



CABINET – 19TH JULY 2017

SUBJECT: VISIT WALES ERDF PROJECT - THE MONMOUTHSHIRE AND BRECON CANAL ADVENTURE TRIANGLE UPDATE

REPORT BY: CORPORATE DIRECTOR COMMUNITIES

1. PURPOSE OF REPORT

- 1.1 This report concentrates on the progress made since January 2016 in respect of the European Regional Development Fund (ERDF) capital infrastructure proposal – The “Monmouthshire and Brecon Canal Adventure Triangle”, which has been developed as a regionally prioritised destination management project and led by Visit Wales.
- 1.2 This proposal was first considered and endorsed by Cabinet on the 20th January 2016. However, the passage of time and ongoing discussions with Welsh Government (WG), Welsh European Funding Office (WEFO) and project partners Torfaen CBC and Visit Wales has highlighted the need to revise and refocus the scope of the Authority’s original project proposals and to revisit the Council’s match funding allocation to the project. Therefore, the proposal is resubmitted for Cabinet consideration.

2. SUMMARY

- 2.1 Visit Wales is leading on a regional project proposal for ERDF funding, entitled “Tourism Attractor Destinations”, which aims to “...*deliver a series of regionally prioritised strategic tourism infrastructure projects that will help raise the quality and perception of destinations in Wales and encourage business investment and employment growth within the tourism sector in the region*”.
- 2.2 The Destination Management Group (a regional group with representation from each of the SE Wales Local Authorities) has identified the Monmouthshire and Brecon Canal as one of the regional priority destinations. During the last 2 years officers from Caerphilly CBC and Torfaen CBC have collaborated to develop a suitable project proposal with Torfaen CBC acting as the lead partner. This proposal was considered and approved by Cabinet on 20th January 2016. ERDF approval has been awarded to Visit Wales for the umbrella regional operation. By working collaboratively with Visit Wales and Torfaen CBC, a joint project with total costs of approximately £4.56m overall has been developed, with the Caerphilly area elements totalling circa £2.026m.
- 2.3 The overall aims and objectives of the collaborative project remain as set out in the January 2016 Cabinet report, i.e. to enhance the tourism/leisure offer of Cwmcarn within the region and implement infrastructure improvements to the Canal. However, the scope of projects that that the Council will now seek to implement via the overall programme has changed and the Council’s match funding proposals need to be reviewed and reconfirmed. Revised project proposals for the CCBC and TCBC elements were submitted to Visit Wales by the 5th May deadline and the CCBC element now requires Cabinet approval before the project is formally approved by WEFO, particularly the revised scope and updated match funding requirement of the project. The report set outs the current funding position, including changes to anticipated capital funding availability that has been confirmed since May 2017.

- 2.4 In addition to submitting a detailed Business Plan to Visit Wales for the collaborative “Monmouthshire & Brecon Canal Adventure Triangle” project by the early May deadline, WG’s Regeneration Panel, comprising WG officers with technical, financial and regeneration expertise, will assess the project (date of which remains to be confirmed) to determine the request for award of Welsh Government Targeted Match Funding (TMF).
- 2.5 The updated financial implications are set out in Section 7 of this report and include the **anticipated** funding contributions from ERDF, Welsh Government TMF and Caerphilly County Borough Council, including recent changes to the Council’s core capital allocations which have been highlighted and confirmed during the consultation of this report.

3. LINKS TO STRATEGY

- 3.1 The Canal Action Plan has a positive impact upon the social, economic, cultural and environmental well-being of the area and the local community concerned. In particular the “Monmouthshire and Brecon Canal Adventure Triangle” project contributes to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015:
- A sustainable Wales
 - A prosperous Wales
 - A more equal Wales
 - A Wales of cohesive communities
 - A healthier Wales
 - A resilient Wales
- 3.2 The Action Plan and the “Monmouthshire and Brecon Canal Adventure Triangle” project form an integral element of a Destination Development Activity Hub in the eastern part of the County Borough, as identified in the Council’s emerging Destination Management Plan.
- 3.3 The aims and outputs of the Canal Action Plan contribute directly to the priorities and activities set out in “People, Business, Places”, Caerphilly’s Regeneration Strategy and Action Plan and also links directly to a number of priorities set out in “Caerphilly Delivers”, the Single Integrated Plan and Corporate priorities.

