



**E R S**

Research and Consultancy

## **Devonport Small Business Support Grant Evaluation**

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## **EXECUTIVE SUMMARY**

In May 2008 ERS was awarded the contract by Devonport Regeneration Community Partnership (DRCP) to evaluate the Devonport Small Business Support Grant (DSBSG) project. The evaluation looks at three key aspects of DSBSG:

- The project's impact on supporting and developing local Devonport businesses.
- How the project can best respond in the future to small business needs in Devonport.
- Whether a grant based scheme is the most suitable approach moving forward.

To ensure the evaluation was robust and that all three key aspects of DSBSG were explored, the Study Team conducted consultations with key stakeholders, conducted a postal survey of beneficiary businesses and reviewed project documentation and data.

### **Project Context**

In the last 10 years Devonport has undergone significant physical regeneration, leading to a large scale relocation of residents from Devonport. DSBSG was conceived by DRCP and the 'Work Focus Group' as a support mechanism for businesses in Devonport who, due to the whole-scale physical regeneration in the area, were suffering from a potentially crippling loss of customers due to the temporary loss of residents. Preventing the destruction of the local economy was seen as paramount for the obvious reason of safeguarding jobs but also to ensure a core of economic activity remained in Devonport.

### **The Grant Application**

DSBSG offers grants at a 75% intervention rate up to £3,750 to businesses located in the NDC area. Grants are used for:

- Expanding Business Activity.
- Improving the visual appearance of commercial properties.
- Providing better access to services for Devonport residents.
- Undertaking local marketing initiatives.

The grant provision as expected was predominantly well received. However, the nature of the grant process did present some challenges as grants are paid

retrospectively, stakeholders referred to this as an issue and the majority of businesses surveyed claimed that the length of time it took to be reimbursed for the capital outlay had impacted upon the operation of their business. Additionally, of the 92 employees of businesses surveyed as part of the evaluation only 6 employees reside in Devonport thereby raising questions regarding the extent of local impact from the project.

Support has been delivered to a relatively high proportion of local businesses and an uplift in grant applications has been experienced as a result of the transition of grant provision to DBSS. Integrating the provision with DBSS' offer has helped to increase business usage of DBSS. The grant offers an excellent "carrot" for "engaging the unengaged" businesses.

The business survey has highlighted the significance in terms of impact that the business grant has had on recipient businesses. There are around 106 businesses registered in Devonport<sup>1</sup> and as of March 2008 the total number of applications for grant aid stood at 46 representing around 40% of total businesses within the area and is clearly a true additional business community resource.

There is a clear lack of alternative grant funding of this nature available to small, yet established businesses. Other, less competitive products exist such as loans but the challenges for securing these from the private sector, particularly in light of the credit crunch mean that any displacement of alternative funding is likely to be extremely low. The provision of the grant has therefore had very little influence (if any) on stopping alternative means of funding being invested in businesses in Devonport. Furthermore, grant aid of this nature is offered on a 75% intervention rate, therefore warranting business investment to meet the full cost. In many instances businesses would not have embarked on this investment and the initiative therefore, has been instrumental in facilitating the leveraging in of private sector investment.

The justification for intervention and funding for a scheme of this nature was driven by the decline in trade as a result of the decanting of residents from the Devonport area due to the extent of physical regeneration taking place. The link between trade and local residents is appropriate to some extent but perhaps is not relevant

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<sup>1</sup> DRC Partnership – Project Decision Making Panel April 2008

throughout the business community. The study team believe its relevance is limited to:

- Those businesses that operate on a business to consumer (B2C) basis and focus their trade locally;
- Business to Business operations where the supply chain is local (within Devonport); and
- Business operations where a high proportion of employees are residents within the local area.

A significant proportion of businesses are accessing grant aid from the Richmond Walk area of Devonport. This area has differing needs and opportunities in comparison to the rest of the NDC area; many businesses operate within the marine sector and leisure industry with a supply chain driven by Princess Yachts or other marine industries surrounding the waterside within Plymouth. On the whole, the study team believe the area is likely to have little association with Devonport residents and minimal associated impact from the decanting of residents. Equally, whilst the survey suggests that the grant aid is having a massive impact on their business, the extent to which this is impacting Devonport residents and areas of deprivation is minimal (the number of Devonport resident employees drawn from the survey provides some evidence to support this).

The physical regeneration of the area is still ongoing, therefore the tough business climate remains (and perhaps has been enhanced through the recent economic downturn), this provides some level of justification for the utilisation of grant aid to small businesses. However, such aid is rarely offered to established businesses now and financial support offered elsewhere in the city does not rival products available in Devonport. Business impact is said to be significant yet there remains a real danger of grant dependency, particularly given the suite of grant aid packages now available to Devonport businesses.

Other grant aid available for security, start up and IT provision provides a breadth of support to local businesses that may be unrivalled in many areas including those designated as New Deal for Community areas. The majority of businesses fail in the first three years and whilst the start up grant helps provide a level of support to new businesses, the loss of the small business grant may provide challenges for those businesses in operation beyond a year.

