



**Isle of Man
Government**

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The Enterprise Act 2008

Annual Report for 2013/14

Department of Economic Development

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1. Introduction

To: The Hon C Christian MLC, President of Tynwald, and the Honourable Council and Keys in Tynwald assembled;

Under section 6 of the Enterprise Act 2008 ("the Act") the Department of Economic Development (DED) is required to lay an annual report before Tynwald as to the provision of assistance under the Act including a list of the names of those businesses which have received financial assistance from the Department during the previous financial year ended on 31st March. This is consistent with Government's intent to act transparently by providing information as to the use of public funds for Tynwald scrutiny where possible. Legal advice has previously been taken as to the extent of information that can be disclosed and the contents of the report have been based on such advice.

This is the fifth annual report to Tynwald concerning the operation of the Act and covers the year to 31 March 2014. The information contained relates to payments made under the Financial Assistance Scheme in relation to applications submitted after 1st May 2009; it does not include any payments made under the former Industry Board Act 1981 where the information is confidential. The report also includes payments made under the former Economic Development Fund in the year to 31 March 2014.

The Department had revised Regulations approved by Tynwald in November 2014 which made the changes relating to the accepted recommendations from the Economic Scrutiny Committee's report on the Sefton Group. Revised guidelines were issued shortly afterwards.

The Department's main Financial Assistance Scheme has an annual budget of £3,500,000.

The annual report does not include details of other Department support schemes of a more minor nature, including the Small Business Start-up Scheme, the Business Support Scheme and the Vocational Training Financial Support Scheme. The amounts paid in the period under these schemes are much smaller and in many cases paid to individuals.

The Department uses the Financial Assistance Scheme as one of the main drivers for inward investment and the expansion of local businesses with an export focus. The competitive nature for new businesses has led to the Department having to accept a greater level of risk; however, I still believe that the risk/reward profile of our projects reflects well on our overall achievements. It has to be accepted that accepting increased business risk will lead on occasions to financial assistance being given to businesses which do not progress beyond the start-up phase.

Other jurisdictions accept that there will be a level of loss if new sectors are to become a major part of their economies. If we wish to develop the areas of the economy which exploit newer technologies then there has to be an acceptance that not all businesses which receive assistance will develop as forecast in the original plan.

Minister for Economic Development

2. Background to the Financial Assistance Scheme

The principal purpose of providing financial assistance is to attract both inward investment to the Isle of Man and to encourage existing businesses to grow and become more efficient. This in turn provides economic benefits (for example, revenue, jobs, profits, expenditure in the local economy) and associated fiscal benefits (direct and indirect taxes) which exceed the cost of the support provided. The Department's Financial Assistance Scheme is a discretionary support scheme which offers grants and other forms of assistance incentives to both new and existing Isle of Man businesses. Support is directed to those sectors and businesses which can provide evidence of the likely attainment of the benefits sought.

Under the Enterprise Act 2008, DED may provide assistance to an eligible business where, in its opinion:

- the eligible business undertakes or will undertake economic activity in the Island;
- the assistance is likely to encourage sustainable economic growth in the Island; and
- the form and amount of the assistance is reasonable having regard to all the circumstances.

"Eligible business" is defined in Regulations made under the Act and these set out the standard requirements all businesses must meet.

In addition to meeting the environmental and commercial criteria imposed by the Regulations, a business must fall within the current policy of DED. In this regard, support may be considered in respect of businesses that meet the following definition:

"Any business providing products and / or services for export in sectors where support is not available through other Departments."

This includes partial export where the percentage of grant support offered would be linked to the export benefits and import substitution where the products or services are not currently readily available on the Isle of Man.

Business where there is a significant element of import substitution and the service is not available from another local business may also be considered for support.

Support is offered to businesses which generate economic benefit for the Island and the main considerations are:

- Job growth/creation
- Salary levels
- Spend in the local economy
- Range of jobs

There are a number of other factors that DED applies when considering an application for financial assistance in order to meet other economic, social and wider Government objectives. These include:

- geographical diversification (jobs created outside Douglas and the rest of the Eastern sector may attract more support);
- sectoral diversification (new sectors which help to reduce overall economic risk to the economy as a whole may attract more support);
- diversification of the employment base (help to provide a range of jobs to aid full employment may attract more support); and
- protection of historic businesses/sectors (where a particular business is considered to have made an important, long standing contribution to the Isle of Man).

The discretionary nature of the Scheme, which is intended to provide the Department with a high degree of flexibility, has already been mentioned. In terms of the likely rates of support available the following factors are also taken into consideration:

- *Additionality* – projects which grow the business and the economy are supported. In general, the owners of a business are expected to replace redundant equipment at their own expense, whereas a grant application for new equipment which will expand the product range, generate new revenue and thus increase jobs and taxes would be considered more likely to receive support.
- *Proportionality* – the level of support in relation to the economic and fiscal benefits forecast and the likelihood of the project's success. For example, a business seeking a £1m grant for a project which will generate only 1 job locally will not receive the full 40%.
- *Risk*- the likelihood of the project's success. Where a project is perceived to be high risk, grant support may be conditional upon the business achieving specified levels of growth based on the applicant's business plan. Furthermore, security may be required in order to mitigate the risk of losses to DED in the eventuality of a business failure by enabling the Department to recover any grants paid. Security may take the form of both fixed charges upon land and buildings and floating charges.
- *Sector* - Support is primarily directed to primary, export-earning sectors as these are key to the growth of the economy. While secondary, domestically focused sectors (such as construction, retail and miscellaneous services such as hairdressing and cleaning) also play an important role in ensuring the Isle of Man is an attractive place to work and live, aiding such sectors is less likely to increase economic growth and may also create competition issues in that assisting one local business may be at the expense of another. Consequently, it is DED's policy that secondary sectors are not usually eligible for support under the Scheme with the exception of certain circumstances in relation to leisure type activities.

