

**EXETER CITY COUNCIL**  
**SCRUTINY COMMITTEE - ECONOMY**  
**20 JANUARY 2005**

**INNOVATION AND BUSINESS DEVELOPMENT GRANTS :  
REVIEW OF TERMS**

**1. PURPOSE**

- 1.1 In response to the request by the Chair of Economy Scrutiny to consider whether the current conditions for financial support to small businesses should be given, on the basis of the Council being able to seek a financial return if the recipient business is particularly successful.

**2. BACKGROUND**

- 2.1 The Council funds the Innovation and Business Development Grants scheme which supports the starting-up, development and/or expansion of small businesses whose core business involves one or more of the following business activities:-
- research and development
  - knowledge based
  - information and communication technology
  - high value added manufacturing
- 2.2 Scrutiny Committee in June 2003 supported proposals to integrate the administration of applications with the Innovation Centre at the University to be overseen by an independent review panel.
- 2.3 Grants are available, usually for up to £5,000, to applicants which match the activities in paragraph 2.1 above, providing the project is particularly innovative and offers good prospects for the creation of jobs.
- 2.4 Many local authorities around the country fund similar forms of support for new and existing small businesses, under the economic development powers as now contained in the Local Government Act 2000, to promote or improve the economic well being of the area.

**3. REPAYMENT OR FINANCIAL RETURN CONDITIONS**

- 3.1 Most local authorities offering assistance do so as a provider of last resort, or to fill a funding gap where the private sector or other economic development agencies do not. Their schemes are not there to compete with or duplicate normal institutional lending but to support or encourage projects for business development and job creation/safeguarding, which do not attract funding support from elsewhere.

3.2 Most offer a grant with an upper limit of between £500 - £5,000, with a limited number offering up to £30,000. A limited number do offer a loan but usually for levels of support in excess of £5,000. Typical of those offering a loan is the requirement for a competitive rate of interest and a 1% fee for administration, repayment to be made within five years. For more substantial financial assistance there are a wide range of commercial and special funding vehicles, to support specific regeneration programmes.

3.3 The following local authorities were contacted to compare their approach as summarised:-

Lincolnshire County Council	Bournemouth County Council
Chester City Council	Oxford City Council
Bristol City Council	Bridgend County Borough Council
Gloucester City Council	Forest of Dean Borough Council
Plymouth City Council	Hastings Borough Council

They were also contacted to determine whether they operated or had considered implementing a policy/condition that required any additional payment for the grant/loan repayment in the event of the business becoming very successful. None of them had or were intending to do so.

3.4 All considered that the key benefit and purpose for providing the grant/loan was to promote business development and thereby job creation and retention. Most preferred the offer of a grant at this level of funding support as the administrative costs of monitoring and pursuing repayment were not considered worth pursuing when compared with the relatively small scale of the overall fund and the value of each grant.

3.5 Where loans were offered for amounts of less than £5,000, they are offered at a competitive commercial rate and a handling fee of 1% of loan value for up to five years.

3.6 During this exercise of comparing the City Council's approach with that of the other local authorities, a number of other issues were highlighted:-

- grant (or loan) rules included other requirements such as the promise of work experience for school/college students and returners to work, adherence to environmental responsible practices and, where appropriate, relevant quality standards
- grant support was made available as part of a more formally joined up hierarchy of financial and other forms of business support
- more emphasis is being placed on recognising the value of supporting social enterprise as a meaningful mechanism for promoting alternative and more flexible terms of employment while addressing vocational, social and economic needs.

#### **4. CONCLUSIONS**

- 4.1 The research has not yet identified any local authority taking some form of equity stake as part of the provision of financial support. This is unsurprising given the comparative financial value of the relatively small Council contributions against the much larger funding provided by other sources. The offer of a grant is often more a statement of the Council's own strategic priorities. Insistence on taking an equity stake for our own comparatively small financial input is likely to result in lower take-up.
- 4.2 The grants awarded to date have been successful, albeit more recently applications have been lower than expected due to the delay in the completion of the second phase of the Innovation Centre at the University. This situation, the questions raised by the comparative exercise, and the suggestions of changing the nature of how funding support is given, is in fact prompting the need for a more considered look at the Innovation and Business Development Grant scheme.
- 4.3 It is proposed to review the criteria for the allocation of grants to new and existing small businesses in the light of what appears to be good practice of other local authorities. The possibilities of criteria being amended to include a requirement for a financial return from the recipient business, if particularly successful, could be examined for business support grant/loans offered of over £5,000.

#### **5. RECOMMENDATION that**

- 5.1 Officers complete a review of the Council's grant to support new or existing small businesses.

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**Local Government (Access to information) Act 1985 (as amended)**  
**Background papers used in compiling this report:**

None.