

Torbay Growth Fund: Report to Overview and Scrutiny Board on 18th February 2015
Contact Officer: Alan Denby

Background

1. In February 2013 Council approved the establishment of the Torbay Growth Fund to support investment, business growth and job creation in Torbay.
2. The Fund was launched in April 2013 with a budget of £1m to create a minimum of 250 jobs. Businesses already in Torbay and those looking to move into the area were invited to apply for funding to support them on a grant or loan basis to create jobs in Torbay. The fund has committed that budget and will create and safeguard in excess of 250 jobs in Torbay.
3. Investments made by the Fund are paid across three years to reduce the risk to the Council and ensure companies remain with Torbay. Payments can be withheld if job targets are not met.

Application & Appraisal process

4. Applications were appraised by the TDA, using the criteria set out in the application guidance and appended to this report to determine whether or not the application should be supported and if so at what level.
5. The TDA offered reasonable assistance to applicants to support them through the process and some applicants used agents to develop their application. As part of the appraisal all applications were reviewed by the TDA's business advisers. Once reviewed the applicant was written to seeking clarification or any points or asking questions about any area of the application that was required further information or testing. Checks were also carried out on the businesses using the Mint database were relevant to cross check information in the applications and the Council's Chief Accountant also reviewed applications.
6. Following appraisal, recommendations will be brought to the Panel by the TDA. The Panel could decide to:
 - a. Approve an application
 - b. Reject an application
 - c. Approve an application subject to additional information or contractual obligations
7. Once approved by the Panel, awards are made via an offer letter setting out the terms and conditions with the investment payable by the Torbay Growth Fund in 3 instalments, 40% in year 1, and 30% in years 2 and 3. In exceptional circumstances or high risk investments instalment intervals may be varied at the Decision Panel's discretion.
8. Following award all applications are subject to monitoring and review with payment of the further instalments subject to the contracted number of jobs having been created. The Panel have been informed of progress at the

meetings particularly where any application has been deemed at risk i.e. contractual obligations have not been met by the applicant or there is deemed to be significant risk to further investment.

9. Members may recall that paragraph 3.3 of the report to Council of February 2013 set out that “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.”. The fund was marketed and promoted on that basis however all initial applications came in seeking grant investment not loans. Appraisal of the applications demonstrated that the overwhelming majority included debt finance already and discussions with applicants did not result in any applications for loans rather than grants.
10. The fund initially offered applicants between £1,000 and £4,000 per job created based on a number of factors including location, sector and qualification level of the jobs created. The maximum award for any business was set at £150,000. However despite high levels of enquiries very few converted to applications as the investment available through the fund was seen as too low compared to other funding opportunities available at that time.
11. As a result a recommendation was made to review the criteria with the award levels were amended in January 2014 to offer between £4,000 and £12,000 per job (the £150,000 cap remained). There is a report from the Monitoring Officer appended to this document on the adoption of these criteria.
12. Following this revision the fund saw an increased number of applications and as a result was fully committed and closed to new applications in December 2014.

Outcomes

13. The Growth Fund has invested in 15 companies who have been contracted to create 286 jobs across the lifetime of their award (3 years). To date 155 of these jobs have been created. Despite increased award levels the fund offers very good value for money with the average investment per job of £3,500. This compares favourably to other funds:

Fund	Cost per job
Torbay Growth Fund	£3,500
Plymouth Western Morning News Growth Fund 1	£10,800
Plymouth Western Morning News Growth Fund 2	£8,250
GAIN Growth Fund (to date)	£6,500

14. Nationally the Government’s Regional Growth Fund is averaging £25-30,000 per job. Even with this higher intervention rate nationally the RGF is under-committed, meaning the Torbay Growth Fund has outperformed other, nationally schemes in getting investment into businesses.

Leveraged Investment

15. While the grants did not specifically require match funding the fund has leveraged additional investment in addition to jobs from a number of applicants. This includes:

- Significant investment in new equipment and refurbishing the former Creative Foods site in Watcombe
- Investment in the Brixham Environmental Laboratory
- Rental and business rate income from home based and businesses previously external to Torbay
- Significant investment at Oxen Cove (subject to agreement)

16. More detail is included in the project summaries at the end of this document.

Inward Investment

17. Investment by the fund is supporting 3 notable inward investment opportunities for Torbay; Ministry of Cake who have already moved into their site and are creating jobs alongside two other businesses who are expecting to move to Brixham.