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## **Recommendations**

*Were any grant aid to continue for small businesses locally it should be more closely tied into the businesses that are being more directly impacted upon by the regeneration of Devonport. This is likely to exclude many businesses that do not fall into the criteria outlined above (where local multiplier effects would be minimal) and focus on those businesses operating within the business to consumer area (B2C).*

*Prioritisation of grant aid to those businesses previously unengaged with support provision (or have not benefited from this aspect of support before) for the first half of any funding period with associated targets driven by a focus on increasing the intervention rate of business support within Devonport.*

*A reduction in the rate of intervention for the grant at the least should be considered as part of the long-term strategy for aid of this nature to reduce the gap between Devonport provision and that offered through the mainstream or other specialist schemes. The study team suggest that a 50% intervention rate would represent a conservative reduction but would begin to help address any dangers of grant dependency that may emerge beyond 2010.*

*Further refinement of eligibility criteria could be undertaken so that the grant would act as a 'provider of last resort' particularly for businesses in operation for up to three years (and therefore still likely to be experiencing 'teething problems'). Grant aid should be offered as a package to include other non grant based support through DBSS to provide intensive assistance to sustain an organisation's operation long term.*

## 1. INTRODUCTION

1.1 In May 2008 ERS was awarded the contract by Devonport Regeneration Community Partnership to evaluate the Devonport Small Business Support Grant project (*referred to hence forth as the 'project'*).

1.2 The project has provided financial assistance through the provision of grant aid to businesses in the NDC area. The area is undergoing whole scale physical regeneration which is leading to significant upheaval in the interim, particularly a reduction in the local population through dwelling demolition prior to redevelopment. Through the distribution of grants it was hoped that businesses affected by the short term loss of custom would be retained in the local area, providing them with the ability to cope with a changing profile of customer (reflecting the changing physical environment in Devonport). This would facilitate the speedy recovery of the Devonport economy once the physical regeneration has been completed.

1.3 This evaluation assesses the impact of the project on:

- Supporting the expansion and retention of existing business activity and increasing the investment and improvement of business premises;
- Supporting local businesses to promote their own services within Devonport and beyond;
- Encouraging the use of Small Business Support and Advice Services;
- The potential displacement of other additional funding from Devonport businesses; and
- Grant take up as a result of the transition to the Small Business Service.

1.4 This evaluation also looks at how the project can in the future best respond to:

- Local needs, specifically sector needs and workspace needs within Devonport;
- Sustaining business start-ups after the initial 12 months;

- The perceived reduction in economic activity due to the regeneration process; and
- The development of Enterprise activity and proposed future grant/loan funding available for small businesses.

1.5 In assessing future needs, the evaluation will consider whether a grant based or a loan based approach is the most suitable to adopt.

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## **2 METHODOLOGY**

2.1 To ensure the evaluation of Devonport Small Business Support Grant was in-depth, robust and objective, the study team used the following research techniques.

### ***Document and Data Review***

2.2 A review of documentation alongside an assessment of relevant data provided the Study Team with an understanding of both the context within which the project sits, and an insight into the project's activities and achievements. This helped to inform the framing of questions for subsequent interviews and consultation. A key aspect in the review of documentation included an assessment of the nature of business support emerging from the Business Support Simplification Programme and other business support funding schemes, including the specialist provision likely to emerge through the European Competitiveness Programme.

2.3 Data analysis has also been undertaken to provide a quantitative assessment on the delivery of activity through an analysis of outputs delivered. The analysis has been undertaken through the use of quarterly monitoring reports – to assess actual delivery against forecast targets – alongside a draw down of data from management information held by Devonport Business Support Services (DBSS).

### ***Stakeholder Interviews***

2.4 Several consultations were held with key stakeholders involved in the management and delivery of the project. These were undertaken on a one to one basis, either face-to-face or by telephone using a semi-structured questionnaire.

### ***Beneficiary Consultation***

2.5 A postal survey was distributed to beneficiaries of the support grant to gain a perception of the impact and effectiveness of the grant in addition to a view on the ease to apply and utilise the grant provision on offer.

2.6 The qualitative aspect of this report is necessarily based on the views of those interviewed. Every care has been taken to conduct the study openly,

thoroughly and professionally, to retain an objective stance, to balance the opinions expressed and explore the justification for the comments made.

- 2.7 Carrying out this evaluation has required significant contributions of time and information from a number of people (listed in **Annex 1**), and their assistance is much appreciated.

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### 3. BACKGROUND

#### *National Policy*

- 3.1 Under the government's mandate of making the UK the best place to start and grow a business<sup>2</sup>, policy around enterprise and business support has been subjected to rapid change and evolution.
- 3.2 A wide range of policies, consultation documents and strategies have subsequently ensued culminating in the report 'Enterprise: Unlocking the UK's Talent'<sup>3</sup> published by the Department for Business Enterprise and Regulatory Reform (BERR), in March 2008.
- 3.3 The report focuses on developing five key aspects for developing enterprise in the UK: Enterprise Culture; Knowledge and Skills; Regulatory Framework; Business Innovation; and most relevant to this report, Access to Finance. The Government believes that Access to Finance coupled with improved and simplified business support are the vital pillars in supporting enterprise in the UK.
- 3.4 The release of this report was undertaken concurrently with the release of a 'sister' report which outlined the emerging portfolio of business support products as part of the programme of simplification in the provision of publicly funded business support – 'Simple Support, Better Business: Business support in 2010'<sup>4</sup>. The report by BERR (formerly the DTI), is in response to the task of reducing the number of publicly funded business support projects from over 3000 to less than 100. One of the core business support approaches will relate to the offer of the information, diagnostic and brokerage (IDB) model through Business Link service providers. The focus is on the adoption of this model, delivered nationally with slight region wide variations in the nature of operation and delivery.
- 3.5 Both of the above reports highlight the additional need to offer support nationwide but with a more intensive focus on deprived urban areas. Further

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<sup>2</sup> Government Action Plan for Small Business, January 2004, [www.sbs.gov.uk](http://www.sbs.gov.uk)

<sup>3</sup> Enterprise: Unlocking the UK's Talent, Berr, March 2008

<sup>4</sup> Simple Support, Better Business: Business Support 2010, BERR, March 2008

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details regarding the emerging business support programme are outlined within the forward strategy section of this report.

