

Scottish Parliament Region: Highlands and Islands

Case 200503301: Highlands and Islands Enterprise

Summary of Investigation

Category

Scottish Government and Devolved Administration: Enterprise Bodies, Policy/Administration

Overview

The complainant, Mr C, complained that a local enterprise company did not adequately assess the possible economic impact on his business of a project they were funding.

Specific complaint and conclusion

The complaint which has been investigated is that Moray, Badenoch and Strathspey Enterprise did not adequately assess the impact on Mr C's hotel business of a project they were funding (*not upheld*).

Redress and recommendations

The Ombudsman has no recommendations to make.

Main Investigation Report

Introduction

1. Mr C wrote to the Ombudsman on 24 February 2006 to complain about the assessment of a publicly funded mountain biking facility that had been built in his area. The local enterprise company at that time was Moray Badenoch and Strathspey Enterprise (MBSE). MBSE was a funding partner in this project and Mr C complained that they had not adequately assessed the likely impact of the facility's café on the restaurant business of his hotel. He complained that there had been a negative impact on his business since the opening of the facility.

2. Mr C made initial inquiries of MBSE about whether they had assessed the impact of the project on his business in June 2005. As he was not satisfied with their response to these inquiries, Mr C formally complained to MBSE on 19 September 2005 and received a response on 5 October 2005. As MBSE was part of the Highlands and Islands Enterprise (HIE) network, a further response from its Chief Executive was sent on 9 December 2005 and this concluded the network's complaints procedure.

3. The complaint from Mr C which I have investigated is that MBSE did not adequately assess the impact on Mr C's hotel business of a project they were funding.

Investigation

4. In order to investigate this complaint, I reviewed the correspondence between Mr C and the HIE network. I made inquiry of HIE on 30 November 2006 and the Chief Executive's detailed response of 20 December included copies of the rules and principles that govern the network's assessment of funding applications. I also spoke with the project officer who prepared the appraisal document for the project in question.

5. I have not included in this report every detail investigated but I am satisfied that no matter of significance has been overlooked. Mr C and HIE were given an opportunity to comment on a draft of this report.

Complaint: MBSE did not adequately assess the impact on Mr C's hotel business of a project they were funding

6. In 2004, a number of public bodies participated in the development of an off-road cycle track in the area covered by MBSE. MBSE was approached by the project's principal funder for a financial contribution to the project and a grant of £20,000 was approved on 20 August 2004. The overall cost of the project was £204,000.

7. When applicants approach local enterprise companies such as MBSE which are members of the HIE network for funding, the company undertakes an appraisal of the proposed project. This process includes the assessment of 'additionality' and 'displacement' and these are defined respectively by the network's guidance document as:

'In simple terms, [additionality] means approving all forms of assistance only when there is reasonable certainty that the project or activity to be assisted would not proceed in the absence of the Network intervention.'

and

'[displacement is] a reduction in economic activity elsewhere caused by new or expanded activity in known location'

In terms of the HIE network's guidance, these factors should be considered to a level proportionate with the size of the grant requested. This application was assessed under the provisions for requests for less than £25k for low/medium risk projects.

8. In the project appraisal document of 18 August 2004, the application was deemed to be fully additional in that it was judged that the project would not proceed without assistance. The displacement effects of the proposal were assessed to be 'minimal' because the application was principally for the building of an off-road cycling facility and there was no other such facility in the area. The displacement effects of the facility's café were not discussed in the appraisal document. However, the project officer later confirmed to me that she had given consideration to the potential displacement caused by the café. She had considered that the café would serve a different market from the hotel as it was intended to serve refreshments to cyclists while they were using the facility.

9. Additionally, in later correspondence with Mr C on 5 October and 25 November 2005, officers of MBSE and HIE explained that the assessment of displacement must be material to the funding sought. As the café was a small and ancillary part of the proposal and the funding requested from MBSE constituted less than 10% of the overall costs of the project, it was considered that the assessment of any displacement should be proportionate to these factors.

10. MBSE noted that any economic intervention by a local enterprise company will create some degree of displacement in the wider economy of the area where the funding is targeted. They argued that the net economic benefits of the proposed development outweighed any possible negative impact on the area and considered that the facility would introduce new markets to a fragile local economy from which Mr C's hotel should benefit. They considered that the intended expansion of the facility in the future would further strengthen the local economy by encouraging the facility's users to stay in the area for longer. MBSE also noted that the primary responsibility for the project lay with its lead partner and major funder.

11. HIE's Chief Executive, in his submission to this office of 20 December 2006, confirmed that MBSE undertook its project appraisal only in respect of its own element of funding and not on behalf of other partners. However, the economic effects of the project as a whole were assessed.

Conclusion

12. Mr C complained that MBSE did not adequately assess the impact that their decision to fund the project would have on his business. In my investigation of this complaint, I have not sought to establish whether there has been any negative impact on Mr C's business as a result of this project. The principal question was whether MBSE adequately assessed the possibility of such an impact resulting from the grant they made. It is clear that MBSE was obliged to give primary consideration to the material purpose of the funding sought, which was to provide an off-road cycling facility. Although the café was a secondary element of the project, MBSE did consider its impact on the local economy, including Mr C's hotel. They concluded that any negative displacement effect on Mr C's business would be minimal and would be outweighed by wider economic benefits. In reaching this conclusion, I have relied on detailed verbal evidence from the project officer who assessed the application. HIE have explained that a written assessment of displacement is

usually only carried out for larger projects or those considered to be more sensitive and I consider this to be reasonable.

13. I am satisfied that MBSE followed their own guidance correctly in the assessment of this application and that their judgement of the impact of their decision on any displacement was made reasonably. I, therefore, do not uphold the complaint.

19 December 2007

Explanation of abbreviations used

Mr C	The complainant
MBSE	Moray, Badenoch and Strathspey Enterprise – a local enterprise company which was, at the time of the complaint, part of the HIE network. The relevant area is now served by HIE Moray and HIE Inverness and East Highland
HIE	Highlands and Islands Enterprise