3. Financial Assistance Scheme statistics for the year ended 31 March 2014.

During the year ended 31st March 2014 the Department offered 54 offers of support to 52 companies (y.e. 31st March 2013 - 46 companies) and the average percentage support offered was 36.5% (y.e. 31st March 2013 – 31.7%). This equates to a proposed investment from the private sector of £15.3 million by local businesses compared to £7.9 million in the previous year. The number of offers made was more than in the previous year, the total amount of grant assistance offered, excluding loans, increased significantly. This is not unusual as the majority of existing businesses go through an investment cycle and we would not expect to see the same level of investment being made year upon year.

Whereas in the year ended 31st March 2013, 17 offers were made to new companies, this year the number increased to 22. This increase is very welcome as it highlights that new businesses are one of the continuing drivers in the economy. At the same time the number of applicants under the Department's Small Business Start Up Scheme remains high and this is often a more suitable Scheme for new businesses.

The sectorial breakdown of the offers made to new businesses is:

- three engineering
- one general manufacturing
- four visitor economy and leisure
- four financial services
- four ICT (including e gaming)
- three media / creative
- four service providers / other

The total amount of financial assistance offered amounted to £5,978,635 which was a large increase as compared to £3,792,890 offered in the previous year. The total amount of assistance paid out amounted to £2,345,710 compared to £2,712,334 in the previous year. The amount paid out related to offers made over a number of previous years. The actual amount paid out varies from year to year as money, excluding loans, is paid retrospectively and projects can take a significant time to complete.

Offers normally remain open for two years and, based on historical information, businesses take up on average 80% of the value of the amount offered. If the Department receives a written request from a business, the period in which the assistance can be claimed will be extended. As at 31st March 2014, the value of offers outstanding amounted to over £9.3 million. Based on the

historical claim percentage, this represents an accrual value of £7.4 million. This is an increase of £1.3m in the value of the accrual (£6.1m accrual in 2012/2013).

The Department made offers to businesses from a wide range of sectors. The size of businesses was also diverse and ranged from companies employing over one hundred people to single person operations.

4. Businesses that received payments Under the Financial Assistance Scheme and the Economic Development Fund

For the twelve months 1 April 2013 to 31 March 2014

Acordias Offshore Limited
Ace Contractor Enterprises Ltd
Annexio Ltd
Ape Mann Adventure Park Ltd
Assystem (IOM) Ltd
ATT Services Ltd
Berrie, Karl (Mr) t/a Cocoa Red
Blue Olive Productions Ltd
Bodystat (Isle of Man) Ltd
Bodystat Ltd
Buffalo Bowling Limited
Central Services Ltd
Corlett Bolton Administration Services Ltd
Duncan Lawrie (IOM) Ltd
Erskine Corporation
Fortress Management Services Ltd
GE Aviation Systems Iloman Ltd
Gourmet Foods Ltd
Greenlight Ltd
I-Bos Ltd
IOM Captive Association
IQE Ltd
Island Optics Ltd
Island Shellfish Processing Ltd
Isle of Man Seafood Products Ltd
JB Precision Systems (IOM) Ltd
Laxey Glen Mills Ltd
Mann Link Travel Ltd
Mannin Media Ltd
Manx Engineers Ltd
Manx Precision Optics Ltd
Matrix Engineering Ltd
Nasaleze International Ltd
Nasaleze Ltd
Nedbank Private Wealth Ltd

Planet Software Ltd
Pomegranate Ltd
Progress Shaving Brush (Vulvix) Ltd
Prometic Biosciences Ltd
Pullen, Phillip & Claire t/a Salmon River Apartments
Riva Financial Services Ltd
Robinsons Ltd
Ronaldsway Aircraft Co. Ltd
Senate (IOM) Ltd
Serenity Ltd
Shorties Ltd
SLS Optics Ltd
Sportsmann Ltd
Strix Ltd
Sub Aquatic Technical Systems Ltd
Swagelok Ltd
Turner, Mr A. t/a IOM Trike Tours

The total of the payments made to the above businesses under applications submitted under the financial assistance scheme in the period 1st May 2009 to 31st March 2014 amounted to £2,345,710.

One of the companies in the list above received a payment of £10,279.52 from the Economic Development Fund, this application was made before 1st May 2011 as after this date the fund ceased to take applications directly.

5. Businesses that ceased trading during the year

During the year ended 31st March 2014, the Department is aware that the following businesses which previously received assistance, and the assistance remains under terms and conditions, have ceased to trade. The Department's terms and conditions give the period under which assistance is repayable to the Department. The Department as policy calculates the repayable amount on a reducing balance basis i.e. the amount repayable on a business ceasing to trade reduces over the time of the terms and conditions.

The amounts shown below are the amounts due under the terms and conditions, not the amount actually paid to the business.

Business	Amount Due Under T&Cs
Paragon PE Limited	£2,422

The assistance paid to Paragon PE Limited was paid in February 2010; the amount above is the amount remaining under the terms and conditions when calculated on a reducing balance basis.

CVI Technical Optics Limited ceased to operate on the Island during the period, the company repaid all assistance that was due under their terms and conditions.



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