

REPORT OF THE HEAD OF PLANNING, ECONOMY AND REGENERATION

COST-RECOVERY AND COMMERCIALISATION IN GROWTH, ECONOMY AND DELIVERY

Cabinet Member(s): Cllr Richard Chesterton

Responsible Officer: Mrs Jenny Clifford, Head of Planning, Economy and Regeneration

Reason for Report: To present to members steps to introduce cost recovery into the Growth, Economy and Delivery service, and to look at issues relating to further commercialisation within the service.

RECOMMENDATION:

1. **That Members recommend to Cabinet to approve the bill of charges for business support services as laid out in Section 5.0**
2. **That Members authorise officers to investigate opportunities across the Council to develop a commercial arm for the delivery of some discretionary services.**

Financial Implications: In recognition that it is increasingly difficult to find public sector funding for discretionary services, the Economic Development Team is increasingly working towards a more commercialised approach. This report sets out potential measures to introduce cost recovery fees for certain discretionary services provided by the Economic Development team from April 2019. It also outlines opportunities for exploring further income generation through the creation of a commercial arm either from within the service, or across the organisation, in the future.

Legal Implications: Charging fees for discretionary services on a cost-recovery basis is within the legal remit of the Council as set out in Part 8, Section 93 of the Local Government Act 2003. However, if the Council wishes to explore developing income generating schemes that go further than cost recovery it will need to explore setting up a commercial arm which is able to trade at profit on its behalf.

Risk Assessment: Charging for services within Economic Development Services is not well established amongst local authorities. The market for such services has not been tested and there is a risk that returns may be lower than expected if businesses choose not to take up services. Charging for services may also put off fledgling businesses from taking up advice and support to the detriment of their business and the local economy. However as levels of local authority funding diminish for discretionary services there is also a risk, by not becoming more commercial in approach, some of these services may have to be discontinued.

As local authorities are limited to raising money on a cost recovery basis should the Council wish to set up a new company to raise income this would have its own risks. The risks associated with this would need to be subject to a detailed risk assessment as part of that process.

Equality Impact Assessment: No equality impacts are foreseen.

Relationship to Corporate Plan: The Economic Development team helps to deliver the Council's objectives for the Economy:

- Bringing new businesses into the district
- Business development and growth
- Improving and regenerating our town centres
- Growing the tourism sector

1.0 Introduction

- 1.1 This report looks at opportunities for cost-recovery within the Growth, Economy and Delivery team (GED) and goes on to explore potential areas for commercialisation within the service. The report focuses on introducing charges to recover the cost of discretionary services provided by members of the Economic Development team.
- 1.2 The Growth, Economy and Delivery Group provide a range of services covering economic development, regeneration, and the delivery of major development sites. The Economic Development Team focuses on promoting and facilitating business growth – including activities such as responding to business enquiries, developing projects to facilitate economic growth, and promoting Mid Devon as a place to do business. Regeneration emphasises the role of place-making within economic growth. In Mid Devon this mainly involves masterplanning and facilitating town centre improvements.
- 1.3 In 2018 the Planning, Economy and Regeneration Service carried out a benchmarking exercise over a four week period to gauge the time spent and cost of individual services. During this exercise it was found that that the GED team spent 69% of its time on Economic Development and Regeneration activities, of which 10% involved direct enquiries from clients (business support and funding and grants). The direct estimated cost of Economic Development activities was annualised at **£149,940**. As the work within the team varies from month to month depending on the projects being undertaken, this benchmarking has been adjusted to reflect known annual commitments and will be used as the baseline for considerations of cost-recovery in this report.

Economic Development Activities	Assumed Annual hours¹	% of time spent	Cost recovery²
ED Regeneration	1458	35%	52479
Business Support	208	5%	7497
Funding & Grants	208	5%	7497
Partnership Working	167	4%	5998
Exeter & Heart & Devon Partnership	167	4%	5998

¹ Adjusted to reflect known annualised time commitments not necessarily reflected during the sample period.

² An estimated hourly cost based on 18/19 gross costs for a scale 9 position has been assumed however this figure needs to be refined.

