

<b>Title of Report:</b>	<b>Digital Transformation Flexible Fund</b>
<b>Committee Report Submitted To:</b>	Leisure & Development Committee
<b>Date of Meeting:</b>	20 September 2022
<b>For Decision or For Information</b>	For Decision

<b>Linkage to Council Strategy (2021-25)</b>	
Strategic Theme	Local Economy Improvement and Innovation
Outcome	Council contributes to improving levels of business innovation in the Borough
Lead Officer	Head of Prosperity & Place supported by Business Development Officer

<b>Budgetary Considerations</b>	
Cost of Proposal	£60,904 (see Appendix 1)
Included in Current Year Estimates	Yes
Capital/Revenue	Revenue
Code	TBC
Staffing Costs	Within budget

<b>Screening Requirements</b>	Required for new or revised Policies, Plans, Strategies or Service Delivery Proposals.		
Section 75 Screening	Screening Completed:		
	EQIA Required and Completed:		
Rural Needs Assessment (RNA)	Screening Completed		
	RNA Required and Completed:		
Data Protection Impact Assessment (DPIA)	Screening Completed:		
	DPIA Required and Completed:		

## 1.0 Purpose of Report

To update the Committee on progress to secure in excess of £7m of funding through the Complementary Fund, to establish a Northern Ireland wide Digital Transformation Flexible Fund (DTFF) which will help to address the financial barriers facing small businesses and social enterprises wishing to digitally transform.

## 2.0 Background

As Members will be aware, supporting digital innovation is a key priority in the development of the spectrum of projects emerging through City and Growth Deals across Northern Ireland.

The Digital Transformation Flexible Fund (DTFF) concept was initially developed in response to the low levels of innovation and digital transformation taking place across the region - particularly among the small business community. The DTFF aims to address the financial barrier that small businesses face when seeking to digitally transform, by establishing a capital grant fund that will support investment in the types of capital equipment considered critical to their strategic digital transformation ambitions (e.g., hardware, software, bespoke system development).

To date, £6m of funding for this project has been ring-fenced through the NI City & Growth Deal Complementary Fund. The Department for Agriculture, Environment and Rural Affairs (DAERA) has committed a further £1.1m. Due to its ineligibility for the Complementary Fund, the Derry City & Strabane Growth Deal is currently also in the process of securing an additional £450k to create a total capital grant fund of £7.5m.

Over the past six months, Councils have participated in a robust process to develop the outline business case required to release this government funding. The business case has been informed by detailed and continuous engagement with a range of stakeholders including more than 40 businesses and organisations such as Digital Catapult, Catalyst, Innovate UK, Intertrade Ireland and Invest NI. A review of best practice models - such as the Leeds City Region Digital Enterprise and the Scottish Digital Boost initiatives – has been used to supplement this work.

Following a robust business case process, the preferred option for the delivery and management of the DTFF project is as summarised below.

- **Business Eligibility:** micro and small businesses and social enterprises (up to 50 employees) across all sectors, with the exception of primary agriculture and fisheries<sup>1</sup>. Eligible businesses must be able to demonstrate at least one year's trading history.
- **Grant funding levels:** will range from £5,000 - £20,000 with a grant subvention rate of 70% of total project costs.
- **Eligible expenditure:** will be limited to the purchase of capital equipment and/or resources for software or bespoke system development. It will be aligned to advanced digital technologies<sup>2</sup>
- **Application Process:** Up to nine funding calls will be opened across the three-year delivery period of this Fund. Pre-application workshops will be held in local council areas in advance of calls, to help stimulate demand. Businesses will be required to submit a digital transformation plan<sup>3</sup> to demonstrate the strategic fit and economic return of their proposed investment projects through a competitive application process. There is an imperative to progress the business case process at pace, to ensure alignment with the

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<sup>1</sup> Due to state aid challenges and wider interventions provided to these sub-sectors

<sup>2</sup> Including smart technologies (Internet of Things), process automation, big data and analytics, immersive technologies, artificial intelligence and blockchain technologies;

<sup>3</sup> Please note support to develop Digital Transformation Plans is currently available through Councils' Digital Surge Programme (led by Antrim & Newtownabbey Borough Council) equivalent plans are also provided through FE College intervention such as Innovate US.

Councils' Digital Surge programme<sup>4</sup> which is likely to lead to business plans that will require financial investment and which the DTFF is directly aligned to support. This current programme is due to end in March 2023, and it will be important to ensure that the DTFF is operational prior to the conclusion of Digital Surge.

