



CABINET – 15TH FEBRUARY 2017

SUBJECT: “BUSINESS ENTERPRISE & INNOVATION” PROJECT - REGIONAL APPLICATION FOR EU STRUCTURAL & INVESTMENT FUNDS ERDF PRIORITY 4 OBJECTIVE 4

REPORT BY: CORPORATE DIRECTOR - COMMUNITIES

1. PURPOSE OF REPORT

- 1.1 To seek Cabinet approval for the Council to engage in a collaborative regional project that seeks grant funding under the European Regional Development Fund (ERDF) Priority 4, Strategic Objective 4 for expansion of the Lawns Industrial Estate, Rhymney.

2. SUMMARY

- 2.1 In September 2016, following a meeting of the South East Wales Directors of Environment & Regeneration (SEWDER), the Council was requested to work with five neighbouring Authorities to develop a regional project proposal for European Regional Development Fund (ERDF) Priority 4 funding. The project aims to unlock the development of business sites and premises to support economic growth and urban development.
- 2.2 With an estimated overall project budget of £12m, the ERDF funding available for the regional undertaking is expected to be circa £8m. The indicative budget allocation for each local authority project proposal is £2m (based on £1.3m ERDF grant and £0.7m match funding). The first stage of the ERDF bid process has been completed, with the submission of an initial Expression of Interest, the “Operation Logic Table” (OLT) by the regional partners to the Welsh European Funding Office (WEFO) in September 2016. If approved, the regional project will be invited by WEFO to progress to detailed Business Planning stage in 2017. An initial scoping and prioritisation exercise has been carried out to establish the suitability of sites for inclusion in the regional project.
- 2.3 Based on the potential of the site to meet critical deliverability timescales and contribute to the relevant ERDF and other key strategic priorities it is considered that the most appropriate site within the County Borough to take forward is the Lawns Industrial Estate, Rhymney.
- 2.4 The report seeks Cabinet approval for the Lawns Industrial Estate to be identified as the Council’s preferred option in the regional project.

3. LINKS TO STRATEGY

- 3.1 The regional employment driven collaborative project will actively contribute to the objectives for sustainable development as set out in the Well-Being of Future Generations (Wales) Act 2015 in that it aligns with:-

- A prosperous Wales – Providing local jobs in the community that create prosperity for the local population.
- A Resilient Wales – Providing additional and more diverse employment opportunities will make the area more resilient to external economic factors.
- A Wales of Cohesive Communities – providing local employment opportunities will help to stabilise and develop local communities and prevent outmigration as people seek work opportunities

3.2 The project aligns with the relevant priorities identified for the European Structural & Investment Funds Operational Programme, namely:

- Jobs and growth;
- SME competitiveness and enterprise;
- Energy efficiency and renewables;
- ‘Smart’ infrastructure.

3.3 Regeneration of key urban settlements and employment sites has been a priority in the Council’s regeneration strategy, the “Single Integrated Plan” and Welsh Assembly Government’s regeneration framework “Vibrant and Viable Places”.

4. THE REPORT

4.1 On 16th September 2016, the South East Wales Directors for Environment & Regeneration Group (SEWDER) identified an opportunity to develop a collaborative regional project for funding under the European Structural Investment Funds West Wales and the Valleys ERDF Priority 4 “Connectivity & Urban Development” Strategic Objective 4 (P4SO4). The aim of this funding objective is *“to increase employment through investments in prioritised local or regional infrastructure supporting a regional or urban economic strategy”*.

4.2 A regional project proposal, “Business Enterprise & Innovation” (BEI) is being led by Blaenau Gwent County Borough Council and will focus on:

- Business sites and premises including property development & land reclamation;
- Investments in physical infrastructure such as tourism, culture or heritage assets; and
- Enabling infrastructure such as local road investment to improve access where it is an essential component of an integrated scheme.

4.3 A “Task & Finish Group” consisting of officers from the Council and the five neighbouring local authorities, has been convened to further develop the project proposals for submission to the Welsh European Funding Office (WEFO). The five regional partners are:

- Blaenau Gwent County Borough Council (Lead Authority & Project Co-ordination)
- Bridgend County Borough Council;
- Merthyr Tydfil County Borough Council;
- Rhondda Cynon Taff County Borough Council; and
- Torfaen County Borough Council.