Local Enterprise Partnership	208	5%	7497
Town Centre Management	666	16%	23990
Events & Promotion	250	6%	8996
Tiverton Town Centre Partnership	167	4%	5998
Community Projects	208	5%	7497
Tourism	125	3%	4498
Project Development	167	4%	5998
ED resource management, overheads	167	4%	5998
	4,165	100	£149,940

2.0 Cost-recovery

- 2.1 In the face of increasing budgetary pressures, it is important that councils look to a more commercial approach generally but particularly with regard to non-statutory functions. This could include opportunities to recoup all, or part of, the costs incurred through charging for services. Economic Development is a non-statutory service, but one that contributes to the prosperity and economic wellbeing of the district and its residents. It is therefore important that we find every opportunity to generate income to ensure that the service is financially sustainable in the future.
- 2.2 This being said, there will always be a proportion of economic development and regeneration activities that will need to be subsidised. This is particularly the case for those activities where the Council is taking a proactive role in facilitating growth or promoting economic development. The financial gain from such activities is seen through increased business rates once economic growth has been successful. Another important factor is the hidden financial benefits in terms of general prosperity to the area resulting from the work of the team. This is notoriously difficult to quantify; however moving forward the team are attempting to gain a better understanding of its contribution towards helping the success of the local economy.
- 2.3 Within the range of activities that the service currently undertakes, those with most potential for cost recovery are planning and business support services, in which the team is responding directly to a request from an individual, business or developer for advice or support. These are explored in more detail in the following paragraphs.
- 2.4 Planning Performance Agreements

As work on the Tiverton Eastern Urban Extension and Culm Garden Village progresses and we move out of the masterplanning stage into detailed development planning, there will be opportunities to put in place Planning Performance Agreements (PPAs) as developers bring forward major planning applications for different phases of the developments. A PPA is an agreement between the local authority and the applicant that lays out agreed timescales, actions and the required resources for processing their application. They give greater certainty to both the applicant and the local authority that technical issues will be addressed in a timely manner and the application will be processed to an agreed timetable. PPAs give a much firmer basis for charging the appropriate fees for the work undertaken in processing and assessing major applications, and are therefore more likely to approach full cost-recovery for the services provided. The Development Management Service is already using a PPA approach for major applications on

major development sites. The Development Management Service currently has a target income of £20,000 per year from PPAs. Although it is difficult to know in advance how many major applications will require Economic Development input we envisage that additional income from this could be around £4,000 per annum.

2.5 Business Support Services

The Economic Development team currently receives about 250 business enquiries per year, only a proportion of which result in more detailed business support.

The main areas of enquiry are:

- Pre-app advice on commercial developments / change of use etc.
- Enquiries about vacant commercial units and employment space
- Business rates and concessions
- Enquiries related to grant applications and other funding opportunities
- Enquiries about grants administered by the Council – e.g. shopfront grants
- Other business needs, broadband, advertising

According to the recent benchmarking exercise, direct business support and funding advice only amounts to 10% of the time spent on economic development work, but this does not take into account that there inevitably will be an element of the 35% of time on economic development regeneration activities that applies to business advice and funding advice. It should also be noted that going forward there is going to be a change of emphasis with regard to providing business support as part of the economic strategy.

2.6 Within Mid Devon there are a number of commercial and subsidised business support services available, providing a range of generic and technical services. The main source of generic business support is the Heart of the South West Growth Hub and EU-funded Growth Support Programme³, which can offer an initial 3 hours of free support, plus an extra 9 hours of specialist support, all at no cost to the business. The Business Information Point is also another major provider of business support services in the area, many subsidised through contracts with the HOTSU Growth Hub. Even when EU-funding comes to an end, it is a reasonable assumption that the Government will want to continue to invest in subsidised business support.

2.7 A commercial market for the sort of generic business support that the Council could provide is therefore limited. However, there are specific areas of business support that the Council is well placed to deliver because of its relationship to key regulatory services or because of specific technical expertise.

2.8 Based on current activity, the areas of the Economic Development Service most likely to have potential to recover the costs of delivery of those services are:

- a) Pre-application advice – similar to those levied in the Development Management service for Listed Building / Heritage advice. This would include pre-application advice on employment, and commercial site applications, meetings and site visits with clients, and a production of a summative report.