### **Local Context**

- 3.6 Devonport is an inner city area of Plymouth, home to approximately 5,000 people. During the Second World War Devonport suffered from extensive bombing and lost much of its distinctive urban heritage. In addition, the community within Devonport was split in two when the navy acquired a site (known as the Stores enclave), thereby having a massive impact on community cohesion, culminating in the loss of a busy commercial and retail centre.
- 3.7 Prior to the commencement of the NDC programme, nearly 43% of the economically active population had no qualifications (compared to 29% city-wide) and the unemployment rate stood at 9.3% (compared to 3.3% city-wide). In addition, self-employment was significantly lower within the NDC area than the average across the city whilst census data highlights that economic activity stood at a lowly 46% compared to 61% city-wide.<sup>5</sup>
- 3.8 The DRC Partnership is the community-led partnership charged with regenerating Devonport through targeting five key thematic areas, one being employment. In relation to the employment theme, massive structural change within the economy, largely through the decline of employment by the Ministry of Defence (MoD) has led to a restructuring of employment patterns, resulting in a relative increase in the number of small businesses alongside a significant proportion of worklessness and economic inactivity within the area. This mainly related to deficiencies (both perceived and actual) in transferable skills within the adult workforce.
- 3.9 The NDC commissioned the development of an employment strategy to more accurately identify the multitude of factors that were impacting on employment within the NDC area. The strategy is directed by an overarching aim to:

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<sup>5</sup> Devonport Employment Strategy, Roger Tym & Partners (2004)

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*Create a vibrant local economy, with quality employment opportunities for local residents and growth opportunities for local businesses; and to remove barriers to the employment of Devonport residents.<sup>6</sup>*

3.10 The strategy has three main strands:

- Helping Devonport residents into employment;
- Assisting the growth of the Devonport economy – helping existing business in Devonport to survive and grow; and creating an environment in which new businesses (including social enterprises) can thrive and provide new employment opportunities; and
- Changing the culture and profile of Devonport, so that it is an attractive place to live and earn a living; an attractive place for businesses to locate and a place where residents believe in their ability to use their talents, develop skills and contribute to the business life of Devonport and Plymouth.<sup>7</sup>

### ***Project Background***

3.11 The Small Business Support Grant project is most closely aligned to the second of these strands: to ‘Assist the growth of the Devonport economy’ and in particular helping businesses to survive. The grant scheme aimed to make a significant contribution towards safeguarding jobs through business survival and retention in the local area as well as helping to address levels of unemployment and worklessness within the NDC area through grant aided business expansion and job creation.

3.12 Currently a significant number of household incomes in Devonport are based on benefits or low wage, low status jobs. Consequently businesses that predominantly traded locally were competing for limited household spend, contributing to a tough local trading environment.

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<sup>6</sup> Devonport Employment Strategy, Roger Tym & Partners (2004)

<sup>7</sup> Ibid.

- 3.13 The tough trading environment was compounded further by a medium-term decline in customers caused by the relocation of some residents out of the area to enable the demolition of large areas of social housing. Residents will not return to the area in significant numbers until the housing redevelopment has been completed, thus intensifying the impact of an already low customer spend with local businesses.
- 3.14 During this difficult time the DRC Partnership saw it as a priority to offer support to the local business community to ensure business survival and retention in the area. It is assumed that once redevelopment in the area is complete (much of it is planned to be by 2013) and residents (customers) return or move to the area, the grant scheme will no longer need to operate.
- 3.15 Prior to this project there were no specific Business Grants for Devonport businesses. Pre-existing support focused on loans with a small grant element for new business start-ups and a project delivering Retail Security Grants. However, these were not aimed at mitigating the medium-term impact of resident relocations.
- 3.16 The Devonport Small Business Support Grant aimed to offer help to local businesses not in a position to provide 100% funding for upgrading premises, improving access, marketing, security and any initiatives to expand trade. On top of this, not all businesses met the criteria for the pre-existing financial assistance available within the city. The grant is one of four grants available to Devonport based businesses, the others being:
- Security based grant;
  - Grant for IT upgrades (established on reflection of the level of demand for grant aid of this nature through business support grant project); and
  - Business start up grants.
- 3.17 The small business support grant project thus aimed to provide a quick and locally based scheme to encourage local traders to invest in their business and:
- Expand business activity;
  - Improve the visual appearance of their commercial premises ;

- Provide better access and service improvements for public benefit; and
- Carry out minor property improvements.
- Undertake local marketing, advertising and other initiatives to help expand trade.<sup>8</sup>

3.18 These areas of provision were broken into four types of assistance by the DRC Partnership:

1. Minor property improvements to commercial premises;
2. Access and service improvements for public benefit;
3. Local marketing and advertising; and
4. New initiatives within existing businesses to expand trade subject to this being part of a proven business plan.

