

# ISLES OF SCILLY VOUCHER SCHEME SUMMATIVE ASSESSMENT REPORT

Prepared for the Council  
of the Isles of Scilly  
by Southern Horizons (UK) Ltd  
and Buckman Associates Ltd



**European Union**  
European Regional  
Development Fund



**IOS  
VOUCHERSCHEME**

Southern Horizons (UK) LTD



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## Executive Summary

This report provides an independent summative assessment of the Isles of Scilly Voucher Scheme (IoSVS) which is being funded through the Cornwall and Isles of Scilly (C&IoS) European Structural and Investment Funds (ESIF) and delivered by the Council of the Isles of Scilly.

The summative assessment took place between May and December 2018. In addition to a desk based review of documentation the research included a survey of 34 IoSVS grant recipients, representing 35 projects, largely undertaken by telephone. Methods also included a workshop session with the IoSVS delivery team and conversations with a strategic selection of 11 stakeholders.

Key findings were as follows:

**Project Context** - Evidence suggests that there was a strong rationale for this project at the time of the application and it was designed to address a clearly identified market failure. The project was also, for the most part, well designed for delivering sustainable business growth. In particular the streamlined process for smaller grants was useful as was the time built in to support applicants with compliance requirements and sign-posting. More generally, the size range and flexibility of the grants was helpful, enabling the scheme to support both large and small projects and, given the profile of the business base, the ability to support tourism based businesses was essential.

However, whilst the fundamental features of the project design were right for the economy of the islands and the needs of the business, the profiled outputs were inconsistent with the design, potentially arising from a methodological error in the profiling at application stage. As a result the original C1/2 enterprise supported outputs were overly ambitious.

The context also changed somewhat over the lifetime of the project. Although its objectives remained relevant in terms of the economy and national policy throughout, the BREXIT vote impacted on project delivery. There have also been some local developments, such as the Smart islands Partnership and the new Destination Management Plan which may have a bearing on future delivery and could provide opportunities for further integration moving forward.

**Project Progress** - As a result of a delay in receiving the Grant Funding Agreement the project started, and has remained, approximately two quarters behind schedule. However, it is on track to conclude by December 2018.

A Project Change Request (PCR) was submitted in May and approved in December to re-profile the capital and revenue budgets and to re-profile some of the output targets. It is expected that 100% of the budget will be spent by project close. With a total of 50 investments having been made, of which 48 are eligible to be counted as enterprise supported outputs, 96% of the revised C1/2 targets have been achieved. Performance has also been very strong in relation to new businesses assisted, private investment levered, employment increase and public/commerce buildings built or renovated. All of these targets will have been exceeded (and in some cases considerably so) by project close.

There was a good distribution in terms of grant size and geographical coverage. Intervention rates varied from 35% to 70%, in part reflecting state aid considerations, but also reflecting discretionary decisions.

Managing the financial profile and overall intervention rate has proved to be challenging. The discretionary element has also led to some concerns about transparency and equity.

**Project Delivery** - There is evidence that the project has been well managed. The Island Futures Board has provided a safety net for the decision making around larger projects but its precise remit has been somewhat unclear and there was some suggestion that it could/should have a greater role.

Most stakeholders felt that, in general, the right investment decisions have been made, resulting in a strong portfolio of projects being funded. However, some of the contract conditions that have been placed on grant recipients by the IFB have been problematic for the businesses.

More generally, despite some challenges, there is evidence that the current IoSVS team has worked extremely hard to understand the ERDF requirement and deliver a compliant project whilst also providing valuable support to applicants and beneficiaries. It is the considered view of the evaluation team that IoSVS would not have been such a successful project without the team's hard work and professionalism.

The majority of beneficiaries were satisfied with the application process because of the support they received from the team. Without this, many would not have applied. However, there was some feedback from a small number of businesses that had been supported in the early stages of the project to suggest that they felt poorly advised by the team about how to proceed. Although this improved over time it does present a risk for the Council. Additionally, we found that there is considerable scope to streamline and simplify the application process.

As part of their support for applicants the team worked hard to engage with other business support providers. There have been some particular challenges with the Growth Hub (not of the IoSVS team's making) but also some good examples of where this is working well both on the mainland and with Smart Islands.

They also worked hard to integrate horizontal principles into project delivery.

**Outcomes and Impact** – There is evidence that the project has made a difference. There is a strong relationship between the investment activity and wider economic, social and environmental outcomes for the islands, with investments contributing to several broader strategic objectives identified in the Island Futures Plan.

Alongside a number of 'soft impacts,' businesses reported bottom line benefits including increased turnover, improved profitability and improved resilience, with 91% having already, or expecting to, achieve turnover growth. There is a high level of additionality, with low levels of deadweight, displacement and leakage. After adjusting for additionally, the economic impact at the time of the evaluation is 36 net additional jobs and £1.32m GVA. By project closure, it will have risen to 38 net additional jobs and £1.37m net additional GVA.

The project also made progress in relation to its logic chain and the Priority 3 Results indicators. Strategic added value can be seen in the 'driving up of standards' across the business base and in increasing the profile of the islands as an attractive destination to visit.

**Value for Money** – Although unit costs are slightly higher than benchmarks, when all of the outputs are considered, the project represents excellent value for money, especially given the context of the island economy. For every pound invested there will be a return of £2.9.

**Conclusions and Lessons Learned** - It is clear that IoSVS really has made a difference and there remains a rationale for this sort of project to continue on the islands.

- **Lessons for Policy Makers.** One of the most significant findings to emerge from the evaluation in policy terms is that for island economies such as this, grant schemes can be a really valuable tool for stimulating sustainable business growth and grants still have an important role to play in the economic development toolkit.
- **Lessons for Those Designing and Implementing Similar Interventions.** For those designing and implementing similar interventions we would suggest that there are positive lessons to be learned from the structure of the IoSVS delivery team and their approach to working with applicants. There may also be (less positive) lessons from this project around ensuring that output profiling is accurate and realistic from the start.
- **Lessons for the Grant Recipient.** Notwithstanding the positive comments made above, it is suggested that for any future schemes the Isles of Scilly Council could:
  - Review the application process, particularly the applications forms, with the aim of making them more streamlined and user-friendly where possible (without compromising ERDF requirements);
  - Reconsider the approach to intervention rates, to improve the transparency of decision making and reduce the associated financial and administrative burden for the team;
  - Look to minimise the risk to the Council of providing applicants with incorrect or inaccurate advice by ensuring that the team members have been fully trained and by conducting internal quality checks at regular intervals throughout the project;
  - Clarify the role of the Island Futures Board, so that everyone understands its remit within the process; and,
  - Explore alternatives to using contract conditions for applicants when trying to ensure that they meet strategic objectives. This could include, for example, additional and transparent criteria to align with strategic intent and/or launching ‘calls’ for particular types of project to come forward.



# Section One: Project Context

## 1.1 Introduction

This report provides an independent summative assessment of the Isles of Scilly Voucher Scheme (IoSVS) which is being funded through the Cornwall and Isles of Scilly (C&IoS) European Structural and Investment Funds (ESIF) and delivered by the Council of the Isles of Scilly. The summative assessment took place between May and December 2018 and included both primary and secondary research methods.

The evaluation methods and this report were designed in accordance with the Ministry for Housing, Communities and Local Government (MHCLG) guidance on conducting summative assessments, alongside client requirements for specific insights in order to support on-going local delivery.

### 1.1.1 Methodological Note

The IoSVS summative assessment is underpinned by a theory-based approach, building on the project logic chain and the questions identified in the brief. It does not include use of a control group which is arguably most technically robust, or 'gold standard' approach to establishing the counterfactual because it would have required planning in advance of the evaluation being commissioned. Such an approach would have been impractical within the timeline of the study and would, in any case, have raised a number of methodological challenges within the local context, not least of which would be finding suitable comparators for an island economy. However, the assessment has endeavoured to focus on what might have happened in the absence of the intervention in a qualitative sense through the research consultations.

Primary research methods included a survey of 34 IoSVS grant recipients, representing 35 projects. The survey was largely undertaken by telephone using a structured interview guide. However, face-to-face conversations were held with eight of the recipients, including two individuals that were also interviewed in their capacity as a project stakeholder; and six individuals who took part in more detailed conversation from which a set of case studies was developed. The primary research also included a workshop session with the IoSVS delivery team and conversations with a strategic selection of 11 stakeholders all of which were either undertaken by telephone or on a face-to-face basis. This included members of the Island Futures Board, the Islands Partnership, Smart Islands, Council of the Isles of Scilly and the Tresco Estate as well as four mainland business support providers and a representative from MHCLG.

## 1.2 Aim of the Project

The IoSVS project received its Grant Funding Agreement in May 2016 and will run until December 2018. In summary, its aim was to aid transformation of the Isles of Scilly economy by offering investments of between £1,000 and £100,000 to SMEs located on the Isles of Scilly through a Voucher Scheme. The scheme was designed to support business growth and higher paid jobs on the islands because with project/asset/capital costs averaging 40% more on the islands due to freight and limited access to services, many commercial and business ambitions are never acted upon. It was expected that the vouchers would lead to long term, sustainable business growth including higher value job creation and an increase in Gross Value Added (GVA) by addressing the additional costs that island businesses face in delivering projects.

IoSVS focused on supporting eligible projects that could lead to an increase productivity; promote entrepreneurship; assist in the exploitation of new ideas and innovative processes; and support businesses to grow in regional, national and international markets. As such it was expected that investments would be made into the following (non-exhaustive) activities:

- Access to new markets;
- Feasibility studies;
- Consultancy related to growth ambitions;
- Technology and product design;
- Environmental measures;
- Research and development activities;
- Workspace;
- Equipment; and,
- IT solutions.

Intended outcomes were to increase the economic performance of businesses, increase average wages, increase commercial workspace and ultimately help to diversify the islands' business base. In addition to increasing jobs and GVA the overall impact of the project was expected to be its contribution to the transformation of the economy.

The original contracted ERDF output targets were as follows:

- C1 – 80 new enterprises receiving support;
- C2 – 80 enterprises receiving grants;
- C5 – 10 new enterprises supported;
- C6 - £828,922 private investment matching public support to enterprises;
- C8 - employment increase of 17 in supported enterprises;
- C28 – 5 enterprises supported to introduce new to market products;
- C29 – 30 enterprises supported to introduce new to firm products; and,
- P2 - 300m2 of public or commerce buildings built or renovated.

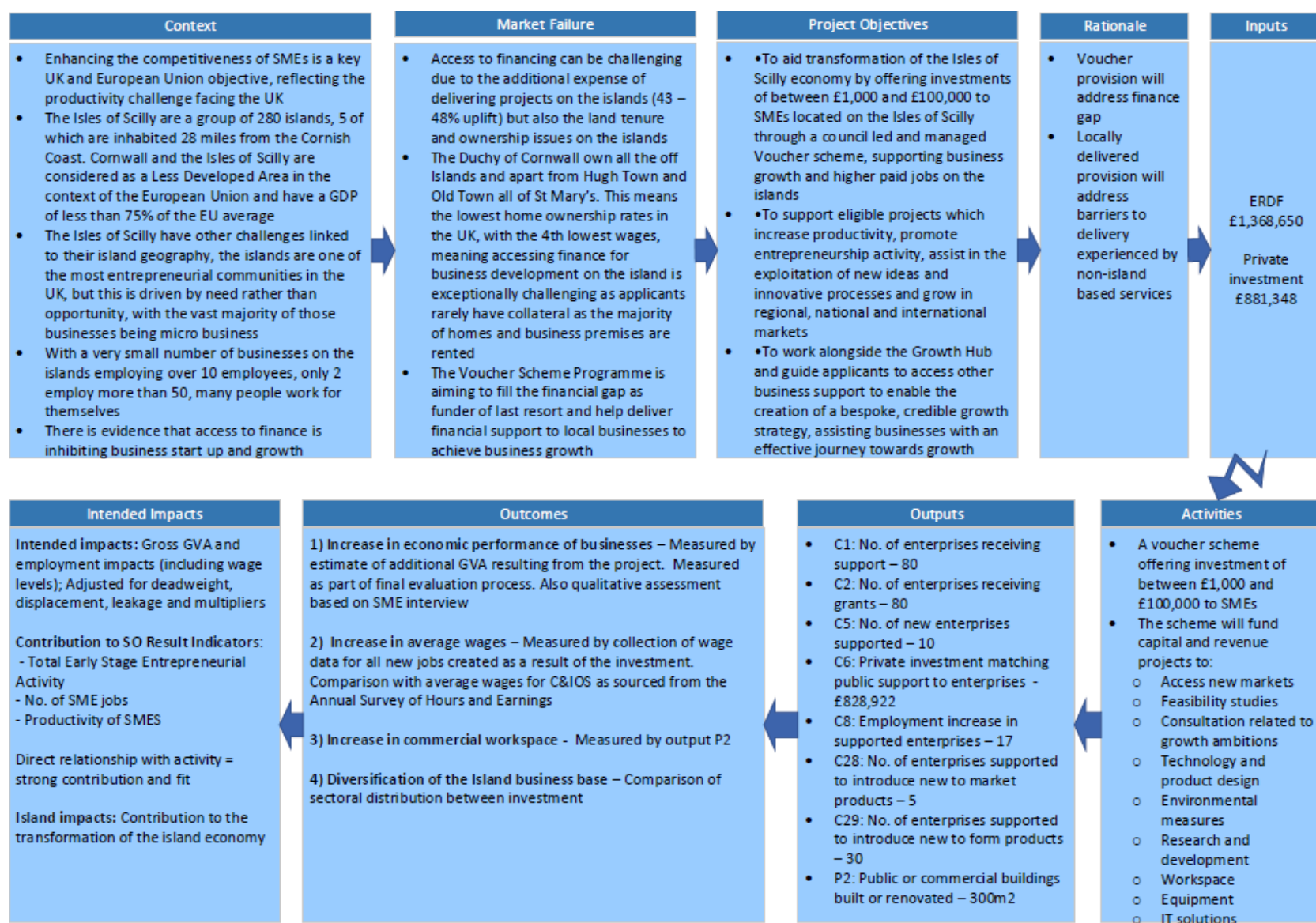
However, a Project Change Request (PCR) was submitted in May 2018, with approval granted in December 2018 (during the course of writing this report), to reduce:

- The C1 and 2 targets to 50;
- The C28 target to 1; and,
- The C29 target to 25.

The project logic model (with the original targets) is shown overleaf.



Figure 1: Logic Model



### 1.3 Addressing Market Failure and Policy Fit

When the application was made Cornwall and the Isles of Scilly as a whole was (and still is) considered a 'Less Developed Area' in the context of the European Union with a GDP of less than 75% of the EU average and the islands represented some of the most disadvantaged locations within that area. In the 30 or 40 years prior to the application being made, the tourism economy had grown rapidly and provided a good living to many people on the islands but had more recently suffered a marked decline. Visitor numbers had dropped considerably and farming and fishing had also contracted, making communities very vulnerable<sup>1</sup>. As set out in the application, additional challenges face the Isles of Scilly linked to their island geography:

- Whilst the islands are one of the most entrepreneurial communities in the UK, this is driven by need rather than opportunity, with the vast majority of businesses being micro business. There are very few businesses on the islands employing over 10 employees and at the time of writing the application only two employed more than 50, with many people working for themselves.
- Access to finance is a clear challenge due to the additional expense of delivering projects on the islands (43 – 48% uplift) but also because of the land tenure and ownership issues. The Duchy of Cornwall own significant proportions of the islands resulting in them having the lowest home ownership rates in the UK, which, coupled with the fourth lowest wages, makes accessing finance for business development exceptionally challenging as applicants rarely have the collateral.
- The high costs of transport make projects much more expensive. For example, food stuffs are at least 19% more expensive than the equivalent on the mainland and building materials range from 50% to 200% more expensive.
- Accessing mainland business support is also very challenging for island businesses. The Cornwall Development Company (CDC) voucher scheme delivered under the previous Convergence programme covered the islands but did not make any investments with island based business despite the interest shown by them. Distance, difficulties in arranging meetings and site visits and the additional expense to CDC of delivering on the islands were identified as clear barriers, alongside the relatively poor value for money of investments compared to mainland investments due to the higher costs involved.

