

Request for Inward Investment Fund support to the first stage of development of Bute Island Foods Ltd.

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to provide information on Bute Islands Foods Ltd (BIF), its planned expansion/development and its request for support from the Inward Investment Fund.

1.2 The island of Bute is an economically fragile area, has the highest unemployment rate in Argyll and Bute (Figure 1) and a declining population. Most of the workforce on the island is employed in Health, Education and Manufacturing. BIF is the largest employer in manufacturing and likely the largest private sector employer on Bute.

1.3 BIF is a growing manufacturer of dairy free vegan cheese products on the island of Bute. From small beginnings in the 90s, it currently (March 2018) employs 110 people on the island, contributing £4.5M to the region's GVA.

1.4 BIF expanded in 2013 when it purchased and refurbished the "Old Creamery" building in Rothesay and relocated its operational base there. However, both national and international demand for its products is rapidly growing and its current plant has insufficient capacity to meet this demand.

1.5 Consequently, the BIF directors are planning a two-phase development. The first phase is estimated to result in 35 to 44 additional jobs on Bute, raising total paid salaries, and increasing firm-level GVA to £6M. Successful completion of the first phase will lead to the second phase, which is estimated to result in 70 additional jobs, raising total salaries, and increasing firm-level GVA of £10M. These are considerable economic benefits for Bute and for Argyll and Bute as a whole.

1.6 It should be noted that even though there are financial incentives to relocate the firm out of Bute, the directors would prefer to develop BIF on Bute. They have requested £100,000 grant funding from the council's Inward Investment Fund, which will improve the scale, timing and quality of the first phase of development on the island.

1.7 The BIF project aligns well with the aims and key themes of the emerging Rural Growth Deal that was approved at the May 2018 Policy and Resources Committee, together with the associated Inward Investment Fund criteria, the Outcome Improvement Plan key outcomes 1, 2 and 3, Scotland's Economic Strategy and the UK Government's Industrial strategy.

1.8 The grant request by BIF was assessed comprehensively against several standard criteria including State Aid and finance. State Aid requires BIF to maintain the investment/jobs created by the grant funding on the Island of Bute for a minimum period of 3 years after the completion of the development

1.9 Members are asked to:

- Note the content of this paper.
- Approve, in principle, the award of £100,000 from the Inward Investment Fund to support the first phase of development by BIF.
- Authorise the Executive Director of Development and Infrastructure, in consultation with the Executive Director of Customer Services and the Head of Strategic Finance, to issue an offer to grant those funds to BIF on such terms and conditions as the Executive Director of Development and Infrastructure may reasonably determine. In particular, subject to BIF being successful in obtaining planning permission for the development; a condition requiring repayment of the grant funding in the event that BIF fail to maintain the investment/jobs created by the grant funding on the Island of Bute for a minimum period of 3 years after the completion of the development; and such other terms and conditions as may be required in order for the Council to comply with all legislative provisions relating to the granting of such State Aid.

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2.0 INTRODUCTION

2.1 The island of Bute is classed by HIE as an economically fragile area, has the highest unemployment rate (Figure 1) in Argyll and Bute and its population is projected to decrease by almost 1000 people by 2026. The three industries that collectively employ almost 75% of the workforce on Bute are Health, Education and Manufacturing. Bute Island Foods Ltd (BIF) is the largest employer in manufacturing, employing about 88% of the people in this industry.