3.19 Schedules of proposed expenditure were to be supported by a minimum of two competitive quotations/estimates. With regards to the first two forms of assistance – survey work would be carried out by a suitably qualified contractor prior to and after completion of the grant aided works.

3.20 The survey work was required to ensure that there was no contravention of planning regulations and to ensure that applicants were not applying retrospectively. Equally a site visit is required after the work is completed to confirm that it has in fact taken place.

### ***Eligibility***

3.21 A set criteria was established to assess eligibility for the small business support grant, the applicant was required to be:

- An owner/manager operating a commercial business within the DRC Partnership area and have been operating for at least 12 months prior to making an application;
- A business that is not part of a group where the total employment of the group exceeds 250;
- A business that must employ fewer than 20 people; and

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<sup>8</sup> DRCP Project Application Form – Small Business Support Grant (2003)

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- Able to provide proof of business status – copy of company certificate, sole traders/partnerships and a copy of public liability insurance certificate.

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## 4. DELIVERY

- 4.1 Devonport Small Business Support Grant was initially conceived by DRC in conjunction with the Work Focus Group, (which includes members of the local business community). The project was managed and delivered solely by DRC Partnership staff until May 2007.
- 4.2 After May it was decided the project would be better delivered through Devonport Business Support Services (DBSS) – a subsidiary of Enterprise Plymouth Ltd (EPL). DBSS had been delivering a suite of business support to local businesses in Devonport for several years and the Community Business Advisor (CBA) had established excellent linkages with a significant proportion of businesses located within the area.
- 4.3 The grant had in the past been promoted through DBSS, yet applications had been submitted to DRCP for assessment. It was felt that given the prominence of DBSS within the Devonport area, transferring the responsibility of the grant to them would help provide the initiative with more independence from DRCP. It would also enable DBSS to work closely with businesses through a broader suite of support, providing a joined up approach, aiding the perception of DBSS as a “whole business service”. It could also, for example enable the grant applicants to receive guidance with writing business plans whilst at the same time offering DRCP (the fund holders) a facility to vet grant applicants prior to receiving an application.
- 4.4 Originally the grants focussed solely on supporting the then current retail offer in Devonport. This later morphed to include any small business within Devonport. The grant scheme allowed for 75% of the businesses required investment, up to a maximum of £3,750, in any two year period as long as the initiative was consistent with one of the four types of assistance outlined in section 3:
- Minor property improvements to commercial premises;
  - To improve access and service improvements for public benefit;
  - Local marketing and advertising; and

- New initiatives within existing businesses to expand trade subject to this being part of a proven business plan.

### ***Grant Application Process***

- 4.5 Businesses wishing to make a grant application were identified in 2 ways. They either approached Devonport Business Support Services independently, or were identified as part of typical business support related discussions that the Community Business Adviser (CBA) may be having with the business.
- 4.6 A business plan would be developed (if the grant was to be used to target new initiatives within existing businesses to expand trade) with Support from the CBA to provide evidence and justification for the need for the business support grant.
- 4.7 DBSS would provide advice and guidance on completing the grant application form which would then be passed onto the project funding body, DRCP. If the grant application was approved by the Work Theme Group the applicant would be issued with a guarantee of reimbursement. The guarantee of reimbursement ensured that once the business had made the expenditure DRCP would reimburse them on submission of the appropriate receipts.
- 4.8 Whilst the transfer of the grant process and package to DBSS clearly has a number of distinct advantages, it does enhance some negative issues. The period of reimbursement was considered to be rather lengthy prior to the transfer and this period has now extended slightly. Essentially, the transfer has created a further stage in the payment process as the necessary materials to secure reimbursement travel from DBSS, to DRC Partnership, to Plymouth City Council back to DRC Partnership and then to the business, via DBSS.
- 4.9 The timescale for this process of payment is around 8 weeks as standard although this has in some instances taken longer. Given the focus of the scheme on business retention and survival (in addition to business growth) a delay of these lengths, in being reimbursed for capital works, is likely to be a significant disincentive for participating in the scheme.

4.10 It was estimated prior to the commencement of DBSS that up to 30 businesses within Devonport would be eligible for the grants. Although there was no guarantee that there would be 100% take-up. In reality (and discussed further within section 6 of this report) the project has received 37 applications for grant aid since April 2005. However, in some instances this has been the same business applying again once the 2 year period for securing grant aid is complete (at which point a business is eligible to reapply for further funding).

### **Promotion**

4.11 Initially the local newsletter provided the trigger for promotion however the word of mouth approach appears to be the main driver for new uptakes of the Business Support Grant.

4.12 In addition, the Community Business Adviser often self-promotes the scheme through her walkabout throughout the NDC area where she visits the local businesses. The scheme is said to offer an excellent approach to gaining a foot in the door and engaging businesses that previously have not engaged with any public sector funded business support provision.

4.13 More recently there is reported to have been an increase in the number of grant applicants, this is evidenced by the need for a claim assessment panel to be run (an assessment of grant applications undertaken in partnership between DRCP and the Business Community Adviser from DBSS). The meetings tend to run every 4-6 weeks but early on within the initiative, there had been a need to cancel some of the claim assessment meetings due to the fact that no applications had been received over that period. More recently the volume has picked up significantly necessitating regular meetings once again.