- **Management of the Fund:** the project will be managed on a cross-council basis through governance structures created through the existing Full Fibre NI Consortium, led by Newry, Mourne & Down District Council. Whilst the centralised management structure will deliver economies of scale for managing the overall fund, its operation will be managed via cross-council governance structures. Local Council Economic Development Teams will play a key supporting role to animate and promote the Fund, assess funding applications etc.

### **3.0 Outcomes**

Based upon an average grant rate, it is estimated that approximately 600 businesses will be supported over the three-year delivery timeframe of the project, delivering significant investment in local businesses across Northern Ireland, with an expected return of investment of £1: £2.24, with anticipated benefits expected to be principally focused upon increased employment levels and/or turnover levels for participating businesses.

### **4.0 Financial Implications**

As with wider City and Growth Deal funding, both the Complementary Fund and DAERA funding are limited to capital expenditure creating the need for additional revenue funding to manage delivery of the Fund.

The estimated total revenue cost for the 11 council partners for the preferred delivery option is approximately £870k over the three-year period. Members should be aware that in identifying the preferred delivery mechanism a range of options were explored, including council led and procured delivery providers. The proposed council-led delivery model was identified to be the most cost effective, quickest to implement and benefited from a model of delivery where economies of scale could be achieved whilst retaining the ability to maintain localised engagement. The proportional cost allocation for each council has been informed by business population levels across Council areas. This is detailed within **Annex A**. The revenue cost contribution for Causeway Coast and Glens across the three-year period will be **£60,904**.

Given the time pressures outlined above, Councils are asked to commit revenue funding *at risk*, whilst the final stages of the business case approval process continue simultaneously in Autumn of this year. This will ensure sufficient resources are in place to support the business case process as well as preparing for the delivery of the project including updating governance structures, development of detailed project plans and preparing funding processes to enable the project to mobilise quickly. Revenue funding will be required to support the project team to deliver the project, enabling vital pre-development work to be undertaken and ensuring the project can be mobilised in the January to March 2023 period, subject to a successful approval process.

The process for the business case requires Invest NI approval initially, prior to progressing through departmental approval mechanisms. In the development of the business case to date, ongoing engagement has taken place with government departments and Invest NI. Equally, the staged approval process will mean that, in advance of the November timeframe when revenue costs are expected to be incurred by Councils 'at risk', there is expected to be reasonable progress made in the business case approval journey.

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<sup>4</sup> Digital Surge is a capability-building programme designed to support small businesses wishing to develop digital transformation plans,

## **5.0 Recommendation**

**It is recommended that the Leisure & Development Committee recommends to Council to commit revenue funding totalling £60,904 over the next three years for the delivery of the NI DTFF be led by Newry, Mourne and Down District Council through its existing arrangements operating the Full Fibre NI Consortium from November 2022, to enable pre-development work to commence.**

**Annex A**

		<b>FY 2022 -2023</b>	<b>FY 2023-2024</b>	<b>FY 2024-2025</b>	<b>FY 2025-2026</b>	<b>Totals</b>
Antrim & Newtownabbey	6%	6,576	18,499	20,299	6,830	<b>52,204</b>
Ards & North Down	7%	7,672	21,582	23,682	7,969	<b>60,904</b>
Armagh City, Banbridge & Craigavon	11%	12,056	33,914	37,214	12,522	<b>95,707</b>
Belfast	19%	20,825	58,579	64,279	21,629	<b>165,312</b>
Causeway Coast & Glens	7%	7,672	21,582	23,682	7,969	<b>60,904</b>
Derry City & Strabane	7%	7,672	21,582	23,682	7,969	<b>60,904</b>
Fermanagh & Omagh	8%	8,768	24,665	27,065	9,107	<b>69,605</b>
Lisburn & Castlereagh	8%	8,768	24,665	27,065	9,107	<b>69,605</b>
Mid & East Antrim	6%	6,576	18,499	20,299	6,830	<b>52,204</b>
Mid Ulster	10%	10,960	30,831	33,831	11,384	<b>87,006</b>
Newry, Mourne & Down	11%	12,056	33,914	37,214	12,522	<b>95,707</b>
<b>Totals</b>		<b>109,603</b>	<b>308,311</b>	<b>338,311</b>	<b>113,838</b>	<b>870,064</b>