In policy terms the need for dedicated support for island-based businesses had been recognised locally and there was a strong degree of fit between the aims of this project and:

- **The England Operational Programme.** IoSVS responded directly to Priority 3 which aims to improve the competitiveness of SMEs by increasing their capacity and capability and also by promoting entrepreneurship. In recognition of the fact that the Isles of Scilly have some of the highest levels of entrepreneurship in the UK but also some of the least competitive businesses, the Voucher Scheme specifically addressed all three aims through the following activities:
  - *Priority 3A: promoting entrepreneurship-* by providing grants to support productive investment; proof of concept funds; and, the provision of land and premises for employment sites

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<sup>1</sup> <http://www.scilly.gov.uk/sites/default/files/document/policy-documents/Island%20Futures%20final.pdf>

- *Priority 3C: supporting the creation and the extension of advanced capacities for products, services and development* - by increasing grant finance for business to invest for product, process and service improvements; and, the provision of land and premises for employment sites
- *Priority 3D: supporting the capacity of SMEs to grow in regional, national and international markets and to engage in innovation processes* - by providing an efficient local referral route to ensure that SMEs are able to identify and access the most appropriate and tailored support for their needs.
- **The Cornwall and Isles of Scilly European Structural and Investment Fund Strategy.** The Priority 3 Call had identified an Isles of Scilly Voucher Scheme as a specific investment area. The application was an articulation of that call and provided the evidence for the investment.
- **The Island Futures Plan.** The project directly supported the Plan's aim to grow the economy - not just for its own sake, but to help maintain the conditions for healthy communities and healthy businesses on the islands. In being open to the tourism sector, it also explicitly supported one of the central tenets of the Plan that whilst there is a need to focus on economic diversification, tourism will always be the largest part of the economy, so tourism based businesses need to be ready to continually improve their offer.

The proposal was thought at the time to represent the best solution and conversations with stakeholders undertaken as part of the summative assessment reinforce that view. Fundamentally stakeholders felt that that delivery of a grant programme was the best way to achieve sustainable business growth for the islands, given that island businesses were perceived as a high risk for lenders. It was also widely suggested that the IoSVS staff team needed to be physically based on the Islands, rather than it being run from the mainland. Having that very local knowledge was seen as being essential to its success as it offered potential for relationships to be more effectively built on trust. It was also suggested that a locally administered option offered better value for money than options to administer the scheme from the mainland.

Given the evidence presented above it is the view of the evaluation team that there was a strong rationale for the project and that it was designed to address a clearly identified market failure.

## 1.4 Project Design

The IoSVS was focused on sustainable growth and modelled on a successful voucher scheme developed by CDC (the Business Investment for Growth project), but also on lessons from the good practice identified within the Isles of Scilly Local Action Group (LAG) scheme. Particular features included:

- **Differing processes for projects under and over a £10,000 threshold.** Following the CDC model, IoSVS was structured around a dual track process in which applicants requiring less than £10,000 of ERDF investment were required to submit a less detailed business case alongside their application. Decisions about these smaller applications were also made internally without having to go to an Investment Panel.
- **Support for compliance issues.** A key learning point from the LAG was that, as the majority of the businesses were micros they rarely have the internal mechanisms and processes to ensure compliance without help and support so time was built in to ensure that all applicants were ready to accept the grant and be aware of the compliance requirements.

- **Sign-posting to wider support.** Other learning from the LAG indicated that there would need to be a role for the voucher team in facilitating connections between applicants and partners where the SMEs may benefit from the advice and assistance of other support mechanisms. This involved taking a more holistic view of activities happening elsewhere within the programme, nationally and within the local area so that, where opportunities existed, the investment would be able to complement these activities and ensure that best practice was included within delivery.

The grants themselves ranged from £1,000 to £100,000 with flexible intervention rates and, given that the islands' economy is heavily reliant upon tourism, the scheme was, unusually, open to the tourism sector (excluding accommodation businesses), provided that the investments would lead to long term and sustainable business growth.

Feedback gathered through the summative assessment indicates that the IoSVS was, for the most part, very well designed and focused on its objective of delivering sustainable business growth. In respect of the specific design features, the streamlined process for smaller grants was warmly welcomed and in the experience of the delivery team the time built in to support applicants with compliance requirements and sign-posting was also really valuable. More generally, the size range and flexibility of the grants was considered helpful, enabling the scheme to support both large and small projects. Evidence indicates that whilst very small grants may have less impact on the mainland, given the high number of micro businesses on the islands just a small injection can make a big impact and this is also borne out in experience of the businesses themselves (see section 4). Equally, the upper limit of £100,000 was taken up within the scheme and some stakeholders felt that it could potentially be even higher. Given the profile of the business base, the ability to support tourism based businesses was also essential.

The scheme anticipated supporting 80 investments with vouchers and developed a profile of the expected number of projects within each size band (see Figure 2 below), which formed the basis of the outputs model.

**Figure 2: Expected Grant Profile**

Voucher Size	No. of Investments	Total Value of Investments	Average Voucher Intervention Rate	ERDF Funds	State Aid Exemption
<b>£80,000 - £100,000</b>	10	£800,000	45%	£360,000	GBER2
<b>£40,000 - £80,000</b>	8	£406,000	50%	£203,000	GBER2
<b>£20,000 - £40,000</b>	13	£331,500	60%	£198,900	De Minimis
<b>£10,000 - £20,000</b>	12	£153,000	70%	£107,100	De Minimis
<b>£5,000 - £10,000</b>	15	£112,500	70%	£78,750	De Minimis
<b>£1,000 - £5,000</b>	22	£87,000	70%	£60,900	De Minimis
<b>Total</b>	<b>80</b>	<b>£1,890,000</b>		<b>£1,008,650</b>	

Source: ESIF-Form-2-010\_Full\_Application\_Form\_IoS Voucher Scheme

After carefully reviewing this table, it is the view of the evaluation team, that that a methodological error may have occurred. Reviewing the top line of the table, the project expected to support 10 projects, with

vouchers of between £80,000 and £100,000. Had the project done this, it would have committed between £800,000 and £1,000,000 to these 10 projects alone which is the vast majority of the fund. This is not consistent with the 'ERDF funds available' column in the table, which suggested that £360,000 would be available to support these 10 projects. Similarly, the project intended to support eight projects with between £40,000 and £80,000. Again, this would have committed between £320,000 and £640,000 of the ERDF available which is far more than the £203,000 allocated for this size of voucher. The same pattern is observed for each of the size bands and if the project were to have supported the number of businesses profiled in each band, it would have required an ERDF grant pot of between £1.60m and £2.66m. In our view, these inconsistencies may have led to an over-estimate of the number of projects that could have been supported. To illustrate the impact of this, Figure 3 shows a revised estimate of the number of projects that could have been supported with the funds available in each size band. The ERDF funds that are available within each band is divided by the mid-point in the range to produce an estimate of the number of projects that could have been supported. This suggests that given the proposed funding distribution, a more realistic estimate of the number of projects that could have been supported would be 52. This is much closer to the number of projects actually supported by the project (50).

**Figure 3: Revised Estimate of the Number of Projects That Could Have Been Supported**

Voucher Size	ERDF Funds	Mid-point of Range	No of Projects That Could Have Been Supported
<b>£80,000 - £100,000</b>	£360,000	90,000	4
<b>£40,000 - £80,000</b>	£203,000	60,000	3
<b>£20,000 - £40,000</b>	£198,900	30,000	7
<b>£10,000 - £20,000</b>	£107,100	15,000	7
<b>£5,000 - £10,000</b>	£78,750	7,500	11
<b>£1,000 - £5,000</b>	£60,900	3,000	20
<b>Total</b>	<b>£1,008,650</b>	<b>90,000</b>	<b>52</b>

It is the evaluators' view that the fundamental features of the project design were right for the economy of the islands and the needs of the business. However, the profiled outputs were inconsistent with the design, potentially arising from a methodological error in the profiling at application stage.

## 1.5 Continued Relevance and Consistency

Economically, whilst it is difficult to obtain data for the Isles of Scilly specifically, evidence for C&IoS as a whole presents a mixed picture. On the positive side there has been strong output (GVA) growth, and continuing success with the rate of business start-ups. However, average earnings continue to remain low compared to the UK and there is a continuing downward trend in productivity<sup>2</sup>. This indicates that schemes like this remain relevant.

In policy terms, since the project commenced the UK government has published its Industrial Strategy White Paper<sup>3</sup> which outlines its plan to build a stronger, fairer Britain. The strategy aims to boost

<sup>2</sup> GVA/head indexed to UK, Sub-regional Productivity, ONS

<sup>3</sup> <https://www.gov.uk/government/publications/industrial-strategy-building-a-britain-fit-for-the-future>

productivity by backing businesses to create good jobs and increase the earning power of people throughout the UK. The IoSVS project therefore remains policy relevant at a national level. What has changed, however, since the project commenced, is the UK government's decision to leave the European Union following the referendum in June 2016. Some stakeholders felt that this will have impacted on the pipeline of businesses wishing to engage in investment projects such as IoSVS. The delivery team noted that it created something of a hiatus and in the first 2-3 months of delivery projects did not come forward as expected. More generally some fears were expressed about the potential loss of the European staff employed to undertake some of the seasonal jobs on the islands. This was thought to be a real issue in businesses' minds.

There have also been some local developments over that period of time. For example, work has been undertaken by the Islands Partnership which is the principal representative of tourism and tourism-related businesses on the islands to better understand the critical factors to retaining a thriving visitor economy. Its recent Destination Management Plan<sup>4</sup> set out a roadmap for the growth of the visitor economy based on quality improvement, modest seasonal extension, and the restoration of the islands' reputation as a premium destination. Section 4 of this report shows how the IoSVS has made strong contributions to local objectives but stakeholders suggested that future schemes could be more systematically aligned to relevant strategies such as this to ensure that investments dovetail with strategic intent. In particular, some interviewees were keen to see more projects coming forward that extend the tourism season, however, others highlighted that without reliable transport to the islands there is a limit to what hospitality businesses can achieve. They also highlighted that efforts to compel businesses to open for longer, could actually expose them to risks. Nevertheless, looking forward, it was suggested that, if funded, a new Voucher Scheme could be more cognisant of these strategic developments and it could also dovetail more with new programmes that are now in place such as Smart Islands. This could present opportunities for more environmentally focused projects to develop.

### Summary

- Evidence suggests that there was a strong rationale for this project at the time of the application and it was designed to address a clearly identified market failure
- The project was also, for the most part, well designed for delivering sustainable business growth
- In particular the streamlined process for smaller grants was useful as was the time built in to support applicants with compliance requirements and sign-posting
- More generally, the size range and flexibility of the grants was helpful, enabling the scheme to support both large and small projects and, given the profile of the business base, the ability to support tourism based businesses was essential
- The fundamental features of the project design were right for the economy of the islands and the needs of the business. However, the profiled outputs were inconsistent with the design, potentially arising from a methodological error in the profiling at application stage. The outputs were therefore overly ambitious
- The project context did change somewhat over its lifetime. Although its objectives remain relevant in terms of the economy and national policy, the BREXIT vote will have impacted on project delivery
- There have also been some local developments which may have a bearing on future delivery and could provide opportunities for further integration moving forward

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<sup>4</sup> Destination Management Plan, The case for change and a new sense of direction for the Isles of Scilly, January 2018



## Section Two: Project Progress

### 2.1 Introduction

The section of the report provides an independent assessment of the IoSVS project's progress to date. It focuses on progress against milestones as well as progress against the contracted ERDF targets for outputs and spend. It also considers the profile of the outputs to help understand delivery performance.

### 2.2 Progress Against Milestones

As a result of the delay in receiving the Grant Funding Agreement the project started, and has remained, approximately two quarters behind schedule (both financially and on output delivery). Figure 4 shows the key milestones and completion dates illustrating that despite the initial delays the project is nevertheless on track to finish on time at the end of December 2018.

Figure 4: Milestones

Milestone	Start Date	Completion Date	Progress Update
<b>Outline application approved</b>	01/01/2016	23/08/2015	Outline application submitted 25/04/15, approved 23/08/15
<b>Detailed business plan developed</b>	06/08/2015	06/08/2015	Full application approved (successful notification letter received)
<b>Start staff recruitment process at risk</b>	30/09/2015	01/05/2016	Due to advice from DCLG to delay full recruitment until funding agreement was in place
<b>Appoint staff</b>	01/12/2015	01/02/16 and 03/06/2016	Project Manager from 1 <sup>st</sup> February 2016, Engagement Officer and Finance Assistant from 3 <sup>rd</sup> June 2016
<b>First information event held on islands</b>	01/01/2016	16/05/2016	Launch events held on all islands week commencing 9 <sup>th</sup> May
<b>Vouchers available to businesses</b>	01/01/2016	16/05/2016	Corresponds with launch, also highlighted by press release, radio interview and website ( <a href="http://www.iosvoucherscheme.co.uk">www.iosvoucherscheme.co.uk</a> )
<b>Islands Future Board meet to endorse applications</b>	14/03/2016	08/06/2016	Island Futures board meeting, first application endorsements at following meeting scheduled for 06/09/2016
<b>First IoS voucher approved &amp; contracted</b>	28/03/2016	15/06/2016 25/07/2016	Voucher approved by Strategic Development Business Unit (>£10,000 funding). First Offer Letter signed 25/07/16
<b>First claim submitted to DCLG</b>	30/04/2016	30/06/2016	Completed, On The Spot Verification Visit (OTSV) also undertaken to verify claim 20/09/16
<b>First project monitoring meeting</b>	30/06/2016	07/06/2016	Project Inspection Visit (PIV) completed
<b>£900,000 investments supported</b>	31/12/2016	expected	This has now been met – the scheme has committed to support £938,720 of funding given to applicants
<b>Annual review meetings held</b>	12/01/2017	01/03/2017 01/03/2018	PCRs submitted as a result
<b>£1.6m project spend</b>	31/12/2018		On track
<b>Independent evaluation commissioned</b>	30/06/2018		On track
<b>Financial completion</b>	31/12/2018		On track
<b>Project completion</b>	31/12/2018		On track



As highlighted in the introduction, a PCR was submitted in May 2018, and has just been approved. The PCR sought the following changes:

- Re-profiling of the project end date from Nov 2018 to Dec 2018, reflecting the delays highlighted above;
- Re-profiling of capital/revenue budgets, reflecting:
  - A higher than anticipated take-up of revenue vouchers
  - Underspend in staffing/overhead costs
- Re-profiling of outputs as follows:
  - C1/C2 from 80 to 50
  - C28 from 5 to 1
  - C29 from 30 to 25

As discussed previously, the evaluation team believe that a methodological error in the output profiling at application stage led to an overly optimistic estimate of the number of businesses that could be supported with the proposed design. The PCR also highlighted that the C28 output was not clearly defined at the time of the application (when it was assumed that 'market' would be the local market). Subsequent discussions with MHCLG clarified that 'market' is defined as the EU market. The PCR reflected that whilst one investment could be described as meeting this definition, it was unlikely that subsequent investments would do so. There was also a definitional confusion with regards to the ability to claim new to the firm products (C29) in conjunction with new enterprises supported.

