

Report



Leader of the Council (Cabinet Member for Economic Growth and Strategic Investment)

Part 1

Date: 29 December 2022

Subject **Business Development Fund 2022/23**

Purpose To seek approval from the Leader as Cabinet Member for Economic Growth and Investment for the proposed use of the Council's Business Development Fund for the current financial year 2022/23 and beyond.

Author Regeneration and Place Manager

Ward City Wide

Summary The Council operates a Business Development Fund (BDF) focused on stimulating business growth and development through targeted financial intervention, as part of its broader package of business support activity. The fund includes the provision of targeted small grants to new and existing businesses, with eligibility reflecting current strategic objectives for the local economy as established in the Council's Economic Growth Strategy.

The Covid-19 pandemic has dramatically altered the landscape of economic development and prompted a full review of business support priorities going forward. Subsequent macro-economic challenges including the EU Exit and war in Ukraine mean the immediate context for business remains one of great difficulty. It is important therefore that the BDF reflects this economic context and is targeted as efficiently as possible to support the local economy in line with local business need, especially in light of the escalating costs around energy, overheads and within supply chains.

The BDF has traditionally offered direct financial support in the form of small grants at a percentage of the total cost of either capital expenditure or towards a recurring cost such as rent. The BDF will look to continue this work with the aim of safeguarding their long-term survival.

By continuing to encourage and support business start-ups, particularly in the city centre, this financial assistance naturally focuses on business resilience and growth. The report therefore requests the delegated authority to open the Business Development Fund for applications immediately, with the flexibility to reallocate funding in response to emerging priorities, subject to approval by the Leader, as Cabinet Member.

Finally, the allocation of Business Development Funding has been subject to annual formal Cabinet Member approval due to an historic offer around providing loans to businesses. As the current offer is, and will remain, centred on small grant support, then subject to any further changes to the proposed purposes summarised in this report being approved by the Leader as Cabinet Member, it is proposed that the current model be applied for subsequent Financial Years 23/24 to 25/26 without further annual reports.

Proposal To approve the proposed use of the Business Development Fund for the Financial Year 2022-23 to 2025/26

Action by Regeneration and Place Manager

Timetable Immediate

This report was prepared after consultation with:

- Leader and Cabinet Member for Economic Growth and Investment
- Head of Regeneration, Investment and Housing
- Head of Law and Regulation
- Head of Finance
- Head of People Policy and Transformation

Signed

Background

The Business Development Fund (BDF) forms part of the Council's broad package of economic development support. In previous financial years, the BDF has been aimed at businesses in two specific high-risk categories – those in their initial phase of trading (within 1 year) and those needing an injection of investment to facilitate expansion. The fund has also focused on supporting city centre traders, safeguarding the resilience of the High Street's economy through enabling a range of enterprises to trade in the City core.

Historically Newport has benefitted from sustained high business start-up rates. However, typical to trends nationally, these new businesses are vulnerable during their crucial first period of trading; typically due to owner inexperience, the need to quickly establish a core, dedicated customer base, and the need to generate immediate income to cover the significant financial commitment required for start-ups. The BDF offers support towards the cost of initial overheads, such as rent, and significant up-front purchases, alongside other discretionary support where this is justified within the enterprise's business plan.

Since 2020 and the start of the Covid-19 pandemic, Micro and Small to Medium Enterprises (MSMEs) have faced a variety of challenges both to operating modes and ongoing financial viability. With the departure of the UK from the European Union, wider social, environmental and economic impacts of the pandemic and now spiralling energy, overhead and supply chain costs, there is a more acute need than ever to provide this support. The Business Development Fund will assist those recipient small businesses in surviving the unprecedented challenge of the economic conditions.

Enquiries for financial business support have historically been high. For the 22/23 iteration of the BDF the Economic Development team have received over 100 funding enquiries ahead of any formal launch.

121 new and expanding businesses applied for the 2021/22 City of Newport Business Grant.

- 84 (70%) were businesses working from commercial premises and 37 (30%) working from home
- 16 (13%) were seeking to move away from trading from the home to trading from a commercial space
- Applicants were mainly concentrated outside the city centre, with 17 (14%) located in industrial estates and 76 (63%) located across Newport and in district centres. 28 (23%) are occupying, or proposing to occupy, space in the city centre.