4.14 Further feedback has highlighted the relocation of the DBSS team to the Welcome Centre as further benefit to the scheme. Having a private meeting room for one to one business consultation around a company's business plan, particularly in association with securing grant aid is highly valued. It is said to provide reassurance to the business that their plans for growth and their operation of their business in general is discussed and treated in

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confidence. Furthermore the new facility has longer opening hours, again valued by local businesses. The previous location for the support service was only open until 4.30pm as it was a shared premises, support can now be offered up until 6.30pm in the evening, thereby providing flexibility to offer support to businesses at a time when they can access it.

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## 5. PROJECT MANAGEMENT

- 5.1 The Small Business Support Grant project is delivered through the DBSS team and in particular the Community Business Adviser (CBA) within that team. The CBA is line managed through the Business Advice Centre, (a wholly owned subsidiary of Enterprise Plymouth Ltd (EPL)).
- 5.2 EPL's, the Business Advice Centre's and now DBSS' extensive experience in delivering start up and small business support highlights the level of benefit in securing the team to deliver this project. The Business Advice Centre is based in the local area but outside of the NDC area and local businesses are said to be reluctant to access the BAC perceiving that it is not for them. The DBSS programme helps to overcome these concerns by offering proactive support in the local area of Devonport for businesses.
- 5.3 It was hoped that having local support provision would aid businesses in accessing support and eventually progressing onto mainstream provision through the BAC. In some instances this has taken place but the aforementioned restructuring of the mainstream support provision has meant that provision at BAC is not necessarily guaranteed to be the mainstream offer (the future of which is still being refined at a national and local level).
- 5.4 Whilst line management is offered by the BAC, project monitoring is undertaken by DRCP. After initial teething problems this structure appears to work effectively. The teams have worked together for several years and have built up a good rapport.

## 6. PROGRESS AND IMPACT

- 6.1 This section outlines the progress of the scheme in the delivery of outputs against targets. The assessment has been undertaken based on a review of outputs as submitted in the quarterly returns to the DRC Partnership. Comprehensive data from the DRCP was only available for the last financial year of the project.
- 6.2 Table 6.1 below provides details of delivery on the small business support grant project. The table highlights a significant increase in delivery for the most recent year, far surpassing that experienced in previous years and almost doubling the target for the 2007-08 year despite that target representing an uplift.

<b>Table 6.1: Devonport Small Business Support Grant - Businesses Receiving subsidies</b>											
2005-06	2006-07	Qtr 1 (07/08)		Qtr 2 (07/08)		Qtr 3 (07/08)		Qtr 4 (07/08)		2007-08 Total	
Actual	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
8	9	3	5	3	3	3	6	3	9	12	23

- 6.3 Considering outputs alone the figures suggest that the transfer of operation of the small business support grant to DBSS has had a significant positive impact on the scheme with delivery increase by over 2.5 times on delivery in previous years.

### **Business Survey**

- 6.4 A postal survey of businesses that applied for grant aid as part of the small business grant scheme was distributed to 50 businesses throughout Devonport. The details of the businesses were provided by the DBSS team and the DRCP; they were then amalgamated and de-duplicated. 9 completed surveys were returned to the study team giving a response rate of 18%.
- 6.5 Most of the respondent businesses that applied for the grant were fairly well established, almost half of recipients had been based at that location for between 3 and 5 years, no respondent had recently located whilst some had been there for longer than 30 years.

- 6.6 Business size ranged from one employee to 41 employees, and the total number of employees for all business respondents was 92. Rather disappointingly, of the 92 employees only six were from Devonport. It is also rather worrying that one of the nine respondent businesses had more than 20 employees, as this contravenes the criteria for eligibility. They may of course have expanded to this size after securing grand aid but an expansion of this scale could be considered rather surprising.
- 6.7 Five of the nine (56%) respondent businesses were from Richmond Walk while the other respondent businesses were from a variety of locations. Whilst this is a significant proportion of the total respondents it is not reflective of the distribution of businesses in Devonport. This is also not representative when compared to the full data set of business beneficiaries for the year where Richmond Walk based organisations represented around 30% of applicant businesses thereby suggesting that there is a greater propensity to respond to postal surveys in the Richmond Walk area.
- 6.8 Businesses were asked how they found out about the business support scheme and a broad range of responses were received with several citing word of mouth, several responding on the receipt of promotion material and a number responding on the back of direct contact from the CBA.
- 6.9 Seven of the nine respondent businesses found the support they received from DBSS to be very good with just one citing the support as “poor”. The majority found the application process to be fairly straightforward with only two finding it to be either complicated or very complicated.
- 6.10 Surveyed businesses were asked to comment on the length of time it took for their business to be reimbursed the agreed grant amount after their initial payment. The businesses gave a broad range of feedback on this aspect with some being reimbursed in 2-4 weeks however the majority waited more than 6 weeks with three respondent businesses having to wait between 8-10 weeks to be reimbursed.
- 6.11 Businesses were asked whether the delay in reimbursement caused any problems in the operation of their business and 4 of the 9 respondents confirmed that they had with the consistent issue of cash flow problems, one

suffered an increase on their bank loan whilst another had to borrow extra money from other funders to cover the costs in the interim.