## 2.3 Spend and Output Performance

Figure 5 presents the overall targets and progress to date against the IoSVS outputs and spend as at the end of November 2018. It uses the adjusted figures following approval of the PCR as the basis for the assessment, as follows:

### Spend

The original IoSVS target was to spend £948,652 of capital and £420,000 of revenue funding. With approval of the PCR the capital element reduced to £847,268 and the revenue increased to £521,384. This revenue/capital difference came about because IoSVS decided to invest in two large revenue projects. At the time of writing this report just over 76% of the adjusted capital and a little over 72% of the adjusted revenue allocation had been spent. It is expected that the project will achieve 100% of the adjusted capital and revenue figures by project close.

### Outputs

The original C1/2 targets were for 80 businesses to be supported, which, as highlighted elsewhere in the report, was unrealistic within the parameters of the project design. This has now been reduced to 50 and a total of 50 investments have been made to date. Of these, 48 are eligible to be counted as C1/2 outputs (to avoid double counting) and this is the expected final position at project close. This represents 96% of the revised target. Within the above the project had a target for 10 of the businesses to be new enterprises (C5) and it expects to have achieved 21 (210% of the target) by project close.

It is also expected that the private investment target (C6) will be exceeded by project close with the team predicting that £952,341 of match funding will have been levered against a target of £881,348 (108% of the target). This has been a considerable success, as has the project's job creation (C8) achievements. There has been an employment increase of 48.28 against a target of 17 to date which is expected to rise to 50 by project close. This will represent an astonishing 294% of the target.

Delivery of the new to the market products (C28) and new to the firm products (C29) has been slower. Stakeholders were of the view that the original target to achieve five new to the market products may have been overly ambitious given the islands' business base, which does not have a strong track record of exporting or conducting the type of R&D required to develop products that are new to the European market. There was also some definitional confusion regarding both of these indicators which resulted in the PCR request to reduce the target from five to one; and 30 to 25 respectively. One C28 has been achieved (representing 100% of the revised target) and 22 C29s have been achieved to date. The expectation is that the latter will increase to 25 by project close which would represent 100% of the revised target.

Finally, the project has achieved exceptionally well against its (P2) target for 300m<sup>2</sup> of public or commerce buildings built or renovated. The figure currently stands at 1,231.5m<sup>2</sup> and is expected to rise to 1,275.7m<sup>2</sup> which is an incredible 425% of its target.

#### **CASE STUDY – ST MARTIN'S WATERSPORTS**

St Martin's Watersports was set up as a new start business through the Voucher Scheme to fill an identified gap in the market following the departure of a previous kayak hire company on the Island. The voucher enabled the business to be set up and contributed to the cost of purchasing kayaks and paddle boards as well as the associated branding and marketing including a professional website. In the words of company owner, Anna:

*"The voucher de-risked the venture and enabled me to purchase quality equipment along with proper branding which looks amazing."*

Having received the funding in April of this year Anna has had a very successful first summer, breaking all of her projected targets. The venture is largely focused on the tourist market and contributes to the Island's offer for visitors. However, it is also used by locals for events such as birthday parties.



Having achieved a higher turnover than she had ever hoped for in Year 1, Anna has been able to take on additional staff to support with the business and has already been able to invest in new stock for next year. She said:

*"I'm hugely grateful for the funding. The process was simple, the team was supportive and it's already exceeded all of my expectations."*

**Figure 5: Spend and Output Performance as at the End of November 2018**

Indicator	Targets		Performance at Time of Evaluation		Overall Assessment at Time of Evaluation	Projected Performance at Project Closure		Overall Assessment at Project Closure
	Original	Adjusted (if relevant)	No.	% of target		No.	% of target	
Capital Expenditure (£m)	£948,652	£847,268	£646,437	76.30%		£847,268	100%	
Revenue Expenditure (£m)	£420,000	£521,384	£377,885	72.48%		£521,384	100%	
C1: Number of enterprises receiving support	80	50	48	96%		48	96%	
C2: Number of enterprises receiving grants	80	50	48	96%		50	96%	
C5: Number of new enterprises receiving support	10	N/A	20	200%		21	200%	
C6: Private investment matching public support to enterprises	£881,348	N/A	£752,488	85.38%		£952,341	108.06%	
C8: Employment increase in supported enterprises	17	N/A	48.28	284%		50	294.12%	
C28: Number of enterprises supported to introduce new to market products	5	1	1	100%		1	100%	
C29: Number of enterprises supported to introduce new to firm products	30	25	22	88%		25	100%	
P2: Public or commerce buildings built or renovated	300m2	N/A	1231.5	410.5%		1,275.7	425.24%	

Key: Red = less than 85%, Amber = between 85% and 95% and Green = greater than 95%

Please note that the figures in this table represent claimed expenditure rather than total spend

## 2.4 Profile of Outputs

In understanding the outputs it is helpful to look at the profile of investments. Figure 6 below shows the number of projects in each size band and the total value of these projects, as well as the value of the ERDF funds committed.

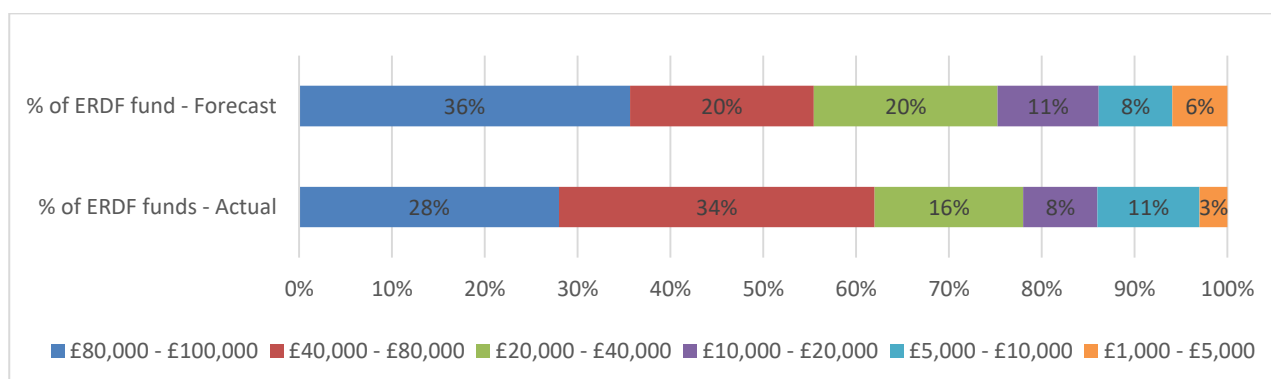
Figure 6: Actual Profile of Investments

Voucher size	No. of Investments	Total Value of Projects	Average Voucher Intervention Rate	ERDF Fund
£80,000 - £100,000	3	£597,648	52.7%	£299,963
£40,000 - £80,000	6	£696,336	54.2%	£362,974
£20,000 - £40,000	6	£357,399	50.0%	£167,073
£10,000 - £20,000	6	£130,774	65.3%	£83,435
£5,000 - £10,000	14	£178,087	63.9%	£111,307
£1,000 - £5,000	14	£47,733	65.4%	£30,883

Source: IoSVS monitoring data, November 2018

This shows that there was a good distribution of investments in each of the voucher size bands, not dissimilar to that modelled in Figure 3 (see Section 1.4). Figure 7 compares the balance of investment by size band with the forecast profile. This shows that the actual distribution of funds by size of voucher is remarkably similar to the distribution forecast at the application stage.

Figure 7: Proportion of ERDF Fund by Size Band - Actual Compared to Forecast



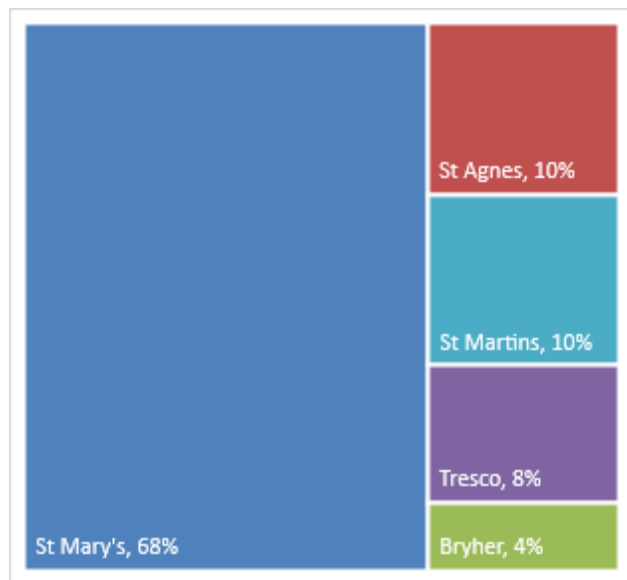
Source: IoSVS monitoring data, November 2018

The average intervention rates (see Figure 6) differed slightly from those anticipated at the start of the project. This reflects the fact that intervention rates varied according to the state aid exemption being used as well as the application of a discretionary approach (within the parameters of state aid). Scheme records show that intervention rates varied from 35% to 70%, with 48% of projects receiving the maximum of 70%. The scheme took the decision to fund two larger projects at an intervention rate of 70% in early 2017 rather than the expected 45% for larger projects, as they offered wider strategic benefits to the islands. The implication of this decision was that the project needed to reduce the intervention rate for subsequent projects in order to balance the financial/output profile. Whilst some stakeholders felt that a variable intervention rate offered additional flexibility, a small number of businesses felt that intervention rate decisions lacked transparency and that some decisions were unfair. Further, the Voucher Scheme team have also found the variable intervention rate has presented additional challenges in managing the

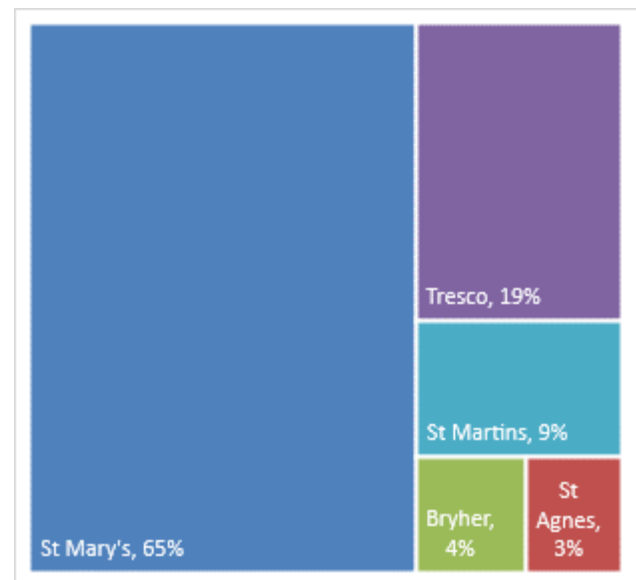
scheme's financial returns. Notwithstanding the potential benefits of variable rates, consideration could be given to using a fixed intervention rate for all types of investment in future schemes, thus providing transparency as well as ease of management.

Data shows that 44% of respondents to our survey had received grant funding before, which is perhaps unsurprising as the IoSVS followed a successful LAG programme. In considering the geographical distribution of investments, Figure 8 below shows that 68% of the projects were located on St Mary's, with the remainder (32%) on the 'off islands'. When examined by value of the vouchers there is broadly similar profile, with 65% of the value of vouchers attributed to businesses on St Mary's and 35% to businesses on the 'off islands' (see Figure 9). When compared with census data, these profiles are broadly consistent with the population of the islands, skewed slightly in favour of 'off island' communities, which represent 22% of the overall population.

**Figure 8: Distribution of Vouchers (by Number) by Location**



**Figure 9: Distribution of Vouchers (by Value) by Location**



Source: IoSVS monitoring data, November 2018

Finally, given the importance placed on job creation as one of the primary measures of economic impact, it is also useful to explore this relationship further. When viewed in terms of cost per job, Figure 10 shows that the smaller interventions delivered better value for money.

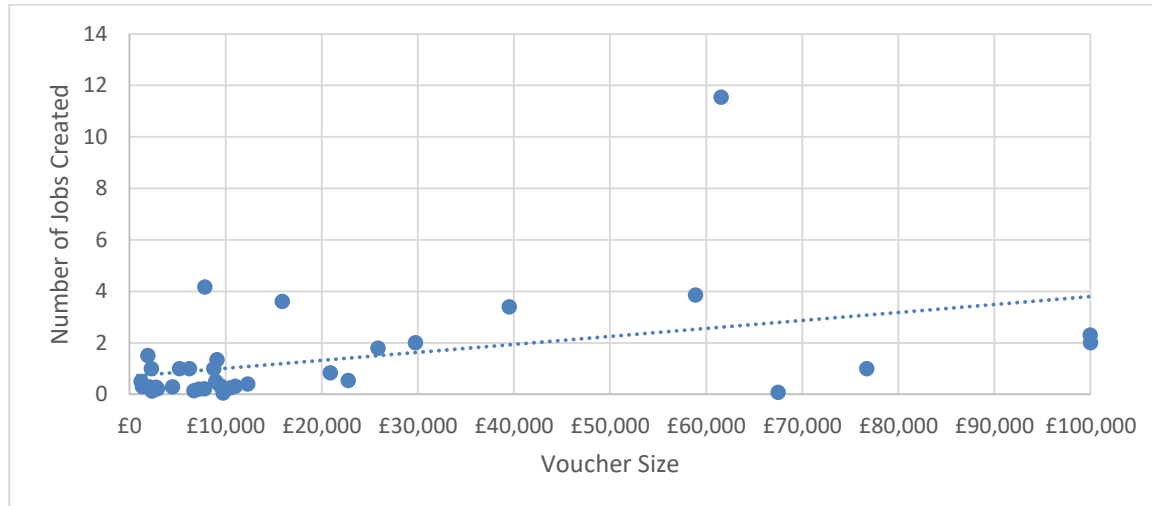
**Figure 10: Cost Per Job by Voucher Size**

Voucher Size	Cost (ERDF) Per Job Created
£1,000 - £5,000	£6,909
£5,000 - £10,000	£11,198
£10,000 - £20,000	£18,297
£20,000 - £40,000	£19,541
£40,000 - £80,000	£22,052
£80,000 - £100,000	£69,759

Source: IoSVS monitoring data, November 2018

Figure 11 shows that the relationship between voucher size and the number of jobs created relationship is somewhat tentative, reflecting the fact that investment decisions considered a wider basket of output indicators as well as other strategic benefits to the Islands.

**Figure 11: Relationship Between Voucher Size and Job Created**



Source: IoSVS monitoring data, November 2018

## CASE STUDY – ISLAND CINEMA

Kirsty set up the Island Cinema through the Voucher Scheme, following a holiday to Ibiza where she saw an outdoor cinema in action. After much deliberation and research, she concluded there was sufficient demand and decided to apply for a voucher to support her set up costs.

The Voucher Scheme part-funded the purchase of a 16 foot inflatable outdoor cinema, complete with



screen, speakers, mixing desks, fairy lights and pop-corn machine. This enabled Kirsty to purchase the equipment and set up the website – hosting her first screening of the ‘Greatest Showman’, to a large crowd in September 2018. Kirsty hopes to use the winter to plan a schedule of events across the islands, providing much needed evening entertainment

opportunities for visitors and islanders alike. She also hopes to diversify her offer by hiring out the equipment to other businesses and events. In the short term, Kirsty is able to staff the business alongside her day job, but in the future she is hoping to employ a part-time technical support staff.