18. The fund has been a crucial part of the support package which has encouraged these businesses to explore Torbay as a new location. Without this there is a strong likelihood these enquires would not have progressed.

Awards

19. The Growth Fund has invested in companies at varying stages of development and across a number of sectors. Two of these are subject to businesses relocating to Torbay so are agreements in principle. Feedback from recipients has been positive and demonstrates the fund is making a difference to those businesses.

Company	Contracted jobs created
Hamish Renton Associates	2
Advanced Technical Recruitment	6
Torquay International School	4
SJG Energy Solutions	6
The Select Group	45
Rainbow Skips & Recycling	3
Red Bay Design	4
Investment Casting	5

Systems	
Ministry of Cake	30
Plymouth University	12
South West Polymer Supplies	3
Suttons Seeds (jobs safeguarded)	107
Inward investor	40
Inward Investor	14
Alpha Contract Engineering	5
Total to date	286

20. A brief summary of progress made by successful applicants is set out below.

Hamish Renton Associates (August 2013)

21. HRA were the first company to benefit from the Growth Fund and have now received their second payment. The 2 contracted jobs have been created and the company have relocated to new offices at Rockwood House. Their turnover has doubled since the investment was made and the business is certain that without growth fund support they would not have created the jobs.

Advanced Technical Recruitment (October 2013)

22. ATR were awarded funding to support their transition from home based business to employer. Their first grant payment facilitated a move from their home to new offices on Vaughan Parade and immediately created 1 of the graduate jobs set in their application. The company created a second job in September 2014 and 2 further roles in January 2015. This extra capacity is enabling them to build the business and engage better with networks such as the Hi Tech Forum.

Torquay International School (November 2013)

23. Since receiving their award TIS have had a change in leadership so the project has taken a little longer than originally planned to get underway. A site visit in June 2014 confirmed the refurbishment work and new teaching space funded by the Growth Fund are now largely complete. The company has seen an increase in student numbers of approx 15%, and are extending their season.

24. The company has created 2 jobs with a Managing Director appointed on 5th January 2015 and role split between marketing and teaching.

SJG Energy (December 2013)

25. Since receiving the grant SJG have been growing steadily and being located in the SW Energy Centre is working well for them. Various government incentive schemes to encourage energy saving have been slow coming forward so the company have secured other work. The company created 2 jobs in year one, although finding suitable candidates was challenging, and have recently taken on an administrator.
26. Within the first quarter of 2015 they are looking to employ another field based operative, and by the end of 2015 anticipate having another member of administrative staff and the final field based operative, meeting their full job creation target.

The Select Group (December 2013)

27. Select's award was to part fund a £450,000 renovation of their factory to enable production of a new range of early asbestos detection products. The project start was delayed but is now underway, and a clean room has been installed. 1 job has been created to date, with a further 2 sales positions currently being interviewed for.

Rainbow Skips & Recycling (March 2014)

28. While the fund criteria are designed to favour businesses creating higher skilled jobs there is scope to invest in those creating employment in deprived areas. Rainbow Skips & Recycling are a small firm based in Watcombe who demonstrated they had plans for growth. Alongside their grant they have also received support from one of the TDA's business advisors. The owner of the businesses has been highly complementary of the fund and support received which has enabled them to create 3 jobs since receiving the first instalment of their grant.

Redbay Design (April 2014)

29. Since receiving funding Redbay have recruited their first employee, a finance and administration manager. Business has been brisk and the company are in the process of recruiting their second new employee, a landscape architect.

Investment Casting Systems (May 2014)

30. Since receiving funding in June ICS have acquired a second building and are currently in the process of separating ICS from the Casting Support Systems and moving it into the new premises. The move should be complete by February.
31. The tooling machine funded by the Growth Fund was purchased in November 2014, and since receiving their first payment the company have taken on two additional staff. Their contract requires an additional three jobs to be created in year one which they are on track to do.