- 6.12 More positively, the respondents cited a wide range of impacts on their business as a result of receiving the grant aid. Eight of the nine respondents said that they had increased turnover as a result of the investment with one saying that turnover had increased by £250,000 which had in part been influenced by the grant. Five businesses had expanded into new market areas through the use of the grant whilst four businesses safeguarded jobs as a result of the grant.
- 6.13 The grant has influenced seven of the recipient's plans for the future with several looking to increase staffing levels or increase their product range, whilst six businesses stated that the grant had enabled them to target new customer markets for the future as a result of the investment.
- 6.14 Finally businesses were asked how the grant scheme could be improved, on the positive side, comments included the following:

*"In our case I don't think any improvements need to be made, it was all fairly simple and the staff I spoke to were extremely helpful."*

*"It is an excellent initiative and we are very grateful for the financial assistance and the professional manner by which our grant application was handled."*

- 6.15 Following an earlier theme within the survey, there was a desire from some businesses for improvements to the scheme:

*"Reduce time between expenditure and receiving the grant"*

*"Length of time it has taken to be refunded (needs to be shortened)"*

## 7. THE FUTURE OF FINANCIAL SUPPORT TO BUSINESSES

- 7.1 Grant provision is an increasingly rare approach to offering business support. Its presence is almost solely confined to areas where some of the most severe deprivation exists, and even here its presence is diminishing.
- 7.2 Concerns regarding value for money and return on investment, combined with the risk of grant dependency and anti-competitiveness have led to the loss of almost all grant aid from mainstream business support provision.
- 7.3 Mainstream provision has been going through a major restructure, driven by the need to simplify the programme of business support in the UK and the desire to realise the government's ambition of making the UK the best place in the world to start and grow a business.
- 7.4 As part of the Business Support Simplification Programme a product portfolio has been established describing a set of commonly funded business support products that will form part of the mainstream offer. The exact products are still in development but the broad business themes under which they will sit have been identified.

### Framework of 18 Business Support Thematic Areas:

- Business collaboration networks
- Business expertise for growth
- Debt finance
- Promoting resource efficiency and sustainable waste management
- Innovation collaborations
- Investigating new overseas markets
- Preparing to export
- Risk capital
- Skills solutions for business
- Business creation
- Capital investment grants
- Export credit guarantee
- Getting the most from foreign direct investment
- Innovation finance
- Local community business coaching
- Financial awareness and capability
- Protecting the Natural Environment
- Shared business support environments

- 7.5 In terms of potential products that may offer long term support to those businesses based in Devonport, the thematic areas suggest that support provision under the capital investment grants, debt finance and innovation

finance appear, by title alone, to be the most likely routes of business support products that could facilitate the continued provision of financial support to Devonport businesses long term. Further details of the likely nature of business support funded through these thematic areas is set out below:

### **Capital Investment Grants**

- 7.6 A grant is linked to investment (human or physical capital) in productivity growth and skills to encourage sustainable investment and job creation in some of the most disadvantaged areas in England.
- 7.7 Grants would be made available to promote the expansion, rationalisation, modernisation and diversification of economic activities of businesses located in disadvantaged regions, in particular by encouraging firms to set up new establishments in the Assisted Areas<sup>9</sup>. Support will be made available to all companies in assisted areas and SMEs in non-assisted areas.
- 7.8 Projects will be supported where:
- There is strong evidence that the project would not go ahead without support;
  - The project has a good chance of delivering a sustainable productivity improvement; and
  - The project is of benefit to the regional and national economy (i.e. it will not simply displace similar economic activity from a deprived area).
- 7.9 Intervention rates, for areas of Plymouth, as part of the assisted area status on capital investments are as follows:
- Small businesses (1-49 employees) – 35%;
  - Medium sized businesses (50-249 employees) – 25%; and
  - Large businesses (>250 employees) – 15%.
- 7.10 The capital grants scheme broadly reflects the approach offered through the existing selective finance for Investment in England. Its focus is on much

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<sup>9</sup> A larger number of wards in the city of Plymouth have been designated with assisted area status including Devonport, St. Peter and the Waterfront and Stoke.

larger grant aid projects than those offered within Devonport with a minimum grant threshold of £10,000 therefore demanding a total investment of over £28,500 for small businesses.

### ***Debt Finance***

7.11 **Security** and **loan finance** for SMEs with viable propositions but lacking the necessary track record or collateral to obtain a loan. Funding will be offered through a dual provision of guarantees and loan provision for SMEs, particularly less well-established enterprises and those underserved by mainstream providers.

### ***Innovation Finance***

7.12 Finance to assist a business to develop and exploit new ideas, to stimulate productivity, environmental sustainability and economic competitiveness through increased UK innovation by providing financial assistance to increase business ability to engage in a range of early stage research and development activities.

7.13 Grants / loans would assist with the cost of:

- Research and development by the business, including obtaining intellectual property rights, 'proof of concept', market research, and capital expenditure linked to prototyping and large scale demonstrators;
- Using third parties, such as consultants, patent agents to undertake the above activities; and
- Demonstration projects involving the early adoption of new technologies with a potentially significant environmental benefit, such as promoting low-carbon energy technologies and the better use of energy.

7.14 Grants / loans would be given to UK-based pre-start, start-ups and SMEs engaging in Research and Development projects in technologies or applications of national or regional importance.

### ***Mainstream Business Support in Plymouth***

7.15 The rationalisation of business support provision was undertaken alongside the sub-regionalisation of mainstream business support providers. In

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Plymouth the contract has been let to Peninsula Enterprise who will provide business support provision throughout the former counties of Devon, Cornwall and Somerset.