Proposals

In consideration of the need for ongoing support for new and growing businesses within Newport, it is proposed that the BDF for the next three years (2022/23, 2023/24 and 2024/25) follows the same criteria for awards as that for the 21/22 iteration. This breaks down as follows:

- The grant scheme seeks to reduce levels of vacant commercial property support businesses to move into new premises and invest in core overheads such as the first year's rent and capital equipment. The Business Development Fund will therefore be open to both home businesses, and those occupying any underutilised space within buildings, including vacant upper floors.
- The grant scheme seeks to encourage responsible behaviour within Newport's business community. Specifically, this refers to aligning the local economy with the goals of the Council's Economic Growth Plan, Climate Emergency and Wellbeing commitments, along with national priorities recognised by Welsh Government, including addressing poverty, reducing waste, encouraging digital skills and activity directly contributing to the achievement of Net Zero carbon emissions before 2050.
- Ongoing economic uncertainty means many start-ups will be part-time, or casual enterprises, requiring additional support and time to their owners to make them sole career vocations. In previous years, the creation of at least one full-time job has been a requirement to access funding, but in light of current economic pressures it is proposed that the scheme accept applications creating part-time

employment, with the grant available reduced pro-rata to the FTE job created. This will allow the Council to support ‘test trading’ and more flexible working for those who may have an existing employment alongside their new business venture.

- Flexibility of use will be critical going forward. Should new priorities arise - for example through the ongoing challenges facing the national economy - the fund will be adjusted and aimed to meet these new priorities. The Head of Regeneration and Economic Development has the flexibility within the officer scheme of delegation to utilise the Business Development Fund for other uses in exceptional cases, where the use of the funding is outside of the fixed criteria but is still within the overall priorities and objectives of the Fund.

Financial Summary

The BDF saw a one-off increase of £300,000 in the FY 2021/22, to support recovery as the City emerged from the pandemic. In the financial year 2021/22 the BDF was delayed in its launch, due to the Council’s commitment to administrate several rounds of Covid-19 discretionary funding on behalf of the Welsh Government.

As it was ring-fenced to support business recovery, the majority of the one-off budget increase was carried forward to 2022/23 via a reserve, and supported the allocation of grants towards those applicants who had applied prior to the 31st March 2022. 128 grant applications were received. The total amount of grant funding offered to date totals £250,303 to 60 businesses, comprising 23 start-up and 37 existing businesses.

1. Budget

	Year 1 (previous) (2021/22) £	Year 2 (2022/23) £	Year 3 (2023/24) £	Year 4 (2024/25) £	Notes including budgets heads affected
Costs					
BDF Grants and Other Operational Costs	Actual paid 34	391	60	60	
(Income)					
Core Budget Cabinet Recovery Funding Reserved Funds	60 250 55	60 331	60	60	
(Savings) Net impact on budget	331 (Carried forward in reserve)	0	0	0	

The budget for the current financial year will therefore be £60,000, but this includes the remainder of the Cabinet one-off increase. The annual budget will remain fixed at £60,000 going forward for the following

two financial years. In the unlikely event of any underspend the service area will request this is rolled forward via a reserve request, to be considered by Cabinet annually as part of the annual revenue budget outturn report. As such, the capacity to do this will be heavily dependent on the Council financial position / outturn and any other priorities.

Grants

The key focus for the fund is the allocation of Business Grants. The 2021/22 increase enabled larger grant awards to be given; however, this increase was only available to progressive businesses evidencing alignment with the Council's Economic Growth Strategy. As the fund has reverted to its traditional annual budget, grant available will revert to the previous levels (i.e. £5,000 within the City Centre and £2,500 outside). Applications will be prioritised from businesses that are able to demonstrate progressive, sustainable trading.

As mentioned above, grant award funding will be made based on evidence that investment has supported the creation of 1 FTE role. The Council will support part-time job creation; as a result, the maximum sums will reduce pro-rata to the FTE equivalent of the jobs created. For example, for a job created at 50% FTE (18.5 hours per week), the maximum grant would be £2,500 in the city centre, or £1,250 across the wider city area.

The following categories of goods and services are eligible for grant support:

- **Fixed Property Costs** – including rent and service charges for new, larger or additional floor space.
- **Plant and Equipment** - including purchases by existing businesses seeking to make new products.
- **Digital Maturity** – including purchase IT hardware, website design and Epos till
- **Other** – at the Council's discretion, any other essential costs identified within the applicant's business plan may be eligible for support.

Following experience from the previous grant scheme, businesses will be restricted in submitting for a maximum of five items for funding support. Funding will cover 50% of the relevant cost, up to the relevant maximum eligible amount. All grant assistance is retrospective and paid only upon substantiation of payment of up-front costs by the business. The approval of all grants will be subject to compliance with set terms and conditions and approved by the Economic Regeneration Team.