Kirsty would not have set up the business at all without the support of the grant scheme. In her words:

*“I was very nervous about starting up a business, even with the support of the voucher, without the voucher, there is no way I would have taken on the business”*

## Summary

- As a result of the delay in receiving the Grant Funding Agreement the project started, and has remained, approximately two quarters behind schedule
- However, it is on track to conclude by December 2018
- Following a PCR approval to re-profile the capital and revenue budgets it is expected that 100% of the respective allocations will be spent by project close
- With a total of 50 investments having been made to date, of which 48 are eligible to be counted as enterprise supported outputs, 96% of the revised C1/2 targets have been achieved
- Performance has also been very strong in relation to new businesses assisted, private investment levered, employment increase and public/commerce buildings built or renovated. All of these targets will have been exceeded (and in some cases considerably so) by project close
- The project showed a good distribution of large and small investments, which when profiled by the value of ERDF expenditure was similar to the profile forecast in the application
- Intervention rates varied from 35% to 70%, in part reflecting state aid considerations, but also reflecting discretionary decisions by the scheme. Managing the financial profile and overall intervention rate has proved to be challenging. The discretionary element has also led to some concerns about transparency and equity. In future schemes, consideration could be given to using a fixed intervention rate for all types of investment
- There is a good geographical distribution across the islands, broadly consistent with population levels, but skewed slightly in favour of the 'off islands'
- There is a weak relationship between voucher size and job creation, reflecting the fact that investment decisions considered a wider basket of output indicators as well as other strategic benefits to the islands. The smaller interventions delivered better value for money in terms of cost per job



## Section Three: Project Delivery and Management

### 3.1 Introduction

This section of the report provides a qualitative analysis of the implementation of the project. It covers the governance and management arrangements as well as day-to-day project delivery, beneficiary engagement and the quality of support received. It also discusses the project's engagement with other business support providers and the integration of horizontal principles within delivery.

### 3.2 Governance and Management Arrangements

IoSVS is managed by the Council of the Isles of Scilly through its Strategic Development team with responsibility ultimately resting with the Chief Executive Officer of the Council. As part of the governance structure the team also reports to the Island Futures Board (IFB) which is a public-private partnership designed to deliver investments and actions identified in the Island Futures Strategic Economic Plan. The original intention, as set out in the application, was for the team to also have a reporting line into the Islands Partnership (IP) although in reality this has not happened as planned. The IP's role was intended to host the IoSVS Engagement Officer (see below) who would be physically based within the IP offices thus creating a 'Chinese wall' between project development and project appraisal for applicants. However, this arrangement did not work well in reality and was seen as a learning point for the delivery team. They found that, being open plan in design and very centrally located, the IP offices did not offer the private space that was required to have confidential conversations with businesses and after a trial period the Engagement Officer re-located to the IoSVS office at the Porthmellon Enterprise Centre.

Within the governance structure the IoSVS team is responsible for assessing the eligibility of applicants and appraising all projects. It also approves or rejects investments under £10,000. For investments over £10,000, it uses the IFB which had taken on the role of an Investment Panel as part of the previous LAG scheme and therefore had experience with this process. As the body designed to oversee actions identified in the area's Strategic Economic Plan, the IFB includes a good range of stakeholders although it was noted that some of the business representatives find it difficult to attend meetings during peak season and in fact the Board had met less frequently over the summer.

Applications for these larger projects are discussed as part of the routine business of the Board, taking care to balance the sharing of any commercially sensitive information with the need to understand a project's viability. Importantly, given that it is such a small community, a clear process has been put in place to manage conflicts of interest in relation to the applications coming forward which was felt to be working well. It appears that, to their credit, the Board has been very pragmatic in handling this issue within the circumstances.

Views on the effectiveness of the IFB as an Investment Panel more generally were, however, somewhat mixed. On the one hand stakeholders tended to value the independence it provides to decisions over £10,000, effectively providing a 'safety-net' for the decision-making process. On the other hand, some felt that its role was limited by only reviewing those larger investments – i.e. it could do more as a decision-making body if it had oversight of all investments, especially to ensure the fit between applications and

strategic objectives. However, there is a danger that enhancing the IFB's role in this way could slow down the process for smaller projects and the pros and cons would need to be carefully considered.

In addition to being an Investment Panel the IFB has a strategic role akin to a Steering Group for the purpose of monitoring the project's performance. However, some stakeholders felt that it has not always been provided sufficient information on which to do so and it was suggested that they could have played a greater role in this respect. It should be noted that, in this strategic capacity the IFB is an advisory body only and it is not uncommon for there to be tensions within this sort of arrangement. It appears that the team has listened to concerns and the evaluation team note that a comprehensive briefing was provided by the IoSVS team for the last Board meeting. However, we suggest that the terms of reference for this group are reviewed to provide clarity for all parties on its precise role and remit.

Notwithstanding the above, most stakeholders felt that, in general, the right investment decisions have been made. Although some could point to particular projects that they would not personally have funded, the general consensus was that decisions have resulted in a strong portfolio of projects and the money has been spent wisely. However, it was also noted that, although well intentioned, some of the contract conditions that have been placed on grant recipients by the IFB have been problematic for the businesses. For example, some projects have been required as a grant condition to source a percentage of their purchases locally but found there was insufficient supply to meet the demand. This technically renders the business non-compliant with their grant agreement, through no fault of their own, and we would suggest that use of contract conditions is considered very carefully for future applicants.

### 3.3 Delivery Structures and Team

On a day-to-day basis IoSVS is delivered by a team of three staff as follows (although not all roles have been consistently filled across the project's lifetime):

- **Project Manager** - responsible for the project, ensuring management and control systems are in place and adhered to as well as investment appraisal, approval, claim authorisation and project audit;
- **Engagement Officer** – responsible for investment development, publicity and engagement; and,
- **Finance Assistant** – responsible for ensuring all voucher claims are eligible, accurate and compliant with regard to costs, defrayal, procurement, funding profile, planned expenditure and achieved outputs.

Of note, there has always been a clear demarcation between the Project Manager and Engagement Officer roles in order to allow a visible separation between investment development and investment appraisal, also reducing the risk of conflict of interest. Although the Engagement Officer did not end up in a different office (see above) as originally intended, evidence suggests that this demarcation has been effective.

It should also be noted that the delivery team has faced a number of challenges. The original project team did not have a great deal of experience of ERDF funding prior to the project commencing and had to learn on the job and this is reflected in some of the feedback from the early applications as described in section 3.4. Perhaps more significantly, continuity of personnel has been a real issue for the project which has experienced significant periods of time without a full complement of staff.

Against this backdrop the current team has worked extremely hard to understand the ERDF requirement and deliver a compliant project whilst also providing valuable support to applicants and beneficiaries. This has been widely recognised and appreciated, as reflected in the following comments:

*“The team has done an excellent job. Mimi and the girls are really good at supporting the businesses and making it as simple as possible for them to access this funding within the constraints of ERDF”* [strategic stakeholder]

*“The Voucher Scheme ‘girls’ do a really good job”* [strategic stakeholder]

*“The ‘girls’ are hugely personable and very well liked”* [strategic stakeholder]

*“Amazing - really helpful and patient”* [beneficiary]

*“They were brilliant - really responsive and knowledgeable. Very helpful”* [beneficiary]

It is the considered view of the evaluation team that IoSVS would not have been such a successful project without the team’s hard work and professionalism.

## 3.4 Engagement with Beneficiaries and Quality of Support

### 3.4.1 Marketing and Promotion

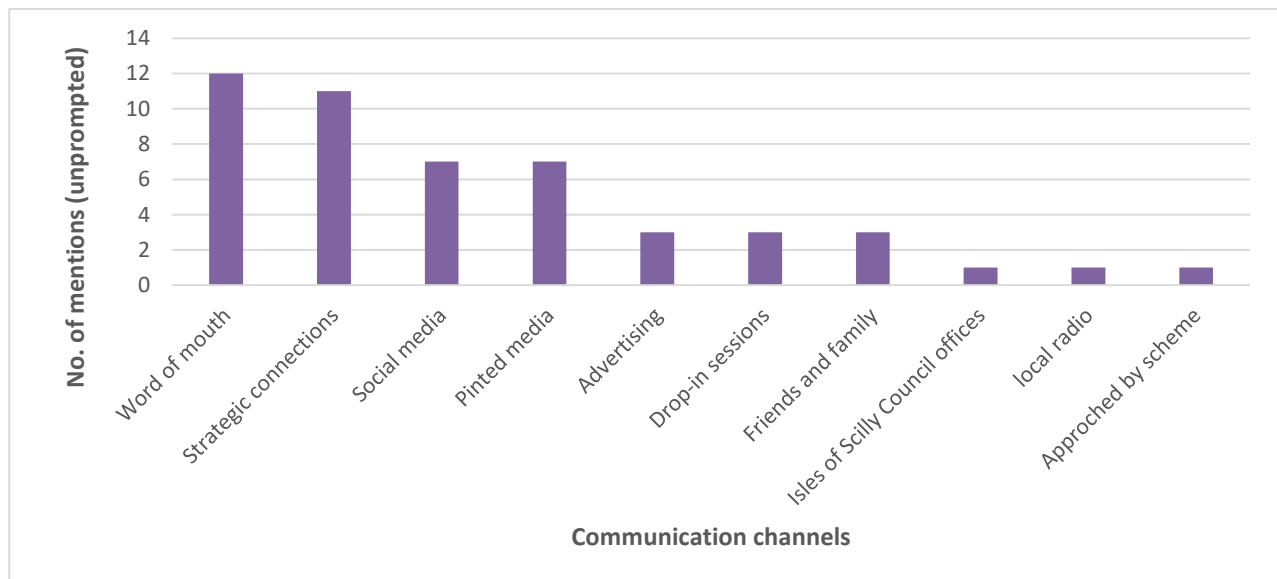
When the IoSVS commenced there was already a pipeline of applicants in place from the previous LAG programme and from business development that had been undertaken as part of the project development process. Building on this activity the project was widely publicised, commencing with a series of launch events held on all islands week in 2016. The team has also facilitated other events and publicised the scheme through social media, newsletters and case studies; and has drawn on other partners such as the IP to help with promotion. Evidence gathered through the summative assessment (see Figure 12 below) suggests that many beneficiaries heard about the scheme through word of mouth as is inevitably the case within a small community. Further, approximately a third of beneficiaries mentioned that they were aware of its existence through their involvement with various strategic groups on the islands. However, the team’s efforts to promote the scheme via social media and printed media also appear to have been effective with 21% of beneficiaries mentioning that they had heard about the scheme through these routes.

Project records shows that IoSVS received a total of 193 enquiries, from which 50 investments progressed. According to the files the most significant reason for drop-out was ineligibility for ERDF funds (approximately a quarter). Other reasons included changes in personal circumstances, changes in business circumstances or viability of the project as well as failing to provide information to allow the forms to be completed.

Stakeholders agreed that the marketing and promotion had been effective in attracting good quality applications and it was noted that some of the promotional activity more latterly was carried out in conjunction with Smart Islands which is an excellent example of the team joining up with other business

support providers. However, the delivery team themselves reflected that there was potential for greater promotion of the project’s successes and celebration of its achievements.

**Figure 12: Communication Channels through which Applicants Heard of the IoSVS (unprompted)**



Source: IoSVS beneficiary survey, Summer 2018, n= 34 Note: respondents could mention more than one route

### 3.4.2 Introduction to the Customer Journey

The IoSVS team put in place a clear customer journey and process map which starts when an applicant has identified a business growth need. The Engagement Officer will work with them to support the development of the project, which, if eligible and meets the Voucher Scheme criteria will result in an application being made. Following an internal appraisal process a decision is made by either the IoSVS team or the IFB, depending on the level of funding being sought (i.e. over or under £10,000) and the applicant is notified. The applicant is not required to attend the panel meetings but may be given conditions following the investment decision, as highlighted above.

Once the investment has been approved and the offer letter is signed, each successful voucher applicant receives a Pre Engagement Visit (PEV) from a member of the administration team. The PEV includes training on:

- Completing the quarterly claims form;
- Evidencing expenditure and proof of defrayal;
- Eligibility of costs;
- Procurement;
- Horizontal principles;
- Publicity;
- Document retention;
- Asset registers; and,
- Output delivery and evidence.

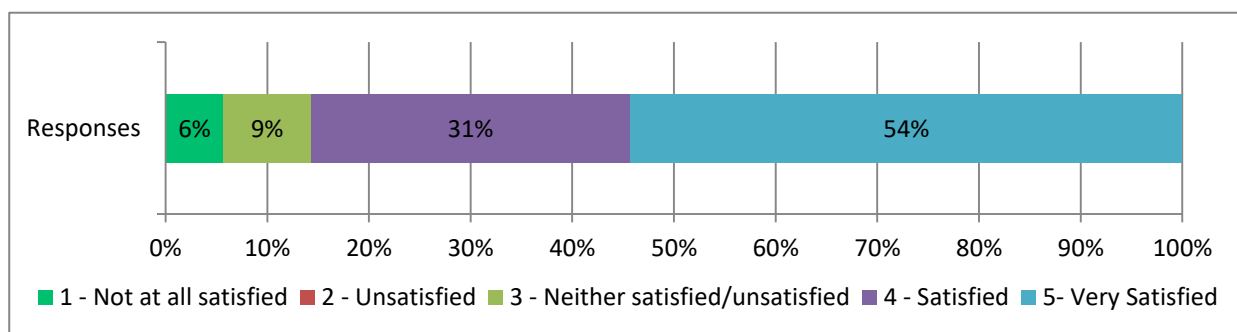
Each successful voucher applicant is then required to submit a quarterly claim, detailed transaction list and original invoice with proof of defrayal for each transaction whilst the project is being delivered. The team

has used Progress and Verification Visits (PAVs) throughout the duration of the Voucher Scheme. It was not planned for every successful project to receive a PAV but these were available for projects awarded funding above a threshold; those that did not follow their predicted funding profile; and/or complex projects. A Post Completion Visit (PCV) is also undertaken at project close to evaluate how the project was delivered, ensure that all evidence has been captured and assess benefits/what the legacy might be.

### 3.4.3 Feedback: Application Process

Figure 13 below shows that 85% of beneficiaries were satisfied with the application process, 9% were neither satisfied/nor unsatisfied and 6% (2 beneficiaries) were not at all satisfied.