- 7.16 Peninsula Enterprise is currently in the process of commissioning providers to deliver aspects of the business support product portfolio outlined above. It is likely that Enterprise Plymouth are currently applying to deliver some form of business support in Plymouth however as this is a competitive process there is no guarantee that they will secure funding through this route.

### ***European Regional Development Fund Competitiveness Programme 2007-2013***

- 7.17 The European Structural Funds programme for the 2007-2013 period offers further opportunity to finance the generation of new businesses and the sustainable growth of existing small businesses through the European Regional Development Fund (ERDF) programme. The ERDF programme is divided into 3 priorities:

- Priority Axis 1: Innovation and Knowledge;
- Priority Axis 2: Enterprise and Growth; and
- Priority Axis 3: Urban Enterprise.

- 7.18 Priority Axis 3 provides perhaps the most likely opportunity for future funding provision of a similar nature to that currently offered through the Devonport Small Business Grants project with a strategic objective of “increasing the level of enterprise / social enterprise activity in the region’s most deprived neighbourhoods.”<sup>10</sup> Whilst Priority Axes 1 and 2 are available throughout the south west region, excluding Cornwall, Priority Axis 3 (Urban Enterprise) is targeted at three specific locations; Plymouth, Torbay and Bristol.

- 7.19 Each of the three geographical areas has been tasked with developing a framework of proposed activity for the period up to 2013. Within Plymouth’s framework proposed activity includes the provision of a small business loan/business rehearsal grant fund. It is proposed that the fund would support the development of new businesses with a a mixture of grants to enable

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<sup>10</sup> The South West Competitiveness and Employment Programme - Operational Programme 2007-2013

beneficiaries to develop business ideas and loans of up to £3,000 for fledgling businesses.<sup>11</sup>

7.20 The frameworks are the precursors to annual delivery plans which will provide more specific details of the nature of activity on an annual basis. It is hoped that activity will commence from January 2009 and is likely to include enhanced provision to deprived areas (largely through the intensity of support on offer) delivered through mainstream providers in addition to specialist provision that reflects specific needs within each of the target areas. Strands of activity will include:

- Small scale infrastructure and facilities that benefit local neighbourhoods linked into Enterprise/Innovation hubs elsewhere;
- Promoting and encouraging the creation of new enterprises/social enterprises within under-represented groups. Support will include mentoring, support in the pre-start phase, access to finance and investor readiness support, and on-going coaching;
- Access to finance including small scale loans and community finance type initiatives;
- Access to targeted business support services in the community likely to be delivered through locally based intermediary organisations; and
- Enterprise opportunities from environmental improvements such as energy efficiency, waste minimisation and renewable energy.<sup>12</sup>

### ***Loans and Grants***

7.21 The regeneration of Devonport has been beset by delays although construction on the largest site, the stores enclave, is well underway with some of the early phased houses completed. However, the challenges the scheme was initially established to overcome (transitional population and tough times for trading for example) remain. This provides some justification for the continued offer of grant funding to Devonport businesses particularly

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<sup>11</sup> Plymouth's Strategic Investment Framework for Urban Enterprise, EKOSGEM and SERIO (2008)

<sup>12</sup> South west competitiveness and employment programme - Operational Programme 2007-2013 (2008)

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as there will be an increasingly pressing need for existing businesses within the area to upgrade their offer in response to changes in demand from the consumer (the local resident).

- 7.22 Elsewhere grant aid has largely been marginalised to NDC areas alone with provision targeted at specific businesses (particularly start up businesses) or for specific needs (for example designing out crime). Soft loans or loans with a low interest now are becoming the preferred option to offer in wider geographical areas of deprivation, for example in Plymouth
- 7.23 Currently, there are other funding based initiatives within the local area to aid the support of small businesses; however these are not in the form of grant aid. Interest free loans are available within the city for low levels of funding (up to £600) and there is also a low interest loan available for larger forms of funding (up to £5,000) with a 7.2% rate of interest. Furthermore, consultations regarding the emerging programme of European funding suggest that the only likely financial assistance available through the programme will be targeted at new start businesses with financial support of up to £3,000.
- 7.24 Clearly, whilst these are highly competitive offers when compared to the private sector market place, they do not nearly compare to the current offer within Devonport yet it could also be argued that no other area within the city faces a similar level of challenging circumstances to that experienced within Devonport.

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## 8. CONCLUSIONS AND RECOMMENDATIONS

- 8.1 The small business support grant remains a popular scheme in Devonport, the transfer of the provision of the grant to DBSS has helped to enhance the scheme's independence and promote DBSS in broadening its offer to local businesses.
- 8.2 The grant provision is either linked to the development of a business plan or provides support in the form of capital works or marketing. Providing the combined offer of support of DBSS and grant aid has helped to significantly increase the number of applicants.
- 8.3 The business survey has highlighted the significance in terms of impact that the business grant has had on recipient businesses. There are around 106 businesses registered in Devonport<sup>13</sup> and as of March 2008 the total number of applications for grant aid stood at 46 representing around 40% of total businesses within the area and is clearly a true additional business community resource. However there have been a number of occasions where, once the 2 year period is over, businesses have been able to reapply for grant aid so each application does not represent an alternative business.
- 8.4 Regardless of this, support has still been delivered to a very high proportion of businesses and the uplift in grant applications as a result of the transition to DBSS has facilitated this high intervention rate. Integrating the provision has helped to increase business usage of DBSS as the grant offers an excellent "carrot" for "engaging the unengaged" businesses.
- 8.5 There is a clear lack of alternative grant funding of this nature available to small, yet established businesses. Other, less competitive products exist such as loans but the challenges for securing these from the private sector, particularly in light of the credit crunch mean that any displacement of alternative funding is likely to be extremely low. The provision of the grant has therefore had very little influence (if any) on stopping alternative means of funding being invested in businesses in Devonport. Furthermore, grant aid of this nature is offered on a 75% intervention rate, therefore warranting

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<sup>13</sup> DRC Partnership – Project Decision Making Panel April 2008

business investment to meet the full cost. In many instances businesses would not have embarked on this investment and the initiative therefore, has been instrumental in facilitating the leveraging in of private sector investment.