2. Operational and Other Costs

There are a number of ancillary costs to providing business services, which will continue for 2022/23. These include the software packages used to provide the service as well as a growing calendar of events. The level of funding apportioned to these 'other' costs is unknown and will be reactive on a case-by-case basis, but all strictly within the total funding envelope.

Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Breach of Grant Terms and Conditions	M	M	The team will continue to review business plans and financial statements before awarding any grants to ensure the company has a viable business and therefore reasonable chance of success. The applicant will need to prove they have a commercial lease and demonstrate how they will deliver the required outputs. Should the business cease trading or not deliver the outputs expected for the full year, the business must repay their grant (on a pro-rata basis).	Regeneration & Place Manager
Insufficient demand for grants	L	H	Newport is identifiably a good location to start a business as evidenced by the Fund being fully committed within the previous years. Economic Regeneration officers will promote the availability of grants via a range of events and social media as well as direct contact with businesses. Circumstances are challenging but will also drive innovation and entrepreneurship amongst businesses as they adapt to developing market conditions.	Regeneration & Place Manager

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

The Newport City Council Business Grant contributes significant value towards the continued regeneration and economic development of the city. The city's development and regeneration is a long-standing priority for the Council's Place service, as evidence in the Regeneration and Economic Development Service Plan and the City Centre Masterplan. The profound economic impact and legacy of Covid-19 alongside subsequent cost of living rises places this investment in even greater importance. The Fund will stimulate new business development and create jobs, reducing City Centre vacancies and of a strong high street with a broad range of uses will help sustain investor confidence in the city centre alongside the extensive regeneration programme currently underway.

From a broader corporate perspective, the BDF realises the delivery of multiple aspirations. Principally, it helps to realise the creation of a Thriving City, firstly by creating a number of successful SMEs, owned by entrepreneurs with the ideas and desire to make Newport City Centre and its High Street stand out from its peers. Secondly, it will contribute to the transformation of existing, but redundant, cultural and commercial assets, by encouraging local businesses to invest in the fabric of the City's High Street.

The BDF also makes an important ongoing contribution to the Council's Strategic Covid-19 Recovery Objectives through Objective 2: Supporting Environment and Economy. The focus on start-ups will maintain progress on city regeneration and assist businesses to adjust to the new normal by providing investment towards new ways of working. As anecdotal evidence also suggests the unprecedented demand for start-up support is driven in part by threats to existing jobs in the wake of the pandemic, the Fund will also support Objective 4: Supporting Citizens Post Covid-19 by providing opportunity and an avenue to reduce poverty.

The fund will also support the aims of the current Economic Growth Strategy, which sets out a ten-year programme for delivering growth across the city through capital redevelopment, upskilling, training and business support. Support for start-ups is a key theme within the emerging Economic Recovery addendum to the Economic Growth Strategy, ensuring Newport remains a key location for business creation within the Cardiff Capital Region. The specific economic recovery priorities published in addendum to the Economic Growth Strategy also recommend a focus on encouraging start-ups and supporting SMEs.

Finally, the proposed uses of the Business Support Fund resonate well with the aims set forth within the Council's current City Centre Masterplan. The Business Support Fund use will support Newport's perception as a 'Diverse City' and 'A City of Quality Places'.

Options Available and considered

1. To spend the allocated grant as outlined above in order to support and promote businesses throughout Newport, and the wider economic recovery and growth, for the Financial Years 2022/23 to 2025/26, subject to any changes being agreed by the Leader as Cabinet Member.
2. Not to allocate the grant fund in the manner proposed, and consider alternative uses

Preferred Option and Why

Option 1 - The preferred option is to spend the money as outlined above in order to support and enable businesses throughout the city. The Fund purposes will assist businesses in the vulnerable periods when starting-up or expanding at a time of unprecedented challenge. The proposed uses also align fully with identified corporate priorities.

Comments of Chief Financial Officer

The Business Development Fund is an established scheme with an annual recurring budget of £60k giving assistance to SMEs which helps to stimulate the local economy.

Additional "one off" monies were allocated to the 21/22 budget to support the economic recovery out of the Covid pandemic but due to delays in the launch of the BDF this was carried forward to 22/23 and is planned to be spent in full so that in future years the fund will revert to the original £60k core budget.

Any request to carry forward unspent monies as the report references will need to be decided on an annual basis as part of the revenue budget outturn report and take into account the financial position of the Council, any other priorities and the HoF advice in relation to this. Key to this is the Council operating within its budget on an annual basis.