4.4 The total cost of the overall regional project is anticipated to be circa £12m, with an expected contribution of up to £8m ERDF to be allocated between the six participating project partners. The project’s requirement for £4m of match funding is to be met from other sources. Each regional partner is currently working to an indicative budget of up to £2m for their individual projects, based on £1.3m ERDF and £0.7m match funding. The expected duration of the overall project is up to five years.

4.5 The £0.7m match funding for CCBC has not been identified at this point and will be considered further as part of the detailed Business Planning stage.

- 4.6 Officers were tasked with identifying suitable sites by the end of 2016 as it was a priority for the regional partners to submit indicative project proposals to WEFO in order to maximise the likelihood of the guarantee by the UK Treasury of potential EU funding post “Brexit” at that time. This deadline was achieved.
- 4.7 The funding application process set out by WEFO is a multi- staged procedure. The first stage of the process is the submission of the “Operation Logic Table” (OLT), which sets out the overall principles and objectives for the regional project. Subsequent stages are Business Planning, Individual Project Mobilisation and Project Implementation Phase.
- 4.8 The regional OLT was submitted to WEFO for consideration on 30th September and is currently being assessed. Subject to approval of the OLT by WEFO, the project will be invited to Business Planning stage. The current anticipated timetable for the project’s development and implementation is summarised below:

Anticipated Timetable	Project Milestone
September – December 2016	Submission of Expression of Interest /Operation Logic Table (OLT) and supporting information to WEFO for assessment (COMPLETED) ✓
Jan - March 2017	Subject to approval of the OLT, project is invited to “Business Planning” Stage. Regional partners required to submit formal confirmation of proposed sites.
April / May 2017	Submission of first draft of regional Business Plan to WEFO for consideration
Summer 2017	If approved, the regional project enters a “Mobilisation Phase” (up to 12 months) to allow each local authority to develop their detailed individual Business Cases
Summer 2018	If WEFO confirm, regional Project Implementation Phase commences (up to 5 years for delivery)

- 4.9 Once WEFO confirm their support for the regional project, each local authority will be required to submit a detailed individual Business Case (BC) for their proposal. The BC must include detailed cost estimates, project plans and information on procurement routes. The expertise of various Council services, including Engineering Project Group, Building Consultancy, Finance, Legal and Procurement Services will be required to develop the Business Case in sufficient detail to meet WEFO’s requirements and ensure a robust project proposal. It is therefore anticipated that a budget of up to £50k will be required for project development. The Communities Directorate is currently projecting a revenue budget underspend of £228k for the 2016/17 financial year and it is recommended that £50k of this underspend should be transferred to an earmarked reserve to support the project development.
- 4.10 Subject to WEFO’s approval of the regional OLT, a further Cabinet Report will be provided during 2017, when the Council’s project proposal is at Business Planning stage and the match funding requirement has been fully determined.

Overview of Caerphilly proposals

- 4.11 The Council has an extensive industrial property portfolio and there are a number of sites with development potential that would benefit from investment. The project provides an opportunity to secure external funding to provide additional modern employment floor space with associated infrastructure.
- 4.12 An initial scoping and prioritisation exercise has identified the most appropriate employment site for inclusion in the project Business Plan, based on the following rationale and criteria:
- *The site is under CCBC ownership (no apparent land ownership issues to resolve)*
 - *The site will contribute to the relevant ERDF priority targets (including land developed; premises created and jobs accommodated)*
 - *Site has been previously identified for investment /development with strong evidence for demand and can be brought to development stage in a realistic timeframe*

- *The site fits within the wider economic context and will contribute to emerging strategic programmes; particularly the Cardiff Capital Region and Valleys Metro proposals*
- *The proposals and outputs are achievable with the anticipated funding available*

4.13 Initial, indicative project cost estimates have been prepared based on the potential floor area of the industrial units and standard industry construction build rates per square metre. Advice has also been sought from the Council's Engineering Project Group on the potential cost of associated highway infrastructure costs.

4.14 In order to maximise the benefits of the potential EU funding available, it is proposed to focus development of the Business Plan on one prioritised area, namely the **Lawns Industrial Estate, Rhymney**. It is considered that the Lawn Industrial Estate has the greatest potential to achieve more tangible outputs from EU funding within the available budget and timeframe when compared to other sites that have been assessed. The site also benefits from a strong strategic location and connectivity links within the HOV area.