Ministry of Cake (June 2014)

32. Ministry of Cake were awarded the maximum investment of £150,000 to support the opening of their new factory, Ministry of Puddings, in Watcombe in August 2014. Investment from the fund also leveraged approximately £350,000 of investment in the refurbishment from the company in addition to the site purchase costs and created 30 jobs when the factory opened.
33. Feedback from the company is that the Torquay factory is going very well and recently passed an important quality and food safety inspection which they feel is a fantastic achievement given the short time it has been open. They have also just won a significant contract with Starbucks which is likely to increase the levels of production in Torquay. The company plan to either move more of their traditional Taunton products down to Torquay or to put in new lines. This should result in the factory producing considerably more than it currently does, resulting in more jobs being created.

Plymouth University (November 2014)

34. The University were awarded £144,000 to support their new facility at the former Astra Zeneca site in Brixham to which they have committed to provide working capital and improvements of approximately £750,000 over the first four years. 12 jobs are planned to be created by the University, this is in addition to any jobs created by tenants moving into the lettable laboratory space at the site.
35. The process of identifying an anchor tenant has taken longer than expected, however heads of terms are currently being developed with the preferred anchor tenant. Once this is finalised, the University is confident other tenants will follow.

South West Polymer Supplies (December 2014)

36. South West Polymer Supplies was awarded investment subject to relocating to Torbay. The company has moved into Torbay and took a lease at the Torquay Business Centre in December 2014. The company are exploring a number of different product development opportunities and the potential to apply for funding from Innovate UK.

Suttons Seeds (December 2014)

37. Suttons Seeds are a key brand in Torbay, and received £150,000 to support a new company, Barnfield 2014 Ltd, created through the management buyout of Suttons Consumer Products Limited. Investment will be used to contribute towards purchase of equipment to facilitate improved marketing to reach new customers and support the cost reduction programme.
38. The creation of the new company safeguarded 107 jobs immediately that the management buyout was finalised. Without the buyout proceeding these jobs

would have been lost to Torbay. As the business delivers its business plan over the coming three years there will be more jobs created.

Inward investors (Approved but pending move to Torbay)

39. There are two applications for a total of £275,500 to create 60 new jobs in Brixham. One award is subject to the company signing a lease for the anchor tenant space at Brixham Environmental Laboratory and another for a marine engineering use at Oxen Cove.

Alpha Contract Engineering (January 2015)

40. Alpha's proposal to move to larger premises was dependent on number of funding sources and they were conditionally awarded funding in May 2014. The company submitted a revised proposal in December 2015 removing the need for venture capital investment to enable the project to go ahead. The project was subsequently approved for funding in January 2015.

Conclusion

41. The Torbay Growth Fund has created 155 jobs in the Bay to date, with a further 131 contracted over the life of the grants. It has supported a number of small local companies who lacked the capital required to invest in equipment or premises to support increased staff numbers and enabled them to grow. Feedback from these businesses is that without the fund they would not have experienced the same levels of growth.
42. In addition the fund has formed an invaluable part of the inward investment offer for Torbay, securing interest from a number of employers in key sectors and leading to businesses moving to Torbay. At a cost per job of £3,500 the fund has offered strong value for money when compared to other grant funds in addition to leveraging private sector investment.

Appendix 1 – Monitoring Officers Report

Torbay Growth Fund

Background

On 28 February 2013 the meeting of the Full Council considered the proposal to approve the investment of £1million into a growth fund, with the aim of generating employment opportunities through business growth in Torbay.

The report set out;

“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 [my emphasis], but it is proposed that the loan proportion could be up to 50%.”

“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.”

“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.”

“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.”

“It is essential that the criteria for the fund are set to optimise job creation.”

“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. “

Decision of Council meeting

Full Council approved the investment of £1million into the growth fund, and the composition of the selection panel who would determine applications. Full Council did not however approve the criteria for awarding the same, instead they decided;

“the Chief Operating Officer, in consultation with the Mayor and selection panel, be authorised to finalise the criteria on which funding will be awarded.”