The report makes references to the scheme changing flexibly to meet developing need. Any change which brings about repayable funds should be discussed with the HoF as a review of 'credit losses' is required under accounting requirements.

Comments of Monitoring Officer

The proposed use of the Business Development Fund is in accordance with the Council's powers under Section 2 of the Local Government Act 2000 in terms of improving the social and economic well-being of the City. The stimulation of economic growth and investment within the City is a key element of the Council's Corporate and Well-Being plans and is also in accordance with the overriding objectives and goals of the Well-Being of Future Generations Act 2015. The use of the Fund for the provision of direct grant funding for new and expanding businesses will involve targeted financial support for individual firms and businesses but the levels of funding being provided and the types of MSME's being assisted should fall within de minimis exemptions for Minimal Financial Assistance (MFA) under the Subsidy Control Act 2022. No grant recipients should receive over the relevant threshold for MFA over a three year period and, therefore, the financial subsidies will be except from the subsidy control requirements in the legislation. The Cabinet Member is able to agree the criteria and framework for the allocation of Business Development Funding over an extended three year period and the award of individual grant funding will then be determined by officers in accordance with the approved scheme.

Comments of Head of People Policy and Transformation

The proposed use of the Business Development Fund will support Newport Council's ability to meet its obligations under the Well-being of Future Generations Act, particularly working towards the 7 National Well-being Goals as demonstrated above. In addition, it will support the Council's own well-being goals. This decision is a demonstration of the importance and utilisation of the 5 Ways of Working and strong engagement with both business owners and the general public underpins this report. A full FEIA has been carried out and is summarised above.

There are no direct human resources implications in this report.

Comments of Non-Executive Members

Councillor Al-Nuaimi:

1. I fully support the aims of the Business Development Fund to encourage new Business start-ups and to help existing businesses continue and expand, especially in the City Centre in line with Economic Growth Strategy.
2. I therefore support Option 1 as set out in the report to offer small business grants in the Current FY and succeeding financial years 23/24, 24/25 and 25/26
3. As the Economic Growth Strategy encourages the regeneration of the City Centre, it would be good to prioritise grants to new businesses starting up and continuing in the City Centre and encouraging those relocating to the City Centre.
4. The core budget of £60k has to reflect what the Council can afford to offer under the current challenging budgetary situation. It would be good however and depending on the strength of the applications that sympathetic considerations are given to them, at the risk of an acceptable overspend.

Response:

In terms of the specific comments in relation to the city centre, whilst these applicants are not given specific priority, as noted in the report those currently trading, or wishing to trade from the city centre can potentially access a higher level of grant funding. The proposed maximum grants are £5,000 within the city centre boundary and £2,500 for those outside the city centre, in reflection of the noted priorities for the city centre, and to encourage and incentivise start-ups and expanding businesses to take advantage of a city centre location.

Given the current budget situation financial discipline around any award of funding is paramount, and there is no resource to support overspending at present. Where eligible, the Council provides additional financial support to applicants (for example in partnership with UK Steel Enterprise) and can also support with signposting to other funding and the provision of advice relating to applications.

Scrutiny Committees

N/A

Fairness and Equality Impact Assessment:

• Wellbeing of Future Generation (Wales) Act

The long-term economic resilience of the city is central to the Business Development Fund and aligns with the aspirations for Wales set forth in the Well-being of Future Generations Act. The following section demonstrates how development of the Fund has applied the sustainable development principle (The Five ways of working) and how its objectives support the goals of the Act:

Long term:

- Long term: Providing businesses with financial support in the short term will enable businesses to grow and sustain jobs created in the longer-term, leading to a more prosperous and resilient Newport and a more prosperous Wales.

Prevention:

- Prevention: The Business Support Grant will enable new businesses to fill empty spaces and prevent further decline of the city's largely privately owned commercial estate. Job creation will help reduce unemployment rates, preventing the impact of that and leading to a more prosperous Wales. The pandemic has threatened many jobs across Wales, and the opportunity to start a new business in response will help prevent poverty and exclusion.

Integration:

- Integration: Creating more businesses will improve the well-being of Newport's residents by providing more equal job prospects through both new companies and existing companies, helping to keep the unemployment level down and providing opportunities for school leavers. The Fund is fully integrated with the Council's wider policy framework and complements its adopted strategic priorities, as summarised below:
 - NCC's Improvement Plan 2016/18, in particular the improvement objective 'City Regeneration and Development'
 - The 10-year Economic Growth Strategy and its aims for the long-term economic growth of Newport.
 - Newport's Well-being Plan 2018-23: Objective 'People feel good about living, working, visiting and investing in Newport', and its three economic Priorities

Collaboration:

- The Business Development Fund only functions through direct engagement with businesses, both on an individual basis and through networking and events. Consultation was carried out giving the opportunity for the 400 people expressing an interest in accessing the fund to identify their priority areas for support. The Business Development Fund offer has therefore been shaped in collaboration with the new enterprises that stand to benefit.