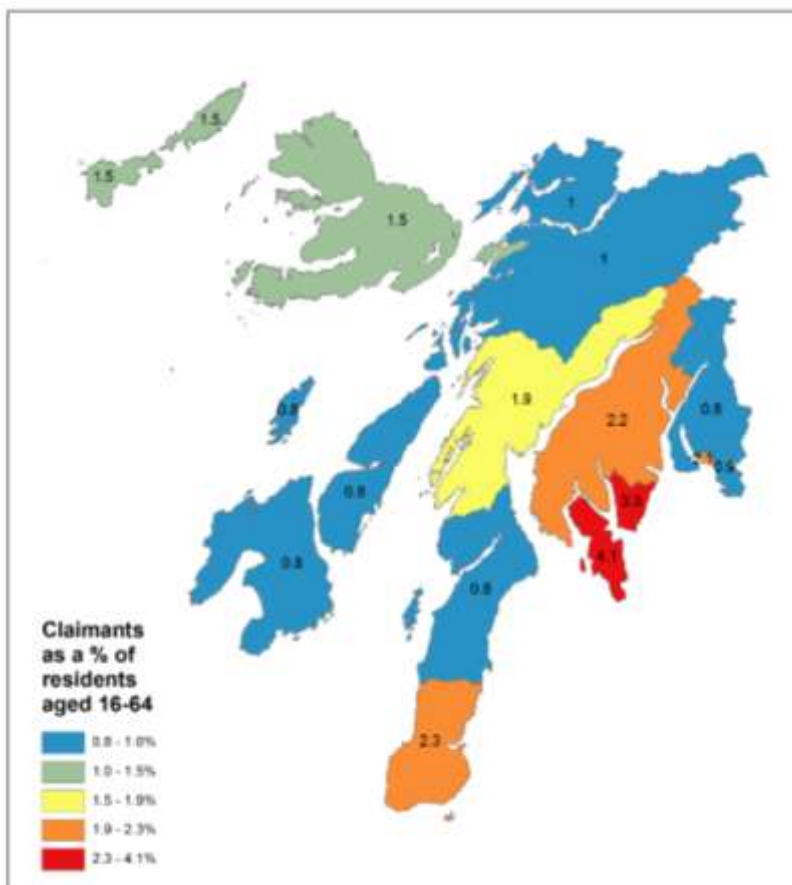


Figure 1: Claimants as percentage of working population in Argyll and Bute wards in March 2018. Isle of Bute has the highest unemployment rate.

2.2 BIF is likely the largest private sector employer on the island and manufactures dairy free vegan cheese products. The company has experienced rapid growth in recent years with considerable potential to grow in the future and create additional jobs on the island.

2.3 There is high and rising demand for BIF products from both UK and international markets. In response to this rising demand, the firm's directors are planning a two-phase development/expansion process over the next two to three years to increase capacity to supply this growing market.

2.4 The company was conceived in 1988 around a farmhouse table, expanded to a small building on Bute in 1994 when all its products were made by hand, then expanded again in 2013 by moving to the "Old Creamery" building in Rothesay. In 2015, 20 people worked in BIF, increasing to 49 in 2016, 86 in 2017 and 110 in March 2018.

2.5 The BIF directors estimate they will employ an additional 35 to 45 new people on Bute after successful completion of the first phase and an additional 70 by the end of 2020 after the successful completion of the second phase.

2.6 Following an informal discussion with Economic Development staff, the directors of BIF formally requested in a letter (Appendix A) financial support from the council's Inward Investment Fund (IIF) to the first phase of development.

2.7 This paper presents details about BIF and the planned development and recommends that elected members approve financial support of £100,000 from the IIF to the first phase of development.

3.0 RECOMMENDATIONS

Members are asked to:

3.1 Note the content of this paper.

3.2 Approve, in principle, the award of £100,000 from the Inward Investment Fund to support the first phase of development by BIF.

3.3 Authorise the Executive Director of Development and Infrastructure, in consultation with the Executive Director of Customer Services and the Head of Strategic Finance, to issue an offer to grant those funds to BIF on such terms and conditions as the Executive Director of Development and Infrastructure may reasonably determine. In particular, subject to BIF being successful in obtaining planning permission for the development; a condition requiring repayment of the grant funding in the event that BIF fail to maintain the investment/jobs created by the grant funding on the Island of Bute for a minimum period of 3 years after the completion of the development; and such other terms and conditions as may be required in order for the Council to comply with all legislative provisions relating to the granting of such State Aid.

4.0 DETAIL

4.1 Commentary on the BIF business plan is in Appendix B and supporting data in Appendix C. A summary is presented below.