4.15 The proposed "Lawns" project is located in close proximity to key transport routes and will help unlock approximately 1.3 hectares of underutilised land to develop the southern end of the site. The site could potentially accommodate 20plus modern new build, small industrial units, which are in high demand in the area, as evidenced by the current client waiting list for the Lawns Estate and the nearby New Tredegar Business Park set out below:

Lawns Industrial Estate

no. clients on waiting list for 500 sq ft. units = 26

no clients on waiting list for 1000 sq ft units = 1

New Tredegar Business Park:

no. clients on waiting list for 532 sq ft units =24

no. clients on waiting list for 823 sq ft units =12

no. clients on waiting list for 1070 sq ft units =3

4.16 Indicative cost estimates for the full development of the estate, including associated infrastructure and hard/soft landscaping works, are in the region of £3.3m. As outlined in paragraph 4.4, the initial funding allocation for the Caerphilly proposal is likely to be circa £2.0m (based on an initial indicative ERDF grant request of £1.3m with £0.7m required from other sources). It is currently anticipated the project will be delivered over two phases. The level of funding available for Phase 1 will be determined during the detailed Business Planning stage.

4.17 Phase 1 would enable delivery of the majority of the proposals with site preparation, groundworks, infrastructure and a number of the starter industrial units being achieved. Additional funding will be sought from WEFO to deliver the remainder of the units during the programme period under a Phase 2 scheme. It should be emphasised that Phase 1 will stand alone as a project in the event that CCBC do not progress to stage 2 in the future

5. WELL-BEING OF FUTURE GENERATIONS

5.1 This proposal contributes to the Well-being Goals as set out in Links to Strategy above. It is consistent with the five ways of working as defined within the sustainable development principle in the Act and it is aimed at improving the economic well being of the area.

5.2 As such it aligns with the following of well being goals:

- A prosperous Wales – Providing more jobs in the area will create more wealth for the local population
- A Resilient Wales – Providing additional and more diverse employment opportunities will make the area more resilient to external economic factors

- A Wales of Cohesive Communities – providing local employment opportunities will help to stabilise and develop local communities and prevent outmigration as people seek work.

5.3 A long term approach to the economic well being of the area will be taken to ensure that the programme of measures are targeted in a way that allows for long term growth through collaborative working with other South East Wales local authorities and the private sector. The project aims to integrate with other public bodies' goals and aspirations including those of the Welsh Government through the Cardiff Capital Region and Valleys Metro.

6. EQUALITIES IMPLICATIONS

6.1 An EIA screening has been completed in accordance with the Council's Strategic Equality Plan and supplementary guidance. No potential for unlawful discrimination and/or low level or minor negative impact has been identified, therefore a full EIA has not been carried out.

7. FINANCIAL IMPLICATIONS

7.1 There are a number of key financial considerations to be highlighted at this early stage of the project's development.

7.2 It is anticipated that the overall total project costs across the regional operation will be circa £12m, with a potential ERDF funding available of up to £8m. The remaining £4m of match funding is to be met from other sources. (The ERDF grant rate is expected to be around 65.66%).

7.3 The precise allocation of ERDF grant monies for each partner remains to be determined during the Business Planning stage. Currently it is expected that the anticipated ERDF allocation of £8m will be equally distributed between the six participating partners. This would result in a potential initial ERDF allocation for the Caerphilly proposal of up to £1.3 million, with an additional match of £0.7m.

7.4 There may also be opportunities for "virement" of ERDF between partners depending on how individual projects progress. However it is likely that any approved virements would increase the match funding requirement for the Authority receiving the additional grant.

7.5 The proposals for The Lawns Industrial Estate are at an early conceptual stage with indicative costs of the capital project currently estimated to be in excess of £3m. An initial budget allocation of circa £2m would enable delivery of the majority of the proposals through Phase 1, with groundworks, infrastructure and a number of industrial units. Additional funding will be sought from WEFO to deliver the remainder of the units during the programme period (Phase 2).

7.6 The indicative £0.7m of match funding required will be initially a bid to the City Deal Investment Fund. If this is not forthcoming the Authority can consider utilising the capital reserve set aside as a consequence of the change in the MRP Policy.

7.7 WEFO will require proposals to be developed to an advanced design stage during the 12 month "mobilisation phase" before they will consider formal approval and allocation of ERDF grant to the individual partner projects. This requirement will place an upfront financial burden on each local authority in respect of costs incurred associated with the commissioning of engineering, architectural services and other divisional professional services. There is currently no budget allocation within Regeneration & Planning to fund any upfront design costs required during the mobilisation phase. It is therefore recommended that a project development budget of up to £50,000 is established to allow Officers to progress the proposals through 2017. As mentioned in paragraph 4.9 the Communities Directorate is currently projecting a revenue budget underspend of £228k for

the 2016/17 financial year and it is recommended that £50k of this underspend should be transferred to an earmarked reserve to support the project development.