Figure 13: Satisfaction with the Application Process



Source: IoSVS beneficiary survey, Summer 2018, n= 35

Reviewing comments made in relation to the application process it is clear that beneficiaries were very appreciative of the support provided by the project team, as the following comments illustrate:

*“Thought it would be trickier, but there was always someone at the end of the phone and if the person you had been dealing with was on holiday, someone else would help. They worked well as a team in that way - everyone was able to answer your question”*

*“Yes - they were great, very friendly and approachable and helpful”*

*“Outstanding - can't praise them enough. Definitely found them approachable”*

For many, the support provided by the team was a significant factor in their positive view of the process. Many beneficiaries highlighted that the team were always available either in person or by phone to ask questions and ‘translate’ the requirements of the form into a more accessible language. It is clear that without this support, many beneficiaries would have struggled, as the comments below highlight:

*“It was really difficult! However, the guys were brilliant and able to help with everything that I was struggling with”*

*“It was user friendly because of the team! If I had done it on my own, I'm not sure I would have gone through with it, it is so complicated. So I went to see them and they guided me through”*

*“It was very tricky, I couldn't understand the forms at all. I got help from the team, without which I wouldn't have done it”*

Further, some beneficiaries felt that the team went beyond simply supporting them to complete the paperwork, but also supported them more generally through the business development process as the comment below illustrates:

*“The process was so supportive. Not just to get the grant, but they supported me through the whole idea of setting up my business. It can be quite a lonely place. They were brilliant and gave lots of support. They are just great. I think they should be nominated for an award”*

Whilst the team was widely praised for their support, many beneficiaries felt that the process itself could be simplified and streamlined, particularly in the following ways:

- Simplification of the forms and re-drafting in plain English with less jargon;
- Development of a ‘glossary of terms’;
- Better communication of monitoring and publicity expectations;
- Provision of example answers;
- Better communication of the need to provide the exact price; and,
- A simpler form for smaller applications.

Beneficiaries highlighted that some applicants are too proud or embarrassed to ask for or receive help and therefore do not apply for the funding. It was suggested that having a simpler form could potentially help to avoid that. The evaluation team share the sentiment and suggest that the application forms could be significantly simplified and streamlined. Moving forwards, we would recommend that the Council explore the processes and forms used by other ERDF funded voucher schemes on the mainland to identify best practice and develop a simpler, less onerous process.

A small number of comments were also made relating to the specific challenge of meeting ERDF procurement rules. This is a recognised challenge for all ERDF projects and it is unsurprising that some businesses found the process burdensome. The fact that a high proportion of beneficiaries have benefitted from grant funding previously may also have influenced perceptions over the administrative requirements of this scheme, as it is understood that LAG processes in the previous programme were less onerous than ERDF processes in the 2014-20 programme. We are also aware that the ESIF procurement guidance changed part way through the delivery period.

In addition to the above there was some feedback on the application process from a small number of businesses that had been supported in the early stages of the project to suggest that they felt poorly advised by the team about how to proceed (in terms of issues such as eligibility, state aid, match funding and procurement). This is perhaps unsurprising as these are complicated areas and the team were new to ERDF funding. However, it does nonetheless present a dilemma for the council. On the one hand, the role of the team is to decode the rules and make the application process as simple as possible for applicants. On the other hand, providing businesses with advice can leave the council exposed to risks, should the advice later be found to be incorrect. As well as providing clear written guidance for applicants as well as the team, the Isles of Scilly Council could look to minimise these risks in the future by:

- Ensuring that the team members have been fully trained and understand all aspects of the process before advising applicants; and,

- Conducting internal quality checks at regular intervals throughout the project.

#### **3.4.4 Feedback: Appraisal Process**

Survey results show that 94% of beneficiaries felt that they received a decision on their application in a timely manner. It should be noted that the team worked hard with applicants to ensure that applications were submitted to coincide well with the Island Futures Board meetings. The majority of beneficiaries reported that they received their decision very quickly and generally within weeks, rather than months. Some slightly more complicated projects took longer where queries over state aid or procurement took time to resolve, although the team were commended for keeping applicants informed of progress during this time.

Some businesses were issued with local funding conditions prior to contracting. These included:

- Obtaining relevant licences/permissions e.g. planning permission;
- Implementing environmental and equal opportunities policies;
- Implementing a local purchasing policy in the businesses day to day operations (e.g. a restaurant should buy 10% of its food from local sources);
- Setting up company structures (e.g. company boards); and,
- Opening the business at particular times (e.g. during shoulder months).

Whilst the majority of conditions were thought to be fair and reasonable, some beneficiaries expressed reservations that particular conditions were not deliverable. For instance, the local sourcing policy is challenging if the local supply chain is not large enough to fulfil the volume required. Alongside this, some stakeholders expressed reservations that the use of contract conditions to fulfil policy objectives, such as extending the season, could force a business into difficulties if the conditions were enforced. For instance, a contract condition could mean that a business has to open up in October, even if doing so would mean making a loss. Some stakeholders suggested that the use of additional (transparent) appraisal criteria, rather than the more arbitrary use of contract conditions, could be a more effective method of ensuring the fit between proposals and local objectives. Equally, it was suggested that future schemes could explore launching calls for particular types of projects, linked to strategic objectives, although the need not to lose the 'bread and butter' businesses within the process was noted.

#### **3.4.5 Feedback: Delivery and Claims Processes**

As highlighted above, once the offer letter is signed, each successful voucher applicant receives a PEV from a member of the administration team. From a stakeholder perspective there is recognition that these processes have been used to help resolve problems that may occur with the grant funding recipients in the delivery of their projects and to put in place solutions that can support businesses to deliver.

Whilst this process is currently working well, there is some evidence that this may not have historically been the case. Some of the feedback from the early grant recipients indicates that the requirement and expectations, especially for on-going monitoring, was not made clear to them at the time.

More generally, beneficiaries were broadly happy with the claims process, although several noted that it was bureaucratic and onerous at times. Once completed successfully, many beneficiaries reported being paid within one week, which was appreciated from a cash-flow perspective. However, one business



reported that the claim took over three months to be paid which had implications for their finances. Please note that this may be a perception rather than the reality as the team is confident that the majority of claims have been paid within a three week window. Although a small number may have been slightly longer it would certainly not have been more than five weeks. Over a third of beneficiaries mentioned that they had sought help from the team to submit their claim, which appears to have made it easier for those businesses, as the comments below illustrate:

*"I took all the paperwork down to the team and did it with them. The money came through quickly which was great"*

*"Awful! Massive forms written for clever people. I couldn't understand it at all so the girls went through it line by line with me"*

*"I competed two claims over the winter. It seemed quite complicated but again I got a lot of support"*

A small number of beneficiaries thought that the process was designed more for the public sector, rather than businesses and one highlighted the challenge of splitting out ERDF eligible costs from other business expenditure. Another had not realised at the outset that they would have to list every transaction, so opted to buy lots of small things from a variety of providers. With hindsight, they would have consolidated these items into a single procurement.

Overall stakeholders were full of praise for the quality of support provided. Most felt that the process had been as user friendly as it could have been within the constraints of ERDF funding and it was commented that the team has done an excellent job getting businesses through that process.

#### **3.4.6 Net Promoter Score**

The survey also included a 'Net Promoter Score' question which asks on a scale of 0-10 how likely the recipient would be to recommend IoSVS to another business. The methodology works by assigning those people that score 9 or 10 to the category of 'promoters,' those that score 7-8 to the category of 'passives' and those that score 6 or under to the category of 'detractors.' The Net Promoter Score is the percentage of promoters minus the percentage of detractors (i.e. ignoring the passives) which gives a possible range of +100% to -100%. Of the 35 respondents that answered the question, 29 could be described as promoters (83%), 4 passives (11%) and 2 detractors (6%) which means that the Net Promoter Score is +77% which is an excellent score.

When asked to comment on their score, reasons included:

*"Already have! It is an amazing opportunity to do something we couldn't have done on our good. It is a good and exciting opportunity, would definitely recommend"*

*"Why wouldn't you? There is an admin burden, but the pay off and what you can do outweighs it. For a business like ours where you are setting up, massive help"*

*"Totally recommend it - it works! Staff are really helpful, it is a painless process"*

*“Already recommended it to others though found that not everyone wants to do it because they don't like supplying financial info”*

*“It's been great. The application process is lengthy, but it is money for nothing and I would encourage anyone who is thinking about setting up and who has eligible costs to apply. I have found the whole process really easy and positive”*

*“I gave it a 10 because it's a life changer really. A bit of help could really transform people's lives it is a great thing”*

*“The scheme has enabled us to maximise the potential of our business and secure our future but it has also been good for everyone on the Island”*

*“It's a nice process. Not difficult. You get something for half price. It helps you to build your business and create jobs. The whole island is benefitting. You can see things are happening on Scilly as a result of the scheme. It is opening up opportunities and things to do and buy – it is making Scilly grow”*

### **3.5 Engagement with Other Business Support Providers**

As highlighted in Section 1.4, one of the particular features of this project has been the team's role in sign-posting applicants to other business support where useful. In this regard it was pointed out that relationships with mainland business support provision have always been challenging because mainland projects do not tend to be resourced well enough to deliver on the islands. For this scheme there have been some particular challenges with the Growth Hub which, although now changing its approach, has historically required 'wet signatures' as evidence of the 12 hour 'business assist' thus making engagement a logistical challenge. It is the considered view of the evaluation team that more efforts could have been made by the Growth Hub to resolve this issue but there is an intention to do so in future and, given this difficulty the Growth Hub has been content for the IoSVS team to make direct referrals to other providers.

The IoSVS team has been proactive in trying to develop relationships directly with broader business support providers to understand their offer and refer as appropriate and there is evidence of this working well. For example, regular conversations have taken place with Oxford Innovation's Access to Finance Programme which has supported some IoSVS applicants to complete the Voucher Scheme forms as well as to apply for other complementary sources of funding; and also the Outset Programme for business start-up support.

The team has also developed a mutually supportive relationship with CDC's current Business Investment for Growth (BIG) 2 Project. BIG 2 is not open to businesses on the islands but, as they are running similar projects, the delivery teams have made a point of sharing experiences and learning points with one another which was described as being mutually supportive.

Additionally, evidence suggests that the relationship with Smart Islands has been very productive. The Smart Islands and IoSVS teams are located in the same offices and have regular dialogue. They actively cross promote each other's services and also collaborate on promotional events, which they have found to be effective. It is anticipated that this relationship will be further strengthened if the Voucher Scheme receives future funding.

### 3.6 Horizontal Principles

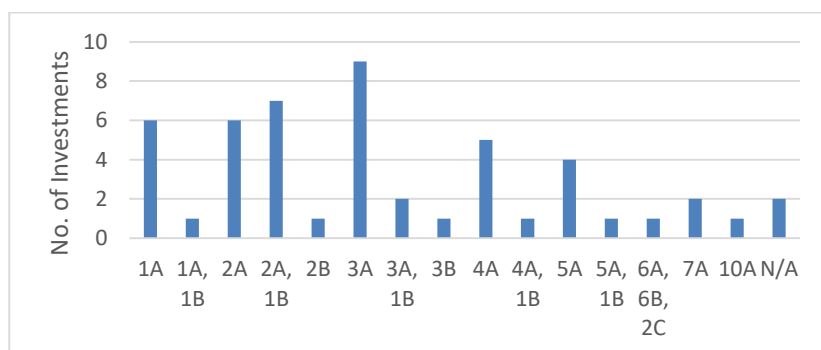
At the application stage the project committed to ensuring that horizontal principles were embedded and integrated across all vouchers emerging from the islands through the following mechanisms:

- **Equality and Diversity.** It was intended that the application process would specifically require the applicant to explain their own equal opportunities policies and to explain how the voucher would be used to deliver equal opportunities benefits. In particular, projects delivering benefits to accessibility would be encouraged through the appraisal process and it was anticipated that the Engagement role would challenge businesses to deliver better outcomes.
- **Sustainability.** Given the importance of environmental sustainability to the Local Plan and to the Strategic Economic Plan, sustainable development was placed at the heart of the Voucher Scheme delivery. It was intended that the Voucher Scheme staff would assist and support potential voucher applicants to ensure the protection of the environment, limiting the impact on biodiversity and local ecosystems, reducing inefficient resource allocation and promoting the shift towards a low carbon economy. Each voucher applicant was required to undergo a Sustainable Development assessment as part of the appraisal process.

Evidence from the summative assessment indicates that, as planned, the IoSVS team integrated horizontal principles into delivery by ensuring that applicants had both Equality and Diversity and Sustainability policies in place and could demonstrate how these principles would be embedded into their project. The scheme monitoring data indicates that 49% of jobs created through the scheme were filled by male staff and 51% filled by female staff.

The Sustainable Development assessment was an interesting part of the process and resulted in the development of sustainability scores for each project. This required the appraiser to score the project with a grade of A, B or C, against 19 sustainable development criteria. An 'A' grade was assigned if the project fully addressed the given issue and provided convincing and reasoned actions that were likely to be successful. A 'B' grade was assigned if the project addressed the issue, and action was planned, but little definition was provided on the nature of the action. A 'C' grade was assigned if the project did not address the issue at all. A 'not applicable' category was also used. The distribution of scores can be seen below in Figure 14. This shows that the 46 out of the 50 investments scored at least one Grade A and the majority scored two or more Grade As. The data indicates that the majority of projects contributed to the sustainable development of the islands.

Figure 14: Distribution of Sustainable Development Scores



It is also worth noting that the scheme funded a number of innovative environmental projects such as a potentially transformational waste management system on Tresco that could be rolled out to the other islands. Other smaller projects included investment to reduce the environmental impact of businesses processes as well as projects to improve the islands' self-reliance. Additionally, one of the largest projects, the Isles of Scilly Community Venture was focused entirely on ensuring legacy from the Smart Islands project which supports the transition to a low carbon economy.

#### CASE STUDY – ISLES OF SCILLY COMMUNITY VENTURE



## Isles of Scilly Community Venture

The Community Venture was set up as a Community Interest Company through the Voucher Scheme specifically to ensure that the assets from the Smart Islands Programme can be retained and used for the benefit of the local community. Its focus is on supporting the Islands' transition to a low carbon economy. The Venture's first key product, the Isles of Scilly Energy Share tariff, is being delivered in

partnership with not-for-profit energy supplier 'Our Power.' It is a unique energy deal aimed at giving everyone on the Islands cheaper electricity bills. This innovative scheme will, over time, use the solar panels that have been installed through Smart Energy Islands to enable Energy Share customers to receive a proportion of their electricity from locally generated solar energy. In this way the revenue generated can be passed back to the community meaning that while energy bills elsewhere will be creeping up, bills on the Isles of Scilly aim to go down.

Following some initial teething troubles and delays the tariff was launched earlier in 2018 just at the start of the tourism season but despite the time of year and associated distractions, it has already had 42 sign-ups. Now that the season is coming to an end the scheme will be fully launched, offering locals a competitive tariff from day one.