4.2 BIF has been based on Bute since 1994. The current owners and management team purchased it in 2003. The firm expanded in 2013 by purchasing and renovating the “Old Creamery” building in Rothesay, which is its current base of operations.

4.3 BIF produces a range of dairy free vegan cheese products under the brand “Sheese”. Products include Sheese blocks and slices, grated Sheese and creamy Sheese.

4.4 The products are stocked by several large UK retailers including Tesco, Sainsbury’s, Asda and Waitrose. Moreover, BIF exports a substantial proportion of its products to the EU and rest of the world, with imminent contracts in Australia and emerging opportunities in the USA.

4.5 At the current site, there is a bottleneck in batch preparation because raw material and chilled storage is limited. Therefore, to run the production plant to capacity 6 or 7 days per week and meet the increasing demand, the plant requires additional warehousing to support both the raw material intake and finished product storage and dispatch.

4.6 The first phase of development is to build additional warehousing and office space on the site opposite the current production plant, where an offer of £55,000 for the land has been accepted by the Highlands and Islands Enterprise (HIE).

4.7 The plan is to build a new warehouse facility with additional office space that is likely to cost in the region of £600 - £700k. An additional £100k would be required to buy machinery such as forklifts, racking machinery and computer equipment.

4.8 If planning permission is granted, the project would be able to be completed by Nov 2018 and would enable BIF to double the production capacity of the current site. As a result, 35 to 45 new, full time, jobs would be created on the Island in addition to the 110 employees (March 2018) that the company currently employs. This is estimated to increase total salaries (Appendix D), paid to employees on the island of Bute which is identified as an economically fragile area by HIE.

4.9 GVA is a commonly applied indicator of economic impact and provides a measure of wealth generated within the economy. The first phase of BIF development is estimated to increase firm-level GVA from £4.5M (end of 2017) to about £6M.

4.10 Training & Skills development – employment will be in a variety of areas within the food manufacturing sector: Technical, Engineers & Maintenance,

Quality Assurance, Health & Safety, Production Managers, Hygiene, Process Operatives, HIAB & Forklift, Warehousing & Dispatch. The BIF directors indicated that in addition to providing jobs for local people and attracting new skilled people to the area, the development will enable them to continue to help to plug the gap in local skills in the food industry. They plan to provide in depth in-house training, food safety training courses, machine engineer & servicing courses, and a variety of upscaling in skills for new and existing staff, supported by better salaries. They will also seek help and advice from Skills Development Scotland.

4.11 BIF moving to a ready built larger unit is not possible on Bute. Although there are incentives for relocating, such as greatly reduced haulage costs, the directors' preference is to keep the business on Bute. Support from the IIF will help to improve the scale, timing and quality of the first phase of development and secure significant employment on Bute for years to come.

4.12 Successful completion of the first phase will likely lead to the second phase of development on Bute, with estimated economic benefits of 70 additional employees, total salaries (Appendix D) and about £10M total GVA from the firm by the end of 2020.

4.13 The Economic Development Service will continue to work with HIE to secure additional funding from internal and external sources such as the Food processing, Marketing and Co-operation grant and the European Regional Development Fund. Potentially, part of any secured funding could assist the second phase of BIF's development.

4.14 Furthermore, BIF is committed to greater waste and energy efficiency. In 2016, the firm received support from Resource Efficient Scotland to implement relevant changes following a waste review and the directors plan to implement similar and additional resource efficiency measures at each phase of development.

4.15 This project is particularly strong given the number of jobs and GVA that it will generate on Bute, which is a fragile rural economy and suffering from depopulation. Completion of the first phase, including the potential £100,000 Rural Growth Deal funding from the council's IIF, will help to enable the second phase to progress. The formal Rural Growth Deal submission to the Scottish and UK Governments will be made in October of this year.