- 7.8 There is the potential to recover these upfront preliminary design fees retrospectively from ERDF should the project be approved. However WEFO has specific financial requirements regarding defrayment of project expenditure that has previously resulted in **internal service providers** being unable to fully recover their fee charges. Therefore, even if retrospection is granted, this requirement would result in approximately 40% of any design fees incurred by an internal service provider being irrecoverable from ERDF grant.
- 7.9 Members should note that the regional project may be subject to detailed and technical European Commission regulations in relation to State Aid and Net Revenue Generation (see 7.10 below). However, there are established mechanisms in place to comply with these regulations and any issues will be fully assessed during the Business Planning stage by WEFO and the Lead Partner.
- 7.10 There are specific EC regulations in relation to Net Revenue Income Generation which will need to be fully risk-assessed during the Business Planning stage by all regional partners. As project activities are likely to generate net revenues (e.g. from the lease of new build industrial units), the level of income generated will need to be recorded and will need to be reported to WEFO following completion of the project. Activities that generate substantial levels of net revenue may incur the risk of a reduction or repayment of EU grant monies.
- 7.11 Generally, EC regulations state that any net revenues or surplus generated by activities should be “re-invested” back into the project. Therefore, to comply with EC grant conditions, the income generated from rental of these new units should be ring-fenced for the maintenance of the Council’s existing employment sites.
- 7.12 The project will require the input of various technical and support staff across the Authority, including Engineering and Building Consultancy, Corporate Finance, Procurement, Legal Services and Urban Renewal during both development and delivery stages. The associated staff time charges of the relevant officers will be included in the project financial profile, with detailed cost estimates to be determined during the Business Planning stage.
- 7.13 The Lead Partner and WEFO have given an early indication that project costs are expected to be largely Capital in nature and consequently there may be a limited amount of revenue funding available. If revenue staffing costs cannot be fully met from external funding, either (i) the shortfall will have to be met from internal Council revenue budgets or (ii) revenue costs will need to be reduced in line with available funding. This will be considered further during the detailed business planning stage.

8. PERSONNEL IMPLICATIONS

- 8.1 Officers from Regeneration and Planning’s Urban Renewal Team will co-ordinate and develop the project Business Plan for submission to the Lead Partner Authority and WEFO. Should the project progress, technical advice and expertise from other Service Areas including the Council’s Engineering Projects Group, Building Consultancy, Corporate Finance, Procurement and Legal Service will be required as outlined in 7.12 above.
- 8.2 The Lead Partner Blaenau Gwent CBC has indicated there is an expectation for each partner authority to dedicate at least 50% of a Full Time Project Officer to the operation for the duration of the project. This resource allocation can be achieved from the existing staffing structure of the Urban Renewal Team at no additional cost.

9. CONSULTATIONS

- 9.1 The views of consultees have been reflected in this report.

10. RECOMMENDATIONS

10.1 It is recommended that Cabinet:

- (i) approves the Council's participation in the regional collaborative project "Business Enterprise & Innovation"
- (ii) approves the selection of the Lawns Industrial Estate Expansion as the preferred project within the regional submission
- (iii) agrees that a project development budget of £50k should be established to allow the detailed project proposals to be progressed to the required standard by WEFO through the 12 month mobilisation stage to secure £1.3m ERDF funding.
- (iv) agrees that the project development budget should be funded through the transfer of £50k of the anticipated 2016/17 revenue budget underspend for the Communities Directorate into an earmarked reserve.

11. REASONS FOR THE RECOMMENDATIONS

11.1 To allow CCBC to bid for EU investment to deliver the expansion & enhancement of the Lawns Industrial Estate, that aims to assist in the delivery of an integrated regional approach to targeted investment to help support SME growth and overall increase employment opportunities in the Upper Rhymney Valley.

12. STATUTORY POWER

12.1 Local Government Act 2000

Author: Dave Whetter - Principal Engineer, Communities
Consultees: Cllr Ken James – Cabinet Member for Regeneration, Planning & Sustainable Development
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Glenn Cooper – Project Officer, Urban Renewal
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Background Papers: None

Appendices: None