Running alongside this, work has been undertaken to set up a Board of Directors for the Community Venture and consultation is ongoing with the community to understand their priorities. General Manager of the Community Venture, Jim, said:

*"This is a really exciting venture and the possibilities are limitless. We will be able to make use of the assets from the various Smart Islands projects in energy, waste and transport, including the electric vehicles and the Community Venture will ultimately become the operator of the Smart Grid. This will ensure a legacy for local businesses and the community as well as positioning the Islands as a sustainable tourist destination."*

## Summary

- There is evidence that the project has been well managed
- The Island Futures Board is a key part of the project's governance through its role as an Investment Panel for applications over £10,000 and also through its broader oversight function
- The composition of the group is appropriate and there is evidence that it has dealt with the conflicts of interest that are inevitable within small communities very well
- However, whilst it has provided a safety net for the decision making around larger projects, there was some suggestion that it could/should have a greater role which would be a decision for the Accountable Body. In any event we recommend that its terms of reference are reviewed and clarity provided on the role and remit of this group
- Most stakeholders felt that, in general, the right investment decisions have been made, resulting in a strong portfolio of projects being funded
- However, some of the contract conditions that have been placed on grant recipients by the IFB have been problematic for the businesses and we would suggest that use of contract conditions is considered very carefully for future schemes
- In order to maximise fit between a proposed project and the islands' strategic objective it may be more appropriate to consider methods such as additional criteria for applicants or calls for particular types of projects to come forward
- More generally, despite some challenges, there is evidence that the current IoSVS team has worked extremely hard to understand the ERDF requirement and deliver a compliant project whilst also providing valuable support to applicants and beneficiaries
- It is the considered view of the evaluation team that IoSVS would not have been such a successful project without the team's hard work and professionalism
- Marketing and promotion has been effective, although many applicants heard about it through word of mouth as is inevitably the case with a small community
- The customer journey is clear and effective
- The majority of beneficiaries were satisfied with the application process because of the support they received from the team. Without this, many would not have applied. However, there is considerable scope to streamline and simplify the application process by learning from best practice elsewhere
- Additionally, there was some feedback from a small number of businesses that had been supported in the early stages of the project to suggest that they felt poorly advised by the team about how to proceed. Although this improved over time, providing businesses with advice can leave the council exposed to risks which could be minimised
- The appraisal process appears to be timely and beneficiaries received decisions quickly
- Similarly, the claims process appears to be quick and effective, again largely due to the support provided by the team, although there may be scope to simplify these processes
- The scheme received a net promoter score of +77% indicating that the majority of participants are promoters, rather than detractors
- The team has also worked hard to engage with other business support providers. There have been some particular challenges with the Growth Hub (not of the IoSVS team's making) but also some good examples of where this is working well both on the mainland and with Smart Islands
- The project worked hard to integrate horizontal principles into its delivery

## Section Four: Project Outcomes and Impact

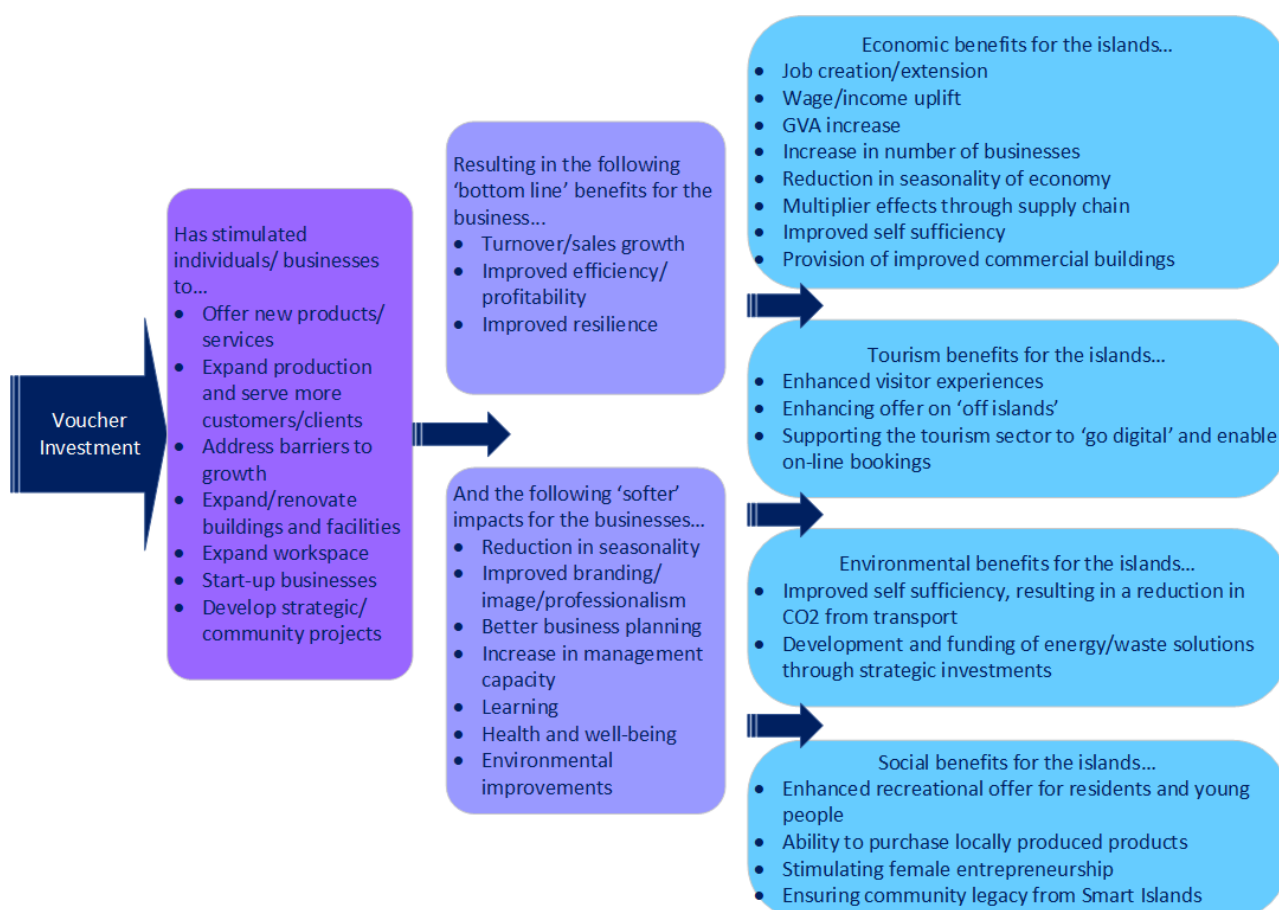
### 4.1 Introduction

Having provided an overview of progress and outputs in Section Two, this section of the report focuses on wider outcomes and impacts arising from the IoSVS project's work with reference to the beneficiary experience and the project logic chain. This section also considers the project's additionality and Strategic Added Value, concluding with an assessment of whether it has made a difference.

### 4.2 Impact of the Investment

As highlighted elsewhere in the report interviews took place with 34 grant recipients (35 projects), which explored the impact of the investment on both their business directly and the wider economy. The benefits map (Figure 15) below summarises the relationship between the investment activity and the economic, tourism-related, social and environmental impacts for the islands.

Figure 15: Benefits Map



#### 4.2.1 Business Impacts

The voucher investment was used by beneficiaries to:

- **Offer new products/services.** 22 businesses used the voucher to develop new to the firm products/services to address perceived market opportunities and niches. Examples include new beauty treatments, mobile catering, new art and craft lines, new food and drink products, health and well-being products, construction materials, hospitality experiences, apps and many more. As well as these ERDF defined new to the firm products/services there is wider evidence of new products/services being established that do not meet the ERDF definition.
- **Expand production and serve more customer/clients.** Several businesses purchased equipment or renovated buildings to enable them to expand production or serve more customers/clients. Examples include: equipment to scale up building services/ground work businesses, machinery to allow scale-up of food and drink processing and expansion of facilities by tourism businesses to serve more clients, resulting in sales growth.
- **Address barriers to growth.** Several businesses used the voucher to upgrade IT systems/websites to enable on-line sales and bookings.
- **Expand/renovate buildings and facilities.** Several businesses used the voucher to build/renovate buildings and facilities to expand their business. Examples include workshop facilities, pubs, restaurants, cafes and storage facilities.
- **Expand workspace.** One business renovated industrial units to create workspace for their own use as well as to serve a broader market. This has had an indirect benefit by allowing other businesses to expand.
- **Start-up businesses.** A total of 20 applicants had used the voucher to start up a new business. Examples include: IT services, arts and crafts, health and beauty, recreation and tourism, food and drink processing as well as wider hospitality related businesses.
- **Develop strategic/community projects.** The IoSVS also supported three applicants to deliver what could be described as strategic or community projects, designed to serve a public good, rather than an individual commercial interest. These included:
  - The development of an 'on-line booking engine' to help tourists book accommodation on the islands more easily;
  - A project to ensure community benefit from the Smart Islands project (see case study on page 30); and,
  - The development of a waste management solution for Tresco .

As a result of the investments, businesses report a number of 'bottom line' benefits including:

- **Turnover/sales growth** – resulting from their efforts to serve more customers/expand production;
- **Improved efficiency/profitability** – resulting from better systems and processes as well as better equipment/machinery; and,
- **Improved resilience** – the majority of businesses interviewed suggested that the investment had made their business more resilient, as a result of having better equipment (less likely to break down) and/or a more secure financial basis.



## CASE STUDY – ON THE QUAY

Looking for a new way of life, Phil and Sheryl were looking for opportunities to open a waterside restaurant in the South West. When they found the derelict building on St Mary's quayside, they saw its potential straight away. In Phil's words:

*"We saw this and saw opportunity - every visitor to the islands passes along the quay, either to board the Scillonian or to take a ferry to the 'off-islands'"*

Taking on the lease in January 2018, they set to work developing the site into a café and restaurant – On the Quay. With a background in property development, the construction phase was the 'easy bit', although property development on an island location nonetheless presented new challenges! Following an intense construction phase, the café opened in March, followed by the restaurant in April – just in time for gig weekend.

Phil and Sheryl applied for a voucher to assist with the renovations and equipment. As a derelict building, it needed a complete renovation, as well as kitchen equipment, tables, chairs, cutlery etc.



The cafe now offers teas, coffees, homemade cakes, as well as a variety of local produce. With sea views and alfresco dining, the chefs in the restaurant use local ingredients to create an ever changing gourmet menu. Both the café and restaurant will stay open all year, but with reduced hours in the winter – enabling the Phil and Sheryl to retain key staff. On the Quay, offers a fresh new dining experience on St Mary's – offering the island's visitors a greater choice as well as increasing dining capacity.

Since opening, On the Quay has developed new products and services to diversify its offer and support its year round operation – providing a pizza delivery service, movie nights, outside catering and conference facilities. Phil and Sheryl have made a long term investment with a 20 year business plan that aligns with Duchy of Cornwall's plans for the quay, as well as wider strategic plans to extend the season on the Isles of Scilly.

The Voucher Scheme has enabled Phil and Sheryl to proceed quickly with their whole project and open early in the season. Without the voucher, they would have pursued a slower approach, opening the café, taking a breath and then proceeding with the development of the restaurant. The voucher also enabled them to buy new kitchen equipment, rather than second hand, improving their business resilience. Whilst Phil and Sheryl have had a fantastic first season's trading, it has been financially hard and the voucher has taken the pressure off. In Sheryl's words:

*"The voucher has been remarkable for us, whilst there is an administrative burden, the pay off and what you can do completely outweighs it. For a business like ours, where you are setting up it has been a massive help"*

Respondents also reported a number of 'softer' impacts for their businesses including:

- **Reduced impact of seasonality.** This derived from either extending their services beyond the main season (e.g. through on-line sales) or through developing complementary services/businesses to fill gaps in capacity.
- **Improved branding/professionalism.** Several businesses highlighted how the investment had allowed them to develop a more professional image, particularly new start businesses.
- **Better business planning.** Some businesses also highlighted how the process of securing the investment had required them to review or develop their business plans. As a result they have developed a much clearer strategic direction for their business, as the comments below illustrate:

*"We were forced to write a business plan, which we have never done before, but it was actually a useful process because it made us think properly about all the aspects of the business for the first time"*

*"The whole process made me review and evaluate my plans. It has encouraged me to take stock and re-focus, this has given me renewed energy for the business"*

- **Increased management capacity.** For some, investing in digital solutions, has freed up management time to focus on other parts of the business, leading to further expansion and growth plans.
- **Learning.** For some new start businesses, the first year of trading has involved significant learning. The voucher, whilst not used to pay for skills development, has provided a financial cushion to allow these new business owners to learn as they go and make mistakes.
- **Health and well-being.** A small number of beneficiaries had used the voucher to pay for equipment which, as well as serving a business function, will also benefit the health and well-being of staff.
- **Environmental improvements.** Some businesses used the voucher to pay for improvements to help them reduce their environmental impact.

#### 4.2.2 Quantifying Business Growth

Our survey of beneficiaries attempted to explore the scale of growth achieved by beneficiaries. In terms of job creation, the survey found that 57% of respondents had created at least one part-time job (which could include extending their own hours), 11% expected to do so in the future and 11% indicated that they had exceeded their contracted job targets. Only 17% (6 beneficiaries) indicated that they were unlikely to create any jobs. In terms of turnover growth, 91% have already or expect to achieve turnover growth (including new start businesses). Few businesses were able to quantify accurately the scale of growth achieved, in part reflecting the timing of the evaluation relative to company year end and the production of accounts. When viewed together, just three respondents (9%) indicated that they did not expect to see a growth in jobs or turnover. These three represent businesses which, for various reasons, have encountered some sort of set back meaning the future of the business is less certain. Whilst these businesses are all still trading, it is important to note that not all businesses survive. Nationally, approximately 90% of businesses will survive their first year, 75% will survive their second and 60% will survive a third<sup>5</sup>.

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<sup>5</sup> ONS Business Demography, UK, 2017

With the exception of these three respondents, all the businesses felt that the investment would have a long term impact on their business. Similarly the majority of respondents thought that the investment would make their business more resilient.

### 4.2.3 Economic Benefits for the Islands

As illustrated in Figure 15 above the economic benefits for the Islands are significant and include:

- **Job creation/extension.** The IoSVS has recorded 48.28 jobs created to date, with a further 1.72 expected by project closure, bringing the total to 50. As the project has mainly supported micro-businesses and sole traders, much of this job growth has been evidenced through an increase in the hours worked of the business owner and it also includes seasonal workers (pro-rated accordingly). Whilst this is relatively unusual in an ERDF context, it reflects the nature of the island economy and has made a significant difference to these individual business owners allowing them to:
  - Start their business alongside working part time elsewhere;
  - Extend their hours working within the business to complement other employment (and therefore boost their income);
  - Extend their hours working within the business to full time; and,
  - Take on additional staff.

It should be recognised that portfolio careers are the norm in an islands economy and the fact that the project has supported this sort of jobs growth shows it has been well designed for the economic context.

- **Wage/income uplift.** Whilst the summative assessment has not attempted to capture the value of wage/income increases, it is clear from the interviews with beneficiaries that the investment has or will increase their earning potential, particularly for those who are self employed or increasing their own working hours. However, for those businesses which have taken on additional staff, the extent to which these jobs will pay higher than average wages is less clear. Many of the jobs created would fall into the elementary occupations category reflecting their seasonal nature (e.g. waiting staff, kitchen staff etc).
- **GVA increase.** The IoSVS does not collect GVA data directly from beneficiaries, therefore to calculate the GVA arising from the business growth we need to use proxy indicators. As the majority of businesses struggled to quantify their turnover increase, it is not possible to produce a reliable 'turnover uplift', therefore GVA is calculated by using the job creation proxy. To do this we will use the GVA per filled job figure for C&IOS of £36,414/filled job<sup>6</sup>. This equates to GVA of £1.76m at the time of the evaluation and £1.82m by project closure;
- **Increase in number of businesses.** The IoSVS has supported 20 new start businesses to date with one more expected by project close. These new businesses have largely addressed perceived gaps in the market and have often created a social benefit as both residents and visitors are able to access these services or products that were not previously available on the islands.
- **Reduction in seasonality of economy.** Many of the existing businesses were seeking investment to help them address some of the challenges of seasonality which is an important economic priority for the islands, as reflected in the Island Futures Plan. This included:

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<sup>6</sup> Annual Business Survey (2016 results) - ONS

- Investment to develop an online presence to allow businesses to continue trading beyond the main season;
  - Development of complementary products/services/businesses that offer income potential in the off-season; and
  - Development of better facilities/attractions which have the potential to operate into the shoulder months.
- **Multiplier effects through supply chains.** Several respondents highlighted how growth in their own businesses had also supported other local businesses through the supply chain. This is particularly the case in relation to primary production, where food, drink and flower producers are able to supply local businesses.
  - **Improved self-sufficiency.** The development of new products and services through the investment has also generated benefits in terms of increased self-sufficiency. Investment in construction sector businesses in particular means that islanders can now source more materials locally – with a corresponding environmental impact associated with the transport of these goods. This aligns with the self-sufficiency objective highlighted in the Island Futures Plan, as well as the objective to diversify the economy.
  - **Provision of improved commercial buildings.** The IoSVS expects to create 1,276m<sup>2</sup> of public or commercial buildings renovated. This has addressed an important economic priority for the islands, allowing businesses to grow into bigger premises, again aligning with the objective to ‘make sure that there is a range of land and property for new and expanding businesses’ identified in the Island Futures Plan.

