

30 June 2015

To The Chair and All Members of Cabinet

Business Investment Incentive Scheme

Relevant Cabinet Member(s)	Wards Affected	Key Decision
Mayor Ros Jones Cllr Bill Mordue	ALL	K1290

EXECUTIVE SUMMARY

1. This report provides a summary of progress and work currently being undertaken as part of the pilot Inward Investment Incentive Scheme (the scheme) which was approved by Cabinet in October 2014.
2. As agreed by Cabinet a Steering Group would conduct an evaluation to confirm the scheme's value to the local economy and demonstrate value for money to the taxpayers of Doncaster when committed funds reached £250k or within 6 months; The first five projects approved through ODRs in January 2015 exceeded the £250k and are therefore being reviewed in this report as part of the whole pilot scheme review.
3. The principles of the pilot scheme are:
 - An increase in the Business Rate base and/or
 - The creation of skilled, quality jobs for local residents
4. A £500k funding pot from council reserves was allocated to the pilot scheme to encourage inward investment and local job creation through a package of incentives.

5. Six schemes have now been approved to go forward for agreement and contracting; £431k funds have been committed with future projects already in the pipeline requiring a potential further commitment of £450k. If all the outcomes of the committed funds are achieved, investment made by the Council will realise:
 - Forecast £549k business rate liability per annum
 - 535 jobs [108 attracting a salary of £23k plus]
 - Over £21m worth of initial investment into the borough
6. A further commitment of up to £1m is being sought to attract further investment and growth in Doncaster through the scheme. Initial indications show the projects in the pipeline could realise:
 - Approximately £570k business rate liability per annum
 - 270 jobs [100 attracting a salary of £23k plus]
 - over £12m worth of initial investment into the borough
7. There have been lessons learned during the introduction of the pilot scheme and, although this remains a discretionary scheme, it is proposed that the policy document and process are reviewed to reflect this. These amendments will not alter the policy fundamentally and the two main principles of the scheme will remain.

EXEMPT REPORT

8. None

RECOMMENDATIONS

It is recommended that the Cabinet:

9. Consider the success of the initial £500k investment and propose that Cabinet commit a further £1m to be funded from general reserves; to be used through the scheme outlined in Option 2 and considering the value of the pipeline proposals.

10. Consider the lessons learned and review the discretionary policy to allow a move from discretionary *pilot* scheme to discretionary scheme and the recommendations listed as follows:
 - seek further commitment of funds (para 24)
 - the funding agreements should be time bound (para 25)
 - safeguarding should not be included (para 26)
 - scheduled approval and agreement process (para 27)
 - ensure that Business Rate liability is continually reviewed (para 28)
 - amend the policy and reflect any changes in the process timeline (para 29)
 - State Aid declarations should be made at the initial discussion stage (para 30)
 - Project approval ODR authorises Assistant Directors to sign off the funding agreements (para 31)
11. If the scheme is extended, an annual review of the scheme is conducted to ensure the scheme remains value for money, and any lessons learned are incorporated into the scheme.

WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?

12. Increased revenue through Business Rates
13. Job creation centred around quality, skilled jobs paying a living wage to local residents
14. Increased economic growth within the borough

BACKGROUND

15. This is a discretionary, pilot scheme which seeks to provide the framework for DMBC officers to offer developers, investors and businesses a financial incentive to invest and grow in Doncaster.
16. The pilot scheme is not looking to incentivise displacement or movement of business within Doncaster unless this would result in an expansion in the

Business Rate base (increased revenue through business rates) and create new jobs for local residents, especially those of a skilled nature.

17. The Scheme shall not apply to investors/developers/businesses locating to/from or within Enterprise Zones as defined by the Sheffield City Region Local Enterprise Partnership.
18. The pilot scheme has proved instrumental for investors considering Doncaster as a place to invest and they have welcomed the support that Doncaster Council has offered. The scheme, along with the collaborative work across teams, major investment opportunities have been brought to Doncaster – maximising redevelopment opportunities as well as job creation and bringing properties in to use.
19. Based on the success of the Pilot Scheme in securing inward investment to Doncaster, Sheffield City Region Local Enterprise Partnership have been encouraged, by Doncaster Council, to consider and adopt a similar scheme for projects that will attract significant inward investment in the Sheffield City Region (i.e. investment of £3m+).