Involvement:

- Involvement: All the recommendations in this report fully support the findings of the recent Your Newport Survey in which emphasis on city centre employment, and more employment generally is highlighted. Business support is available on a sector-neutral basis and includes access to detailed advice and mentoring as well as direct financial assistance. This helps develop a more prosperous, resilient Wales with sustainable and cohesive communities.

Goal 1: A Prosperous Wales: the economic development of commercial districts supports the goal of a prosperous Wales. Creating vibrant and attractive town centres helps increase footfall and spend, supporting local business growth and an increase of local job opportunities. Increasing visitor numbers to urban centres, which are well-served by sustainable transport connectivity, furthers support the goal of a prosperous Wales.

Goal 2: A Healthier Wales: Improving economic activity and opportunity correlates with improved health incomes for individuals. The increased level of support afforded to businesses within the city centre will help address these priorities.

Goal 3: A More Equal Wales: By stimulating job creation and introducing a new requirement to pay the Living Wage, the Plan seeks to improve the opportunity of local people to access better employment or progress to better jobs. The Fund will improve household incomes and further equality of opportunities in turn. This supports the goal of a more equal Wales.

Goal 4: A Wales of Cohesive Communities: Engaging businesses and local people will contribute to the development of a cohesive community invested in its future. The pandemic has highlighted the importance of the Foundational Economy to local cohesion and well-being, and this sector of the economy is well-placed to take advantage of the support the Fund offers, supporting the goal of cohesive communities.

Goal 5: A Wales of Vibrant Culture and a Thriving Welsh Language: Many local businesses celebrate the heritage and culture of the country, supporting the development of a Wales of vibrant culture and thriving Welsh language. Economic diversification and business growth will help preserve and secure heritage property in Newport currently at risk of decay.

Goal 6: A Globally Responsible Wales: Securing investment for south-east Wales is generally positive for the local supply chain and local businesses. New businesses will naturally engage with both local suppliers and customer bases and help contribute to a globally responsible Wales.

- **Equality Act 2010**

The Equality Act 2010 contains a Public Sector Equality Duty, which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better-informed decision-making and policy development and services that are more effective for users.

The administration of the Business Development Fund will ensure that support is available to all eligible users without prejudice, and regardless of status or background, the proposed Fund uses will have a positive impact in this regard. Previous applicants to the Fund reflect the full breadth and diversity of Newport's population. As the funding targets commercial districts across the city to encourage new business and footfall, the fund will improve the physical environment of the city for all users, a further positive impact.

Whilst no specific consultation with younger age groups is relevant, the general comments above regarding the improvement of the city also apply to children and young people. The age profile of Newport (and users of the city centre in particular) is younger than that of many other smaller cities, and improvements to the city and its economy will directly benefit younger people as a result.

- **Socio-economic Duty**

The impact of the Coronavirus pandemic has been disproportionately higher across disadvantaged communities in Wales. Newport has evidenced some of the highest rates of 'at risk' employment, as indicated by the proportion of city jobs furloughed throughout the pandemic. As indicated above, these employment risks, which are concentrated in low-skill and low-wage sectors, are in part the reason for the extremely high demand for start-up business support currently evidenced.

The Business Development Fund will help mitigate this risk to wider employment, which again is disproportionately concentrated in disadvantaged communities. It will provide both opportunity for new and expanding businesses to create jobs and rebalance the economy.

- **Welsh Language (Wales) Measure 2011**

The Council commits to all information relating to the Business Development Fund being available through the medium of Welsh and welcomes applications in Welsh once the Fund launches.

Crime and Disorder Act 1998

Section 17(1) of the Crime and Disorder Act 1998 imposes a duty on the Local Authority to exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area. As part of the checks carried out in advance of awarding assistance, officers liaise closely with commercial standards regulators and take any concerns into consideration prior to making any award. The Council will also undertake appropriate due diligence for the purposes of preventing fraud. Reducing vacant property an encouraging wider prosperity will also indirectly help to decrease the incidence of crime and anti-social behaviour.

Consultation

A summary of the results of a consultation exercise carried out with prospective businesses appears in the body of the report above.

Background Papers

N/A

Dated: 19 December 2022