- 8.6 Since the project was transferred to DBSS to deliver, over 80% of applicant businesses have secured grant aid to help with local marketing and advertising and to expand business trade. The emphasis of the scheme is clearly on supporting local businesses to promote their own services within Devonport and beyond and, from the business survey it is having a positive impact on achieving that aim. This is welcome and should be continually promoted particularly given the likely change in demands of the local consumer as a result of the local redevelopment. The financial scope of the initiative is relatively small however and the extent to which the scheme can embark on any major capital improvements or respond to any future workspace needs, for example, is very limited due to the costs involved in anything of this nature.
- 8.7 The justification for intervention and funding for a scheme of this nature was driven by the decline in trade as a result of the decanting of residents from the Devonport area due to the extent of physical regeneration taking place. The link between trade and local residents is appropriate to some extent but perhaps is not relevant throughout the business community. The study team believe its relevance is limited to:
- Those businesses that operate on a business to consumer (B2C) basis and focus their trade locally;
  - Business to Business operations where the supply chain is local (within Devonport); and
  - Business operations where a high proportion of employees are residents within the local area.
- 8.8 A significant proportion of businesses are accessing grant aid from the Richmond Walk area of Devonport. This area has differing needs and opportunities in comparison to the rest of the NDC area; many businesses operate within the marine sector and leisure industry with a supply chain driven by Princess Yachts or other marine industries surrounding the waterside within Plymouth. On the whole, the study team believe the area is

likely to have little association with Devonport residents and minimal associated impact from the decanting of residents. Equally, whilst the survey suggests that the grant aid is having a massive impact on their business, the extent to which this is impacting Devonport residents and areas of deprivation is minimal (the number of Devonport resident employees drawn from the survey provides some evidence to support this).

### **Recommendation**

*Were any grant aid to continue for small businesses locally it should be more closely tied into the businesses that are being more directly impacted upon by the regeneration of Devonport. This is likely to exclude many businesses that do not fall into the criteria outlined above (where local multiplier effects would be minimal) and focus on those businesses operating within the business to consumer area (B2C).*

- 8.9 The transfer of the grant provision to DBSS was driven in part by a need to facilitate a greater rate of intervention with the stock of businesses in the Devonport area. Whilst the intervention rate is somewhere between 30-40% there is still a significant market of businesses that are yet to be engaged for grant aid support. The extent to which previously unengaged businesses can be targeted is somewhat limited by businesses who are beginning to return to the scheme once the two year period of grant aid has lapsed. This approach would suggest a bias towards those businesses that already engaged and are proactive in their approach to securing grants, perhaps at the expense of the harder to reach, harder to engage businesses that may have a greater level of need.

### **Recommendation**

*Prioritisation of grant aid to those businesses previously unengaged with support provision (or have not benefited from this aspect of support before) for the first half of any funding period with associated targets driven by a focus on increasing the intervention rate of business support within Devonport.*

- 8.10 The physical regeneration of the area is still ongoing, therefore the tough business climate remains (and perhaps has been enhanced through the

recent economic downturn), this provides some level of justification for the utilisation of grant aid to small businesses. However, such aid is rarely offered to established businesses now and financial support offered elsewhere in the city does not rival products available in Devonport. Business impact is said to be significant yet there remains a real danger of grant dependency, particularly given the suite of grant aid packages now available to Devonport businesses.

### **Recommendation**

*A reduction in the rate of intervention for the grant at the least should be considered as part of the long-term strategy for aid of this nature to reduce the gap between Devonport provision and that offered through the mainstream or other specialist schemes. The study team suggest that a 50% intervention rate would represent a conservative reduction but would begin to help address any dangers of grant dependency that may emerge beyond 2010.*

- 8.11 Other grant aid available for security, start up and IT provision provides a breadth of support to local businesses that may be unrivalled in many areas including those designated as New Deal for Community areas. The majority of businesses fail in the first three years and whilst the start up grant helps provide a level of support to new businesses, the loss of the small business grant may provide challenges for those businesses in operation beyond a year.

### **Recommendation**

*Further refinement of eligibility criteria could be undertaken so that the grant would act as a 'provider of last resort' particularly for businesses in operation for up to three years (and therefore still likely to be experiencing 'teething problems'). Grant aid should be offered as a package to include other non grant based support through DBSS to provide intensive assistance to sustain an organisation's operation long term.*

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## ANNEX 1: STAKEHOLDER CONSULTATIONS

Name	Organisation
Teresa Lakeman	DRC Partnership
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Anita Burnard	DRC Partnership
Anne Freeman	Annie's Funny Faces
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Sheila Parkes	Business Advice Centre