Pilot Scheme review: -

20. If all the outcomes of the committed funds are achieved investment made by the Council will realise:
 - Forecast £549k business rate liability* per annum
 - 535 jobs [108 will be skilled and attracting a salary of £23k plus]
 - Over £21m worth of initial investment

* The Council can retain 49% of annual business rates collected; the liability is the annual bill (which includes any other reliefs)
21. A further commitment of up to £1m is being sought to attract further investment and growth in Doncaster through the scheme. Initial indications show the projects in the pipeline would realise:
 - Approximately £570k business rate liability per annum
 - 270 jobs [100 skilled and attracting a salary of £23k plus]

- Approximately £12m worth of initial investment

	Proposed Grant	Estimated uplift in Business rate liabilities per annum	Estimated business rate liability retained by DMBC per annum	No. of jobs	Of which are Skilled £23k+	Initial Investment from the business
6 projects	£431,290	£548,594	£268,811	535	108	£21,803,000
Pipeline	£450,000	£570,000	£279,300	270	100	£12,000,000
Totals	£881,290	£1,118,594	£548,111	805	208	£33,803,000

22. If the additional funding is approved at £1m and the proposed grant for pipeline projects is confirmed, then this allows the Council to invite further bids in excess of £600k with a view to achieve outcomes proportionate to those shown above.

Lessons Learned

23. As part of the review and in order to ensure value for money, a Lessons Learned exercise was undertaken through the scheme's steering group; feedback from the group (and officers who have been operating and administering the scheme) was requested and considered as follows:

24. Lesson: The Inward Investment Business Incentive Scheme has proved to be an effective tool in attracting new investors into Doncaster. It has encouraged our existing businesses to make further investment in Doncaster which will increase our business rate base and create jobs;

Recommendation: seek further commitment of funds of up to £1m

25. Lesson: It was acknowledged that some of the new build schemes could take well over a year before completion (i.e. from date of planning permission granted) and so; consider making any earmarked schemes time bound; An investor should claim on the incentives offered within a certain time frame e.g. 2 years from grant of planning permission or building completion. This is to ensure that the scheme 'funding pot' can be monitored and reviewed accordingly.

Recommendation: the payment terms should be included in the funding agreements terms and conditions and time bound on a case by case basis.

Lesson: The scheme is very much an 'offer to attract' new investors and enable business growth however, there have been instances where a safeguarding option and movement within Doncaster have met the criteria; a steer was sort by officers; depending on the potential growth and return on investment, safeguarding should be considered as a separate issue.

Recommendation: safeguarding should not be included in the policy

26. Lesson: The timescales for project approval (i.e. that the proposed project is put forward for the incentive to be offered) should be scheduled in so that the agreement stage can commence in a timelier manner; giving more certainty to the potential investor and council officers and budget review;

Recommendation: scheduled approval and agreement process.

27. Lesson: There is a difficulty in estimating actual Business Rates that will be payable in the future when developers apply and so it is difficult to accurately forecast what the commitment to the investor should be; Any changes in Business Rates (through government policy) will also affect the grant committed.

Recommendation: close working with the Finance and Business Doncaster teams to ensure that Business Rates liability is continually reviewed where appropriate and available – grants will be paid on actuals

28. Lesson: Jobs created – there should be a timeframe included in the agreement which would define how long the jobs created could be claimed against. It is proposed that this should not exceed 2 years but acknowledge that, under the scheme, payment could be made in the 3rd year;

Recommendation: amend the policy and reflect any changes in the process timeline

29. Recommendation: State Aid declarations should be made at the initial discussion stage using the approved form from the Programmes team.

