholders through an independent evaluation of the programme. A number of focus groups have been held which included residents, council officers and partners to ensure the current and planned service are meeting the needs of the public and not creating duplication of other support in the borough.

2.4 Human rights

There are no implications directly arising from this report

2.5 Equalities and diversity

The funding is directly targeted at vulnerable and under-represented groups in order to increase their participation in enterprise activities. Those involved in the project will commit to appropriate Equal Opportunities legislation and relevant advisory bodies to whom they can refer where appropriate. The programme being delivered has been designed to combat the multiple barriers faced by the target groups across all stages of design and delivery. Marketing and publicity will take account of the various needs and characteristics of the target groups in order to maximise the levels of engagement. The programme's targeted nature goes beyond equality of access and seeks to proactively re-engage those who have been disadvantaged by their circumstances. We will create a supportive environment and recognise the diversity of the target group and their needs.

2.6 Risk management

Project management arrangements include the establishment of a project steering group which will create and manage a risk register for the initiative. The register will identify key risks and appropriate mitigation of those risks.

2.7 Crime and disorder

Reducing reoffending rates among residents is a key area for development. Ex-offenders and long-term unemployed are some of the groups targeted by this initiative.

2.8 Environment and sustainability

There are no environment and sustainability implications directly arising from this report.

PART 3 - SIGN OFF

- Deputy Chief Executive X
- Head(s) of Service X
- Mayor/Cabinet Member(s) X
- Chief Finance Officer X
- Monitoring Officer X
- Head of Corporate Strategy X

Appendix 1

ERDF Summary of Outcomes

| Outputs | 2016 | 2017 | 2018 | 2019 | Total |
|--|------|------|------|------|-------|
| Enterprises receiving information, diagnostic and brokerage support | 86 | 146 | 148 | 20 | 400 |
| New Social Enterprises assisted | 5 | 7 | 7 | 2 | 21 |
| Number of new enterprises supported | 51 | 46 | 52 | 51 | 200 |
| Number of enterprises receiving support | 70 | 70 | 80 | 80 | 300 |
| Individuals assisted to be enterprise ready – a minimum of 12 hours support | 86 | 146 | 148 | 20 | 400 |
| Female entrepreneurs assisted | 43 | 73 | 74 | 10 | 200 |
| Clients assisted from disadvantaged areas | 26 | 44 | 45 | 7 | 122 |
| Results | | | | | |
| Jobs Created | 75 | 100 | 100 | 25 | 300 |
| Jobs Created - female | 38 | 50 | 50 | 12 | 150 |
| Jobs Created - disadvantaged areas | 15 | 20 | 20 | 5 | 60 |
| Employment increase in supported enterprises | 61 | 56 | 62 | 61 | 240 |
| Businesses Created | 75 | 100 | 100 | 25 | 300 |
| Businesses Created in disadvantaged areas | 15 | 20 | 20 | 5 | 60 |
| Impacts | | | | | |
| Contribute towards closing the gap between the self-employment rate in North Tyneside (8.1) and the national rate (10.1) by March 2019 | | | | | 1.5% |