4.16 The first phase of BIF development aligns well with IIF criteria:

- It will create 35 to 44 new jobs in the fragile community of Bute.
- It supports the delivery of the Argyll and Bute Outcome Improvement Plan key outcomes 1, 2 and 3 because it will contribute to population growth on Bute, provide diverse skilled employment opportunities, and guide investment in infrastructure through the Rural Growth Deal.
- It will likely attract further public sector funding, potentially from HIE and FPMC.

- It will increase GVA in Argyll and Bute's food and drink sector by about £1.5M.
- It will likely lead to a second phase of development on the island which will provide 70 additional jobs and £4M more in GVA by the end of 2020.

4.17 The BIF project aligns with Scotland's economic strategy:

- Investment – about £800k capital investment during the first phase of development.
- Innovation – BIF products are highly innovative and not replicated in the UK.
- Internationalisation – BIF exports to international markets including Europe, Australia and North America.
- Inclusive growth – the project will help sustain the business and generate considerable employment opportunities and economic wealth on the fragile community of Bute.

4.18 The BIF project aligns with the UK Government's Industrial Strategy:

- Ideas – BIF products are highly innovative and not replicated in the UK.
- People and Places – the project will help sustain the business and generate considerable employment opportunities and economic wealth on the fragile community of Bute
- Infrastructure and Business Environment – It is anticipated that the BIF development will form part of the Rural Growth Deal under the key sectoral support theme associated with growing the region's food and drink sector together with improving business space.

4.19 The grant request by BIF was assessed against several standard criteria:

- Public intervention is justified because of market failure due to income inequality between urban and rural areas and geographical factor immobility in remote rural areas.
- Argyll and Bute is classed by the EU as an Article 107(3)(c) sparsely populated area for State Aid purposes. This allows a maximum intervention of 25% per project to medium sized enterprises like BIF. It also requires BIF to maintain the investment/jobs created by the grant funding on the Island of Bute for a minimum period of 3 years after the completion of the development.
- Policy, Governance, Financial and Deliverability/ Risk Reviews (Appendix D) as well as a further assessment by Finance were completed.
- BIF provided copies of annual accounts, budget proposal and written justification of additionality and displacement.

5.0 CONCLUSION

5.1 BIF is a rapidly growing food manufacturer on the island of Bute. BIF is

planning a two-phase expansion/development to meet growing demand for its range of innovative food products from a number of national and international markets.

5.2 Even though there are financial incentives to relocate the firm out of Bute, the directors would prefer to develop BIF on Bute. IFF support will help improve the scale, timing and quality of the development on Bute.

5.3 The first stage of development will result in high number of quality jobs that will offer diverse training for locals as well as attract skilled people from elsewhere in Scotland and the world; higher total salaries on Bute that will feed to the local economy and Argyll and Bute's GVA; and positive marketing for Argyll and Bute's food and drink sector. Successful completion of the first phase will in turn lead to the second phase of development that will result in even larger magnitudes of these economic and social benefits.

5.4 Therefore, members are asked to approve £100,000 of funding from the IFF towards the first phase of development by BIF. The BIF development is considered part of the Rural Growth Deal under the key sectoral support theme associated with growing the region's food and drink sector together with improving business space. Consequently, the grant funding of £100,000 is considered by the council to be public sector match funding in the Rural Growth Deal. This project will help to enable further development

6.0 IMPLICATIONS

6.1 Policy - The BIF project aligns well with IFF criteria, the Outcome Improvement Plan, Scotland's Economic Strategy, the Rural Growth Deal and the UK Government's Industrial Strategy.

6.2 Financial - This report requests £100,000 from the council's Inward Investment Fund.

6.3 Legal - The recommendation in paragraph 3.3 to comply with all legislative provisions relating to the grant of State Aid by the Council.

6.4 HR - None arising from this report

6.5 Equalities

6.6 Risk

6.7 Customer Service

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APPENDICES

Appendix A

Attached pdf "IIF Argyll & Bute 29.01.18"

Appendix B

Attached pdf "Bute Island Foods Business Plan Commentary 2018"

Appendix C

Attached pdf "IIF Argyll & Bute 22.03.18"

Appendix D

Attached pdf "Grant Funding Matrix BIF"