30. Recommendation: Project ODRs should authorise Assistant Directors to sign off subsequent funding agreements to avoid having to complete a second ODR

OPTIONS CONSIDERED

Option 1 Do nothing

31. Let the scheme finish and allow the market to decide where additional investments are made. As other local areas are offering incentives to encourage investment; i.e. Barnsley are using core funding and Sheffield are using Jessica funding, Doncaster may then be at a disadvantage as business like to have a small incentive towards their investment.

Option 2 Seek additional funding

32. Continue to support inward investment on an 'invest to save' basis; however, as this resource is currently being funded from the Council reserves it would need to be considered as part of the wider Council priorities.

REASONS FOR RECOMMENDATIONS

33. Based on the expressions of interest so far, the projects that are currently 'in the pipeline', the amount of appetite expressed in such a short period of time and the potential return on investment; a funding pot of £1 million would be most appropriate.

IMPACT ON THE COUNCIL'S KEY PRIORITIES

Priority	Implications
We will support a strong economy where businesses can locate, grow and employ local people. <i>Mayoral Priority: Creating Jobs and Housing</i> <i>Mayoral Priority: Be a strong voice for our veterans</i> <i>Mayoral Priority: Protecting Doncaster's vital services</i>	The pilot scheme seeks to address this priority directly
We will help people to live safe,	

<p>healthy, active and independent lives.</p> <p><i>Mayoral Priority: Safeguarding our Communities</i> <i>Mayoral Priority: Bringing down the cost of living</i></p>	
<p>We will make Doncaster a better place to live, with cleaner, more sustainable communities.</p> <p><i>Mayoral Priority: Creating Jobs and Housing</i> <i>Mayoral Priority: Safeguarding our Communities</i> <i>Mayoral Priority: Bringing down the cost of living</i></p>	<p>Creating Jobs – incentivising living wage</p>
<p>We will support all families to thrive.</p> <p><i>Mayoral Priority: Protecting Doncaster's vital services</i></p>	
<p>We will deliver modern value for money services.</p>	
<p>We will provide strong leadership and governance, working in partnership.</p>	

RISKS AND ASSUMPTIONS

34. The funds would need to be committed for 3 years to enable new builds to complete, realise the business rate uplift and evidence the jobs.
35. The pilot scheme has been running since November 2014, it should be noted that the commitment of the funds is subject to a verification process and the figures that we have used are maximum costs which could be reduced if the appropriate evidence is not produced by the investor.
36. The commitments are estimated figures as grants for the projects will not be paid out until evidence for each element is provided by the investor; for the new builds and expansions this will be until the build is in the rating list and there is a Business Rate liability attributed to the premises; and for the job creation until the jobs have been filled for 12 months.

37. There is difficulty in estimating actual Business Rates that will be payable in the future when developers apply and so it is difficult to accurately forecast what the commitment to the investor should be; Any changes in Business Rates (through government policy) will also affect the grant committed.

LEGAL IMPLICATIONS

38. The Localism Act 2011 provides the Council with the so called general power of competence which allows a Local authority to do anything which an individual may generally do.
39. The incentives on offer are discretionary in nature and the Council has no obligation to provide them.
40. The Council will need to carefully consider the operation of this initiative in order to minimize the risk of challenge.
41. The Council will need to carefully consider the application of State Aid rules and consider whether businesses should be required to contractually commit to the delivery of outputs in advance of the provision of business incentives
42. It would be prudent for the Council to enter into a legal agreement with the recipients of the business incentives.

FINANCIAL IMPLICATIONS

43. The £500k pilot scheme referred to above relates to the one-off funding for a Business Rates Discount Scheme set aside in the 2014/15 Budget and approved by Full Council in February 2014. The funding is expected to be spent between 2014/15 and 2016/17 financial years with the scheme being subject to review once £250k has been committed.
44. The six awards so far committed against these monies via ODR amount to grants for: -

Speculative Build	Job Creation	Project Set Up	Property Renovations	Total
£169k	£176k	£35k	£51k	£431k

This leaves £69k available for pipeline awards; on average, this would allow for one further award to be made from the pilot scheme pot.