#### 4.2.4 Tourism Benefits for the Islands

The Island Futures Plan recognises the importance of tourism with visitor spending per head of population being £14,000. However, the Plan also reflected that there has been a steady decline in the number of visitors and as a result, the economy has suffered, with many businesses seeing reduced trade and some closing altogether. At the same time, expectations of visitors have become more demanding and some businesses have struggled to change fast enough. Reflecting this evidence, the Plan has the following objectives in relation to tourism:

- To improve the quality and value of the tourism offer; and,
- To promote the Isles of Scilly more effectively

As illustrated in Figure 15 above, the tourism benefits generated through IoSVS have been substantial. The IoSVS invested in a significant number of businesses that could be described as directly serving visitors, as well as a number that are closely associated (e.g. the creative sector). Even businesses that are primarily associated with other industries (such as food and drink processing and construction) have strong connections with the tourism industry by supplying good and services.

Both stakeholders and beneficiaries highlighted that investments made through the Scheme will have a broader impact on the visitor economy by:

- **Enhancing visitor experiences.** Many investments have supported the development of new products and services for visitors including new attractions, cafes, restaurants and activities. Many

have highlighted that these investments have enhanced or improved the visitor offer as well as driving up standards through competition. This aligns well with the objective above.

- **Enhancing the offer on ‘off islands.’** Several beneficiaries highlighted that key investments made on the ‘off-islands’ have or will improve the offer for visitors to these islands and encourage them to stay longer and spend more:

*“It has also brought more people to Bryher, which means they spend more money in local shops, galleries and boat services”*

- **Supporting the tourism sector to ‘go digital’ and enable on-line bookings.** Several investments have supported a wider policy objective highlighted in the Island Futures Plan and the Destination Management Plan, to help businesses in the tourism sector benefit from digital connectivity. As well as supporting individual tourism businesses, the IoSVS also supported an investment by the Islands Partnership to develop an on-line booking system for the wider business community to use. When complete, this is expected to significantly increase the on-line presence of the Isles of Scilly tourism industry and drive up on-line bookings. Again, these investments align well with the objectives above.

#### 4.2.5 Environmental Benefits for the Islands

The Isles of Scilly is a unique and special environment, protected by an Area of Outstanding Natural Beauty (AONB) status. The Island Futures Plan confirms that the natural environment is at the heart of what is special about Scilly and that the environment has been the mainstay of its economy. It therefore includes objectives to:

- Improve the water, waste and sewage infrastructure so that it is sustainable into the future; and,
- Manage the environment to maintain and provide that special ingredient that is key to the economy.

Whilst the IoSVS was not a dedicated environmental project, it nonetheless achieved environmental benefits for the islands through:

- Investing in projects with environmental objectives; and,
- Encouraging other investments to consider and mitigate their environmental impacts.

The beneficiary survey shows that many investments incorporated features to minimise environmental impact such as: rainwater/grey water recycling, reducing waste, re-using materials and sourcing locally. All applicants were required to produce an environmental policy.

In addition, several projects had a specific environmental focus, with the investment used to address environmental challenges to business growth such as waste management. A number of investments have helped businesses produce products that were not previously available on the islands, therefore improving the island’s self sufficiency and reducing carbon emissions associated with freight transport.

#### 4.2.6 Social Benefits for the Islands

As well as supporting economic and environmental benefits, the Voucher Scheme has delivered social benefits, such as:

- **An enhanced recreational offer.** Investment in businesses operating in the leisure and hospitality sectors has provided an enhanced recreational offer for residents and young people in particular.
- **Ability to purchase locally produced products.** The ability to purchase locally sourced products provides greater choice for residents.
- **Stimulating female entrepreneurship.** A high proportion of beneficiaries were women and a small number highlighted how the voucher gave them the confidence to start-up their business.
- **Ensuring community legacy from Smart Islands.** The IoSVS also funded an ambitious project that engages directly with the community to ensure that the benefits deriving from the Smart Islands initiative are shared with residents.

#### CASE STUDY – REIKI CENTRE

St Martin's Bed and Breakfast owner, Cheryl, set up a Reiki Centre and mindfulness meditation space through the Voucher Scheme. This was a new start business located on her existing land.

Rediscovered in the 1900s by a Japanese scholar, Reiki is an energy healing system that can help people relax, detox and heal. As a treatment Reiki helps to promote and accelerate the body's natural healing process and restore physical, mental and emotional balance.

Cheryl, a trained Reiki practitioner, had observed that there was nothing like this on the Islands and wanted to develop an offer, primarily targeted at the tourism market but also to be available for the benefit of local customers. The Voucher Scheme part-funded the renovation of the physical space, including a peaceful meditation garden, as well as contributing to the cost of the equipment required to get the Centre up and running.



The Centre was opened in May 2018 and following her first season Cheryl is already planning to develop complementary services such as Reiki courses for visitors. Having found the whole process a positive experience she commented:

*"I would have had to save up for years to do something like this and even then I wouldn't have achieved something of this high quality without the grant"*



## 4.3 Additionality

Additionality refers to the extent to which something has happened as a result of an intervention that would not have occurred in the absence of that intervention. This is a complex concept and Figure 16 below describes the evidence that has been used to calculate additionality for IoSVS using the three common adjustment factors: deadweight, displacement; and, leakage.

Figure 16: Review of Additionality Evidence

	Evidence from Primary Research	Benchmarks <sup>7</sup>	Overall Assessment
<b>Deadweight</b> i.e. would the outcome have happened anyway (for example, would the business have made the investment anyway)	<p>Evidence from the primary research shows low levels of deadweight:</p> <ul style="list-style-type: none"> <li>40% of respondents stated that they would not have undertaken the project at all</li> <li>14% indicated that they would have undertaken a smaller project</li> <li>14% indicated that they would have undertaken the project at a later date</li> <li>32% indicated that they would have undertaken a smaller project and delivered it later</li> </ul> <p>None of the respondents indicated that they would have proceeded anyway with alternative finance or financing themselves</p>	<p>Sub Regional median benchmark of 50%</p> <p>Mean = 50.7% (+/-6.4% @95% confidence level)</p>	<p>The evidence from the application data indicates 0% absolute deadweight, but some evidence of partial deadweight in the form of the investment speeding up projects or delivering better quality for 60% of applicants. This indicates a need to apply a deadweight adjustment. Exploring assumptions when businesses may have brought forward investment (e.g. 1-2 years) and the likely additional quality would suggest deadweight of between 20% and 30%. Therefore we have utilised a figure of 25% in our calculations</p>
<b>Leakage</b> i.e. have any benefits accrued to non-target beneficiaries (for example, has the investment benefitted businesses outside of the islands)	<p>The beneficiary survey found no evidence of leakage</p>	<p>Sub regional median benchmark of 16.1%. Mean = 16.1% (+/- 19.1% @95 confidence level)</p>	<p>Use 0% from primary research</p>

<sup>7</sup> BIS Occasional Paper No 1. Research to improve the assessment of additionality. October 2009. Regional benchmarks used as based on a more robust 'evaluation' sample



	Evidence from Primary Research	Benchmarks <sup>7</sup>	Overall Assessment
<b>Displacement</b> i.e. has the intervention taken market share from elsewhere in the Programme area	Product displacement is usually measured using a formula which explores the relationship between sales and competition. However, respondents to our survey struggled to interpret these questions in the context of the global tourism market. Our assessment therefore goes back to first principles and explores the evidence that by investing in a given business on the Isles of Scilly, another business will be disadvantaged. This is essentially a fundamental question of demand and supply. In relation to businesses in the hospitality sector, businesses and stakeholders reported that restaurants/cafes were often fully booked weeks in advance and therefore new restaurants could be established without unduly affecting existing businesses. In other parts of the economy, some businesses suggested that they were the sole supplier of a given product on the island and some new businesses established to fill perceived gaps. On this empirical basis, it is estimated that displacement is low. However, there is also an argument that in island economies, displacement can be higher, reflecting the more constrained nature of the market	Sub-regional median benchmark of 7%. Mean = 16.5% (+/-5.4% @95% confidence level)	Use sub-regional benchmark of 16.5%
<b>Multiplier effects</b> i.e. further economic activity stimulated by the direct benefits of an intervention associated with income and supply chains	It is not possible, without rigorous analysis of supply chains to gain an empirical understanding of multiplier effects	Sub-Regional benchmark of 1.2	Apply sub-regional benchmark of 1.2

Figure 17 shows the net employment and GVA increase at the time of the evaluation; and the projected performance at project close. The current net employment is 36 with a projection of 38 by project closure. GVA per year has been calculated by using job creation as a proxy<sup>8</sup> and the Figure shows the current net as 1.32m with a projection of £1.37m by project closure. Note - this is an annual GVA impact. The true impact in the future is likely to be higher if the companies remain on the islands and continue to deliver GVA.

**Figure 17: Gross and Net Additional Impact for Employment and GVA (time period)**

		Impact Area: Cornwall and the Isles of Scilly		Impact Area: Cornwall and the Isles of Scilly	
		Performance at Time of Evaluation		Projected Performance at Project Closure	
Impact Indicator		Measure	Adjustment	Measure	Adjustment
<b>Employment</b> (Unit = FTEs)	Gross impact	48.28		50	
	Deadweight/reference case	36	25%	38	25%
	Displacement/substitution	30	17%	31	17%
	Leakage	30	0%	31	0%
	Multiplier effects	36	1.2	38	1.2
	Net additional	36		38	
<b>GVA</b> (Unit = £m)	Gross impact	£1.76m		£1.82m	
	Deadweight/reference case	£1.32m	25%	£1.37m	25%
	Displacement/substitution	£1.10m	17%	£1.14m	17%
	Leakage	£1.10m	0%	£1.14m	0%
	Multiplier effects	£1.32m	1.2	£1.37m	1.2
	Net additional	£1.32m		£1.37m	

## 4.4 Progress in Relation to the Logic Model

In addition to delivering jobs and GVA, according to the project logic chain IoSVS's intended outcomes and impacts were to bring about an increase in the economic performance of businesses, average wages and commercial workspace as well as a diversification of the business base and contribution to the transformation of the Island economy. Figure 18 summarises the evidence in relation to each item showing that significant progress has been made across most indicators.

<sup>8</sup> Applying GVA per filled job figures for C&IOS in 2016 of 36,414/filled job

**Figure 18: Progress in Relation to Intended Outcomes and Impacts**

Intended Outcomes and Impacts	Evidence from Evaluation Process
<b>Increase in economic performance of businesses</b>	<ul style="list-style-type: none"> <li>✓ Our survey of businesses shows that 91% of respondents had experienced either a growth in jobs or turnover or expected to experience this once their project is completed. All of these businesses expected the investment to have a long term impact on their business</li> <li>✓ Many businesses expected their business to grow further as the impact of the investment comes to fruition</li> </ul>
<b>Increase in average wages</b>	<ul style="list-style-type: none"> <li>✓ The IoSVS monitoring data predicts an employment increase equivalent to 50 FTE jobs by project close</li> <li>✓ However, the evidence in relation to wage/income uplift is more mixed. Whilst many sole traders/micro businesses owners will benefit from higher incomes, there is less evidence that additional staff employed within businesses are likely to be paid higher than average wages, with many employed in elementary occupations</li> </ul>
<b>Increase in commercial workspace</b>	<ul style="list-style-type: none"> <li>✓ Funded investments have delivered 1,231.5m<sup>2</sup> of new or refurbished commercial buildings which is 975.7m<sup>2</sup> more than set out in the application</li> </ul>
<b>Diversification of the island business base</b>	<ul style="list-style-type: none"> <li>✓ The portfolio of projects that have been supported through the scheme are diverse in nature</li> <li>✓ There were 20 new-starts within the mix including some very innovative projects and ventures that were unique on the islands</li> <li>✓ The portfolio of investments also resulted in 22 new to the firm products/services developed (as per the ERDF definition), many of which are filling a perceived gap in the market</li> </ul>
<b>Contribution to the transformation of the island economy</b>	<ul style="list-style-type: none"> <li>✓ There is strong evidence that the majority of projects are likely to be sustainable over the long-term</li> <li>✓ The majority of businesses report that the investment will help their business be more resilient and have a long term benefit</li> <li>✓ There is evidence that some new products/services will help the island be more self-sufficient</li> <li>✓ There is evidence that the portfolio of investments are contributing to developing the islands' tourism offer</li> </ul>

## 4.5 Programme Specific Results Indicators

The ERDF Operational Programme for England sets out a number of Specific Result Indicators that are linked to individual investment priorities. Each ERDF project is expected to contribute towards the overall result targets and the IoSVS project's contribution is shown in Figure 19 overleaf.

**Figure 19: Contribution to Programme Specific Results Indicators**

Priority Objective	Programme Specific Results Indicators	Evidence from the Evaluation
3a - Promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators	Total early stage Entrepreneurial Activity (TEA), represented by the proportion of adults of working age (18-64) in the process of starting a business or running a business less than 42 months old	<ul style="list-style-type: none"> <li>✓ 34% of investments were attributed to this priority</li> <li>✓ The IoSVS has contributed to the programme's TEA rate by supporting 20 new start businesses across a variety of sectors (21 by project close)</li> </ul>
3c - Supporting the creation and the extension of advanced capacities for products, services and development	Number of small and medium sized jobs	<ul style="list-style-type: none"> <li>✓ 58% of investments were attributed to priority C and 8% to priority D</li> </ul>
3d - Supporting the capacity of small and medium sized enterprises to grow in regional, national and international markets and to engage in innovation processes	Gap in productivity between SMEs and large companies productivity measured in terms of gross value added per employee	<ul style="list-style-type: none"> <li>✓ Monitoring evidence indicates that the investments have contributed to the programme's job creation targets for England with the expectation that it will have delivered an employment increase of 50 FTE jobs by project close</li> <li>✓ Our calculations also show that IoSVS has contributed to a reduction in the productivity gap by increasing GVA within islands businesses by £1.37m by project closure</li> </ul>

## 4.6 Strategic Added Value

All stakeholders were asked about IoSVS's Strategic Added Value. One of the most significant themes to emerge was the view that the investments have driven up standards, not just for the grant recipient but also more generally across the business base:

*"When people see investments being made they look at their own offer and try to up their game to stay competitive"*

*"It has a knock-on effect – higher spec'd offers are driving quality up everywhere"*

This is particularly, though not exclusively, seen as being the case for tourism based businesses and more generally the scheme is felt to have been particularly beneficial for tourism. The investments have certainly supported a wide range of projects that have increased the profile of the islands as an attractive destination, from online booking systems to new and innovative activities for visitors.

Additionally, there is a perception that the scheme has encouraged other businesses to think about investment. Stakeholders suggested that many were watching and waiting to see what would happen with IoSVS and, having seen the positive impacts of the funding, may now have the confidence and be ready to

take the initiative themselves. The fact that there is a pipeline of EOIs already waiting if future funding for the Voucher Scheme is secured would substantiate this view.