Approval of criteria

Original

The decision of Full Council meant that the criteria should have been presented to the Chief Operating Officer, Caroline Taylor, for a formal decision to have been taken. This was never done. Instead, the Selection Panel adopted the selection criteria as was contained within the report to Full Council.

The Selection Panel, comprised of;

1. Mayor Oliver,
2. Cllr David Thomas,
3. Martin Phillips,
4. Alan Denby, TDA.

This criteria was used to use award grants until the criteria were changed in February 2014.

Revised

In January 2014 a report was prepared suggesting that the criteria be changed in light of application and investment levels being much lower than anticipated.

This report was considered at the Selection Panel on 3 February 2014. The Panel comprised of;

1. Mayor Oliver,
2. Cllr David Thomas,
3. Alan Denby, TDA,
4. Suzie Masterman, TDA.

Despite the report referring to the delegation for approval of the criteria to the COO, the revised criteria were not presented to Executive Director (following removal of the role of the COO) for a decision to be taken.

The Panel approved the following revisions to the selection criteria;

1. The award per job increased to £4,000 - £12,000 (from £1,000 - £4,000)
2. That a minimum threshold for applications be introduced requiring applications to be for a minimum of £15,000.

Impact upon decisions already taken

The governance arrangements for the decision as to the original and the revised criteria were not appropriately followed.

Whilst ordinarily a decision in such circumstances would be deemed to be void, **case law is clear that when other parties have acted innocently in reliance on a decision, they are entitled to protection. Therefore in respect of the Fund, there is no doubt that recipients of the Fund would have believed that the same was being granted to them with the authority to do so. Further the recipients will have acted with reliance upon the same. Therefore the decisions will be deemed to have legal effect, irrespective of the failings in respect of approving the award criteria.**

Suggested action

The criteria currently in use (or as appropriate any further revised criteria) should urgently be presented to the Executive Director for a formal decision on the same to be taken. A record of decision in this respect should be completed.

The report to Full Council indicated that the performance of the Growth Fund would be reported on SPAR and reported annually to Full Council. This was not a formal decision of Council, however there should be urgent consideration of how the performance of the Growth Fund is monitored and reported to Members.

Whilst concerns were raised with me as to the lack of loans (as opposed to grants) having been approved by the Selection Panel , it was not a decision of Full Council that there has to be loans. Indeed it should be noted that the report to Council set out *“The split between grant funding and repayable loan will be determined on a case by case basis.”* I am advised that loans have been actively promoted, however no businesses have wanted to pursue the same. On this basis, and given the wide remit as set out within the report to Council, there are not any Governance issues in this respect.

Anne-Marie Bond
Monitoring Officer
15 January 2015

Torbay Growth Fund - Criteria

1. The criteria were designed to enable the fund to be accessible to all businesses regardless of size and the numbers of jobs proposed to be created.
2. There are a number of sectoral exclusions which applied to the fund, namely accommodation, retail and sectors exempt from support under EU state aid law (De minimis aid cannot be given for export related activities, agriculture and fisheries).
3. Businesses are awarded an amount per job created dependent on skill level, location and sector. The current maximum investment is £150,000 per businesses in order to remain below the de minimis state aid threshold.
4. The proposed investment level set out above is in line with University of Plymouth & Western Morning News growth fund. This fund is available across Devon & Somerset and is administered by the University and funded by the Government's Regional Growth Fund. In its first round the fund made 20 awards averaging £46,000 each and created 71 jobs giving an average cost per job of £13,000 which is in line with the proposed maximum per job for the Torbay Fund. It is currently closed to new applications as it is oversubscribed.

Torbay Growth Fund Appraisal Matrix

Score	1	3	5
Sector – encouraging investment in key sectors	Any (aside from exclusions noted above)	Priority sectors: Professional services Manufacturing Call Centres	Priority inward investment sectors: 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 development site - Business not specifically linked to cluster in that area	Key development site or deprived area. Business specifically linked to cluster in that area
Section Total - /10			
Score	1	2	3
Skill level of jobs created	NVQ1 and NVQ2+	NVQ3+	NVQ4+
Section Total - /3			
Grand Total - /13			