45. Business Doncaster (with advice from Business Rates) is estimating that the six awards made will lead to uplift in business rates of £549k per annum. This figure cannot be confirmed until the properties in question have been built or re-valued but assuming this estimate is achieved then the pilot funding will effectively be repaid within two years (i.e. the Council can retain 49% of business rates outside of an Enterprise Zone). This is on top of any employment or regeneration outputs achieved; though the full success of the scheme relies on an assessment of whether those businesses supported would have gone elsewhere if the grants were not available.
46. As a result of the above and having pipeline projects already valued at £450k or more, both in terms of potential grant to be awarded and estimated uplift in rates, Business Doncaster are recommending a further £1.0m be provided to continue the scheme. This is proposed to be funded from the Council's general reserves and requires Cabinet approval to make such a virement.
47. The Revenue Budget for 2015/16 approved at Full Council in March 2015 outlined general reserves of £17.1m, against which there are maximum quantified risks of £16.1m, giving headroom available of £0.6m. Although, the £16.1m includes £2.0m contingencies for further in-year pressures, e.g. from new initiatives. The Revenue Budget 2015/16 report rated the risk associated with the sufficiency of reserves as possible (current probability) and significant (current impact) giving an overall risk rating of 9 from a total of 25.
48. In considering this risk, it should be noted that the intention behind the scheme is that the call on reserves will ultimately be off-set by the uplift in business rates generated by the award of grant. The larger grants are expected to arise under the Speculative Build incentive with the scheme designed so that this

element will not be paid out until the Council has already received the equivalent value of the grant in increased business rates. Any uplift in business rates in excess of the Speculative Build grant offer or continued benefit from these business rates in further years will off-set the other grants made.

49. Should the additional funding be approved, Business Doncaster must continue to liaise closely with Financial Management to maintain a running total of commitments so that the fund is not breached. Particularly as there may be a significant interval between the award of some grants and the trigger point for payment.
50. It is possible for grants to arise in excess of £50k, which would normally require the approval of Cabinet (FPR 14). The original report and appendices set out to Cabinet the criteria under which such grants would be made and will allow sign-off of awards from the increased pot to be delegated to the Mayor and the Director of Finance and Corporate Services without further recourse to Cabinet.
51. The activity undertaken must also avoid breach of State Aid Regulations; failure to do so may require the recovery of the grant from the recipient and lead to the possibility of financial penalty to the Council. The scheme operates within the de-minis regulations whereby the European Commission considers that public funding to a single recipient less than €200k (c. £170k) over a 3-year fiscal period has a negligible impact on trade and competition, and does not require notification and approval. Safeguards are included to ensure the value of grant awarded is compliant.
52. When the Council provides financial assistance to external bodies Financial Procedure Rules demand that the Council's interests are protected at all times and requires a number of criteria to be satisfied before an award is actually made. Approval of this report commits the Council to the administration of the grants within these criteria and must provide sufficient resources for this to happen. The scheme is intended to be administered by Business Doncaster and the Programmes Team, both of which are significantly funded by ERDF grant. Care must be taken to ensure that all the activity undertaken by these teams in relation to the scheme remains eligible for ERDF in order to minimise the risk of a claw-back situation occurring.

HUMAN RESOURCE IMPLICATIONS

53. None

EQUALITY IMPLICATIONS

54. Decision makers must consider the Council's duties under the Public Sector Equality Duty at s149 of the Equality Act 2010. The duty requires the Council, when exercising its functions, to have 'due regard' to the need to eliminate discrimination, harassment and victimisation and other conduct prohibited under the act, and to advance equality of opportunity and foster good relations between those who share a 'protected characteristic' and those who do not share that protected characteristic.

55. There are no specific equality implications arising from the process.

CONSULTATION

56. Input into the report has been sought from the Director of Finance and Corporate Services and Director of Regeneration and Environment

57. This report significant implications in terms of the following:

Procurement		Crime & Disorder	
Human Resources		Human Rights & Equalities	
Buildings, Land and Occupiers		Environment & Sustainability	
ICT		Capital Programme	

BACKGROUND PAPERS

58. None

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