It may likewise have had the same effect for individuals wishing to start-up a business. Interestingly, there is evidence that the scheme has supported some individuals that had been made redundant to start-up which is certainly an added value activity, as well as evidence that the scheme has supported mothers looking to increase their economic activity after their children have started school.

## 4.7 Has it made a Difference?

Evidence gathered during this evaluation suggests that IoSVS has made a difference. The fieldwork with businesses shows that 91% of businesses have already, or expect to achieve, turnover growth and 87% have or expect to create jobs. The vast majority of respondents felt that the investment would have a long term impact on their business and would make it more resilient. The fieldwork also revealed a strong relationship between the investment and wider economic, environmental and social benefits to the islands. Adjusting for additionality factors, the IoSVS has already created 36 net additional jobs and is forecast to create 38 by project closure. This equates to £1.32m GVA and £1.37m GVA respectively.

### Summary

- There is a strong relationship between the investment activity and wider economic, social and environmental outcomes for the islands
- The investments contribute to several broader strategic objectives identified in the Island Futures Plan
- Businesses have reported bottom line benefits including increased turnover, improved profitability and improved resilience, with 91% of businesses having already, or expecting to, achieve turnover growth
- Businesses also reported a number of softer impacts including reducing the impact of seasonality, branding/professionalism, management capacity/business planning, health and well-being and learning
- There is a high level of additionality, with low levels of deadweight, displacement and leakage
- After adjusting for additionally, the net economic impact at the time of the evaluation is 36 net additional jobs and £1.32m GVA. By project closure, it will have risen to 38 net additional jobs and £1.37m net additional GVA
- The project has made demonstrable progress in relation to its logic chain as well as the Priority 3 Results indicators
- It has also achieved strategic added value by 'driving up standards' across the business base as well as increasing the profile of the islands as an attractive destination to visit
- Further, evidence suggests that it has encouraged other businesses to consider making investment and it has promoted business start-ups

## Section Five: Project Value for Money

### 5.1 Introduction

Value for Money (VFM) is normally assessed with reference to project outputs, benchmarked against other similar interventions. This section of the report endeavours to provide appropriate benchmarks against which to assess IoSVS's VFM and also contextualises the assessment with reference to wider evidence.

### 5.2 Assessment

As with all European grants, the funder effectively agrees to 'buy' a number of outputs. In the case of IoSVS this was focused on eight different indicators. Figure 20 overleaf shows the relative VFM of the IoSVS project in terms of the unit costs for the key outputs, based on the numbers that have been delivered to date, compared with two recognised benchmarks:

- National research conducted by Regeneris Consulting on behalf of DCLG (as was) which developed a series of benchmarks for the proposed 2014-2020 programme, based on DCLG data from the 2007 to 2014 programme<sup>9</sup>; and,
- The Cornwall and Isles of Scilly Convergence Programme evaluation<sup>10</sup> to provide some local context.

The analysis presented overleaf is based on public sector costs and benefits at the time of the evaluation. SME match funding has been excluded to allow fair comparisons. The analysis focuses on the four indicators where relevant benchmarks are available (C1, C8, C28 and C29). The unit costs comparison for each of the indicators is shown below.

- **C1: Enterprises supported.** The unit costs are comparable with national benchmarks, but slightly higher than local benchmarks. However, comparisons need to be treated with caution as in this instance the unit cost reflects the intensity of support. Therefore larger grants will equal a higher unit cost.
- **C5: Number of new enterprises receiving support.** The unit costs are higher than the national average, however, this is consistent with the use of a financial support product.
- **C8: Employment increase in supported enterprises.** The unit costs are slightly higher than the national benchmark of £26,000 and certainly higher than the local benchmarks from the Convergence Programme.
- **C29: New to the firm products.** The unit costs are consistent with national benchmarks which is a significant achievement for a project that was not focused specifically on innovation.

Whilst unit costs can be informative, in highlighting areas of particularly good/poor VFM, it is also important to reflect on the value for money of the project as whole, considering the basket of indicators. In our view, when all the outputs are considered, including private sector funding levered, the project represents excellent value for money, especially given the context of the island economy.

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<sup>9</sup> England ERDF programme 2014-2020: Output Unit Costs and Definitions. A final report by Regeneris Consulting

<sup>10</sup> Cornwall and Isles of Scilly Convergence Programme Evaluation. May 2015

Figure 20: Value for Money (unit costs analysis) as at November 2018

Indicator	Actual Performance	Regeneris Research (based on DCLG database of projects funded through the 2007-2014 programmes)	Cornwall Programme Evaluation	Conclusion
<b>C1: Number of enterprises receiving support</b>	<b>£28,514</b>	<p>The Regeneris study highlights that this unit cost is particularly prone to variability, reflecting the variation in intensity of support. Across the 623 projects that reported on this measure</p> <p><b>The mean unit cost was £34,000,</b>  <b>The median was £10,200 and</b>  <b>The lower quartile £4,700</b></p> <p>However, the report points out that much higher unit costs can be used if the intention is for a smaller number of businesses to be supported intensively</p>	The evaluation of the Convergence programme found that average cost/business assist across Priority was £15,752, but for projects provided with grant /loan via an intermediary, the unit costs were £16,970	The unit costs are comparable with national benchmarks, but slightly higher than local benchmarks. However, comparisons should be treated with caution as in this instance the unit cost reflects the intensity of support. Therefore larger grants will equal a higher unit cost
<b>C5: Number of new enterprises receiving support</b>	<b>£68,433</b>	<p>Only a small number of projects (24) on the database reported against this output</p> <p><b>The mean cost was well over £200,000</b>  <b>The median cost was £24,000</b>  <b>The lower quartile was £3,500</b></p> <p>Regeneris suggest that the higher figures are likely to reflect projects providing substantial financial start-up support (via Venture Capital and Loan Schemes). Regeneris suggest that the lower quartile figure of £3,500 per business start-up is used unless a financial grant or loan scheme is included</p>	The evaluation of the Convergence programme found that average cost per business assist for start-up support was £10,963	The unit costs are higher than national averages, however, this is consistent with the use of a financial support product
<b>C8:Employment increase in supported enterprises</b>	<b>£28,348</b>	<p>Based on evidence from 758 projects</p> <p><b>The mean cost was £71,000</b>  <b>The median cost was £25,700</b>  <b>The lower quartile was £11,500</b></p> <p>Regeneris suggest that the lower quartile figure is only relevant for a lower intensity business support and the mean is pushed upwards by capital intensive ERDF projects, therefore the authors recommend that a figure of £26,000 gross cost per job is used as the starting point</p>	This report found that the average costs/gross job created across the Priority was £15,584, but for projects provided with grant/loan via an intermediary the unit costs were £11,324	The unit costs are slightly higher than the national benchmark of £26,000 and higher than the local benchmarks from the Convergence programme



Indicator	Actual Performance	Regeneris Research (based on DCLG database of projects funded through the 2007-2014 programmes)	Cornwall Programme Evaluation	Conclusion
<b>C29: New to the firm products</b>	<b>£62,211</b>	The Regeneris Study notes that the C28 indicator is new to the current programme and therefore, some caution needs to be exercised when reviewing data from the previous programme. The report notes that as the old definition was based on results, rather than activity, the unit costs for the new definition should be at least 25% lower. The unit costs based on 78 observations and reduced by 25% are:  <b>Mean = £70,500</b> <b>Median = £21,000</b>	This report did not include unit costs for these indicators	The unit costs are consistent with national benchmarks

We can also consider the VFM in terms of the Return on Investment achieved for the public purse, which is based on the ratio between costs and benefits, discounted over time. This is shown in Figure 21 below. This shows that every one pound invested at the time of the evaluation will produce a return of £3.73. However by project closure, this is anticipated to fall to £2.9, reflecting the higher cost assumptions at that time.

**Figure 21: Return on Investment Calculation**

	Public Sector Cost Assumptions	Benefit Assumptions	Other Assumptions	Estimated Net Return on Investment
<b>At the time of the evaluation</b>	Total ERDF project costs = £1,024,322	Net GVA= £1.32m	Net GVA benefits will persist over 3 years <sup>11</sup> Costs/benefits will be discounted by 3.5%	£1 invested equals £3.73 net benefits
<b>By project closure</b>	Total ERDF project costs = £1,368,652	Net GVA= £1.37m	Net GVA benefits will persist over 3 years <sup>12</sup> Costs/benefits will be discounted by 3.5%	£1 invested equals £2.9 net benefits

<sup>11</sup> As benchmarked in RDA Evaluation: Practical guidance on implementing the evaluation framework, December 2009.

<sup>12</sup> As benchmarked in RDA Evaluation: Practical guidance on implementing the evaluation framework, December 2009.

## Section Six: Conclusions and Lessons Learned

### 6.1 Introduction

This final section of the report provides an overall assessment of the IoSVS project, highlighting some points for consideration and potential lessons for the future. Some of these have already been taken on board by the team as part of their continuous improvement.

### 6.2 Overall Assessment

Evidence suggests that there was a strong rationale for this project at the time of the application and it was designed to address a clearly identified market failure. The project was also, for the most part, well designed for delivering sustainable business growth. However, whilst its fundamental features were right for the economy of the islands and the needs of the business, the profiled outputs – specifically in terms of enterprises supported – were inconsistent with the design, potentially arising from a methodological error in the profiling at application stage. It is our considered view that the C1/C2 outputs were unrealistic within the parameters of the project design.

A PCR was submitted to reduce some of the output targets and also to re-profile the capital/revenue budgets, reflecting a higher than anticipated take-up of revenue vouchers and an underspend in staffing/overhead costs. During the course of preparing this report the PCR was approved and it is expected that the project will achieve 100% of the revised capital and revenue allocations.

The project has supported a total of 50 investments to date, of which 48 are eligible to be counted as enterprises supported. This represents 96% of the revised C1/2 targets. Performance has also been very strong in relation to new businesses assisted, private investment levered, employment increase and public/commerce buildings built or renovated. All of these targets will have been exceeded (and in some cases considerably so) by project close, for which the team should be commended. Performance has been slower on new products partly as a result of definitional misunderstandings. However, the project has met its revised target for one new to the market product; and expects to meet its revised target for new to the firm products by project close.

Overall there is evidence to show that the project has been well managed. Despite some challenges, the current IoSVS team has worked extremely hard to understand the ERDF requirements and deliver a compliant project whilst also providing valuable support to applicants and beneficiaries. There was some feedback from a small number of businesses that had been supported in the early stages of the project to suggest that they felt poorly advised by the team about how to proceed (in terms of issues such as eligibility, state aid, match funding and procurement) but this improved over time.

The majority of beneficiaries were satisfied with the process because of the support they received from the team. Without this, many would not have applied. It is the considered view of the evaluation team that IoSVS would not have been such a successful project without the team's hard work and professionalism. However, there is still scope to streamline and simplify the application process by learning from best practice elsewhere. Equally, there may be scope to review the approach to managing intervention rates. Whilst some stakeholders felt that a variable intervention rate offered additional flexibility, some

businesses felt that decisions surrounding this lacked transparency, with a small number going so far as to say that decisions were unfair.

Feedback has also been provided about the Island Futures Board which forms a key part of the project's management and delivery arrangements through its role as an Investment Panel for applications over £10,000 and through its broader oversight function. It has clearly provided a safety net for the decision making around larger projects but views on the role of this group are somewhat mixed and its remit is in need of clarification. Further, it has been noted that some of the contract conditions that have been placed on grant recipients by the IFB have been problematic for the businesses and we would suggest that use of contract conditions is considered very carefully for future schemes.

Most stakeholders felt that, in general, the right investment decisions have been made, although there was some suggestion that more could have been done to systematically align the investments to relevant strategies. From an external perspective we can see that the investments have contributed to several of the strategic objectives identified in the Island Futures Plan. Moreover, there have been real tangible benefits arising from them. In addition to a range of 'soft outcomes' businesses have reported bottom line benefits including increased turnover, improved profitability and improved resilience, with 91% of businesses having already, or expecting to, achieve turnover growth. After adjusting for additionally, the net economic impact at the time of the evaluation is 36 additional jobs and £1.32m GVA. By project closure, it will have risen to 38 net additional jobs and £1.37m net additional GVA. The scheme's strategic added value can also be seen in 'driving up standards' across the business base as well as increasing the profile of the islands as an attractive destination to visit.

Whilst Value for Money in terms of unit costs per output is somewhat mixed, when all the outputs are considered, including private sector funding levered, the evaluators conclude that the project represents excellent value for money, especially given the context of the island economy.

It is therefore clear that IoSVS really has made a difference and there remains a rationale for this sort of project to continue on the islands.

## 6.3 Lessons Learned

### 6.3.1 Lessons for Policy Makers

One of the most significant findings to emerge from the evaluation in policy terms is that for island economies such as this, grant schemes can be a really valuable tool for stimulating sustainable business growth. Although policy makers at European, national and local levels recognise the danger of areas developing a grant dependency culture, the success of this scheme in terms of outcomes and impacts demonstrates that having the right funding package in place can be transformational for individual businesses as well as for local economies. Our evaluation findings show that, for the most part, the business growth simply would not have happened (or would have happened much more slowly) in the absence of this external funding. Further, we have found that the scheme's impacts have encouraged other, non-grant recipients, to look at making their own investments which is driving up standards more generally. This indicates that grant schemes still have an important role to play in the economic development toolkit.

### 6.3.2 Lessons for Those Designing and Implementing Similar Interventions

For those designing and implementing similar interventions we would suggest that there are positive lessons to be learned from the structure of the IoSVS delivery team and their approach to working with applicants. Dedicated time was built in to support applicants with project development but also to ensure ERDF compliance and this has been hugely valuable. The hard work and professionalism of the team has been noted and there are lessons for others in how they have balanced the ERDF compliance requirements with responsive, business-friendly delivery.

There may also be (less positive) lessons from this project around ensuring that output profiling is accurate and realistic from the start. It has been difficult for this IoSVS team to square the circle of working to targets that were not consistent with the project design. It is unfortunate that this issue was not picked up by the Managing Authority at project appraisal.

### 6.3.3 Lessons for the Grant Recipient

Notwithstanding the positive comments made above, evidence from the evaluation indicates that there are some potential areas for the grant recipient to consider. It is suggested that for any future schemes the Isles of Scilly Council could:

- **Review the application process**, particularly the applications forms, with the aim of making them more streamlined and user-friendly where possible (without compromising ERDF requirements). There may be lessons to be learned from some of the grant providers on the mainland here.
- **Reconsider the approach to intervention rates**, to improve the transparency of decision making, particularly within such a small community. This could also help to reduce the associated financial and administrative burden for the team.
- **Look to minimise the risk to the Council of providing applicants with incorrect or inaccurate advice.** In addition to providing clear written guidance for applicants and the team, this could be achieved by ensuring that the team members have been fully trained and understand all aspects of the process before advising applicants; and, conducting internal quality checks at regular intervals throughout the project.
- **Clarify the role of the Island Futures Board**, so that everyone understands its remit within the process. It will be a decision for the Council as to whether the Board is given more or less responsibility but in any event it is important that there is a shared understanding of its Terms of Reference.
- **Explore the alternatives to using contract conditions for applicants when trying to ensure that they meet strategic objectives.** Future schemes could, for example, introduce additional and transparent criteria to align with strategic intent at the application stage as an alternative means of achieving this. Additionally they could explore the possibility of launching ‘calls’ for particular types of project to come forward that meet strategic objectives, though care would need to be taken not to disadvantage the ‘bread and butter’ business ideas in the process.