³ <https://www.heartofswgrowthhub.co.uk/business-support-programmes/growth-support-programme/>
Commercialisation Report v4

Fees would be levied as part of pre-application fees administered by the planning service to reflect Economic Development officer time.

b) Individualised funding searches – This is where a business asks for a search of potential funding opportunities for a specific business idea. An individualised funding search can typically take between 2-3 hrs to complete.

c) Grant application & other advice – comparable to pre-app advice for planning applications, grant application advice would include ‘in principle’ advice on funding programmes and their suitability for a particular business idea, including advice on how an application could be shaped to meet the criteria of a specific funding programme. Dependant on the complexity of the funding programme this could take 3-4 hours. An initial half an hour’s free advice is considered to be reasonable.

d) Grant application support – Additional to generic funding advice, this would include detailed support for writing a grant application which could be charged at an hourly / daily rate.

A summary of how this will be implemented is given in section 5.0.

- 2.9 Advice from the Council’s legal department indicates that without setting up a trading arm / commercial vehicle, charging for services would have to be on a ‘cost-recovery basis only’. Fees would therefore be limited to the cost of actually delivering the service (including a proportion of corporate overheads), rather than being based on any commercial estimation of what the market could accept. The full income generating potential of services such as assistance with grant applications is therefore restricted by the provisions of Part 8, Section 93 of the Local Government Act 2003.

Whereas the services identified above focus on cost-recovery for activities currently provided, the following paragraphs explore areas for further commercialisation involving new areas of work and potential for setting up a trading arm.

3.0 Commercialisation - developing further income generating activities

- 3.1 Commercialisation is a broader concept than cost-recovery or income generation. As the APSE report ‘Risk and Commercialisation’⁴ says ‘It is about changing the mindset and approach of councils, to adopt a more commercial and entrepreneurial mindset to how services are designed and delivered overall.’⁵ It also goes beyond merely ‘managing or running (a service) principally for financial gain.’ It is about re-imagining services that serve the public good, in a new financially sustainable way. ‘Commercial activity should complement councils’ core purpose as democratic bodies designing and delivering critical services for local people.’⁶

⁴ Association for Public Service Excellence (APSE) 2019 ‘Risk and Commercialisation: A guide for local scrutiny councillors <http://www.apse.org.uk/apse/index.cfm/research/current-research-programme/risk-and-commercialisation-a-guide-for-local-scrutiny-councillors/>

⁵ APSE 2019 p7

⁶ APSE 2019 p7

- 3.2 As the Economic Development team moves towards a more commercial approach to delivering discretionary services, the team will look at developing business opportunities that can both further economic development objectives while also generating income to assist with ensuring the financial sustainability of the economic development service and contribute to the future financial security of the Council. One suggestion being explored would be to create a regular (weekly / monthly) funding bulletin for businesses – this could be developed as a subscription service, dependant on proving there is a market for it. In theory this service could have a national market. A detailed business case has yet to be developed for this idea.
- 3.3 Another approach already being pursued by the team is to ensure that wherever possible external funding is sought to either subsidise or match fund economic development and regeneration initiatives. For instance seeking developer contributions towards town centre public wi-fi and shopfront schemes, and applying for external funding to deliver a destination website.
- 3.4 An extension of this approach is to charge management fees for running business support initiatives. This is a model often used by larger authorities, and development agencies, whereby they apply to government programmes for project funding, and factor in revenue costs for administration and management of the project as part of their bid. These management fees are then used to partly fund particular posts within the authority. This was the model used in the past within this authority to fund such programmes as the highly successful 5X30 project. However, such opportunities are dependant on funding programmes becoming available in the future. It also should be noted, that since the projects themselves create their own work, there may be little or no net income generated for the Council.
- 3.5 The team has already started looking at income generating capital projects. These would need to be projects that support wider economic gains but that also have income-generating potential. For instance building commercial units, or creating flexible workspace. These projects often require capital investment both from the Council and from external funding. This model has been used by the Council in the past to build commercial units on Kingsmill estate, Cullompton and the former Tiverton Tourist Information Centre building, for which the Council received sizable Rural Development Agency (RDA) grants. Careful consideration would need to be given to the investment potential of these projects, with a clear business case and robust analysis of return on investment. It is considered that there is significant potential for commercial land and property investments to benefit economic development within the district and provide a financial return for the Council. This is not entered into more detail in this report as this is unlikely to provide any returns in the immediate term; however the team are actively working on proposals for consideration.
- 3.6 There is potential to develop a wider commercial trading arm of the Council which could incorporate a number of different service areas throughout the authority. Further analysis would be needed across the Council to better understand the scope for such a corporate trading arm as opposed to the benefits of setting up individual trading companies for discrete services areas.

4.0 Balancing income generation with wider strategic aims

- 4.1 Much of the team’s work in supporting economic growth is strategic, facilitative or promotional and therefore difficult to fund directly from clients. Such work includes master-planning, developing economic initiatives and projects and promoting the district more widely as a place to do business. Much of the benefits of such activities are only realised long term. In order to fund these proactive activities it may be necessary to look at other models of funding, such as retaining a percentage of any business rates uplift for economic development activities. These will need to be explored in terms of future funding for economic development.
- 4.2 Some team activities do not have cashable benefits to the authority but nonetheless contribute significantly to the prosperity of the district. There may also be occasions when the Council will want to waive upfront fees for the sake of greater economic gains. For instance, if we are to realise the Council’s ambitions for economic growth and inward investment, it may be necessary to create packages of support which incentivise growth and investment. In a competitive world, many authorities already incentivise inward investment by offering grants and business rates reductions in order to ‘land’ particularly important investors. This will need to be taken into account as we move forward in promoting economic growth on our major development sites. The team will be looking at the potential of investment packages to incentivise inward investment as part of the Economic Strategy. These may not include financial incentives as in other district, but may include a comprehensive package of business support that gives a business a ‘soft-landing’. There would however be potential opportunities for charging for advertisement space in such packages.
- 4.3 It should also be noted that care needs to be taken not to price out start-up businesses that may need the most help. It is important that any pricing regime would need some allowance for initial enquiries/free preliminary consultation advice before charging commences.

5.0 Implementation

- 5.1 The first phase in introducing cost-recovery with regard to discretionary Economic Development services will be to introduce charging for the services identified above. It is proposed to introduce the following fee structure from the 1st April 2019. The pre-application fees are aligned with the fees for heritage / conservation advice already being levied by the Planning, Regeneration and Economy Service, while other services are based on an hourly rate of £44/hr as calculated by the CIPFA benchmarking exercise⁷

		Proposed Fee Structure⁸	
Pre-app advice (planning)	Pre-app advice on planning applications concerning employment / commercial property	In principle advice no visit	£90
		Detailed advice and visit	£180

⁷ Comparative Analysis of the Mid Devon District Council Planning Service, CIPFA 2018

⁸ This charge will be in addition to the planning pre-application fee

	by the Economic Development team.	Additional advice / visit	£60
Individualised funding searches	Individualised search for grants and other financial opportunities for specific business ideas		£90
Grant Application advice	Advice on filling in a grant application (general)	General advice including meeting	£90
Grant Application advice	Detailed support for writing an application	Detailed support	£44/ hr £308 /day
Other advice given	Specialised economic development	Half an hour free advice	£44/ hr £308 /day

5.2 Systems and processes will be put in place to be able to charge fees, including introduction of detailed time sheets, standard procedures and templates, and billing processes. These will create extra administration which will need to be factored into the pricing of the fees. The extent to which businesses will want or be willing to pay for such services is unknown at this stage. However, based on the figures provided by the benchmarking exercise, it is reasonable to expect that these charges could bring in approximately £3,000 into the service in the first year. However this is difficult to estimate, would need to be tested and reviewed after the first year.

5.3 The second phase will be to look at further ways of generating income as detailed above. This may involve exploring the potential of creating a commercial vehicle to support these activities. As part of this exploration the Economic Development team will look at a wider commercialisation project within the organisation.

6.0 Benchmarking

There are currently very few examples of economic development services being commercialised. Whereas business support services are often carried out by stand-alone development agencies, or social enterprises, they are frequently highly subsidised through public funding. Within the Heart of the South West area there are no authorities currently charging fees for business support services. Property based investment as income generating schemes seems to be the most widely used way of generating income, however this income is rarely put aside for economic development activities. Further work needs to be done to understand the full picture including further discussions with Torbay Development Company and the Cornwall Development Company.

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List of Background Papers:
Mid Devon District Council Planning Service, CIPFA 2018