4. THE REPORT

Background

- 4.1 The regional Destination Management Group, with representation from each of the SE Wales Local Authorities, has identified three priority destinations for SE Wales, which have previously been endorsed by the South East Wales Directors of Environment and Regeneration (SEWDER) now the Cardiff Capital Region City Deal Programme Board:
- The Canal (being taken forward under the project title “The Monmouthshire and Brecon Canal Adventure Triangle”)
 - Rock UK (an outdoor activity centre in Bedlinog)
 - Porthcawl Harbour.
- 4.2 These destinations now form part of the umbrella Visit Wales regional Tourism Attractor Destination proposal. The three proposals have bid for a share of approximately £7m ERDF funding and a limited amount of Welsh Government Targeted Match Funding (TMF). By working collaboratively with Torfaen CBC (the lead partner for the “Canal Adventure Triangle” project), a joint project with total costs of approximately £4.56m overall has been developed, with the Caerphilly CBC project costs estimated at circa £2.026m, inclusive of the anticipated ERDF and Targeted Match Funding allocations.

- 4.3 The Caerphilly part of the revised “Canal Adventure Triangle” project focuses on the upper section of the Crumlin Arm of the Canal and retains the overall aims and objectives that were reported to Cabinet on the 20th January 2016 and subsequently to Regeneration and Environment Scrutiny Committee on the 28th June 2016, i.e. to enhance the tourism/leisure offer of Cwmcarn within the region and implement infrastructure improvements to the Canal.
- 4.4 The Welsh European Funding Office (WEFO), Welsh Government’s Regeneration Team and Visit Wales have pressed the Council and Torfaen CBC to finalise their list of projects within the Canal Adventure Triangle bid submission. The comprehensive business plan and financial profiling had a 5th May 2017 deadline for submission to Visit Wales to enable their officers to check the submission before engaging with WEFO over its contents. Due to the recently imposed submission dates and associated funding document obligations, both the Council and Torfaen have had to revisit and re-evaluate their original project proposals. The Council’s revised proposals are set out in Appendix 1 which also highlights the omissions and additions to the original project proposals set out in the January 2016 Cabinet report. Section 7.4 sets out the anticipated funding position at the time of the May 2017 submission and the current estimated allocations, which have since been revised downwards by circa £58,000. The variance is due to an unforeseen reduction in the available capital match funding for the project, which has become apparent during recent weeks. It is not anticipated that this variance will have a significant impact on the overall viability or deliverability of the project as Officers will seek to implement proposed project activities within the budgets available.

Revised Project Components

- 4.5 Since reporting to Cabinet on the 20th January 2016 the scope of the Project over three main areas of intervention has remained the same for CCBC but a number of activities within these areas have been re-considered. The revised external funding bid therefore still focuses on the following three key areas:

- Canal Restoration Works – Direct improvements to the canal infrastructure
- Cwmcarn Forest Drive - Expanding and enforcing the current tourism offer at this facility
- Mynydd Maen / Twmbarlwm - Developing the physical links and key connections between Caerphilly and Torfaen over Mynydd Maen & Twmbarlwm

A comparative table of the components of the revised project is included as Appendix 1, the content of which is currently indicative and may evolve further through discussions and programme monitoring and reporting mechanisms with Visit Wales and WEFO. In the event of further changes to the scope of the revised projects referred to in Appendix 1, it is proposed that these are considered under the Scheme of Delegation by the relevant Head Of Service or Director in consultation with the relevant Cabinet Member.

The location of the collaborative project is shown on Appendix 3.

- 4.6 As the project has developed and the external funding landscape has changed, a review of the initial project scope has been necessary. There has been a slight shift in focus towards Cwmcarn because it presents the Council with more opportunities to achieve both visitor and economically focused outputs through a range of project elements.
- 4.7 As WEFO now insist that Business Plans can only be submitted when all constituent projects are at tender stage, the list of projects has been revised to reflect this requirement. A lack of internal financial resources aligned with capacity issues of in-house service providers has meant that there has been little opportunity to work towards traditional detailed design and tender packages. With such a tight deadline imposed by WG for submissions, officers have had to include projects that can be implemented under “design and build” contract methods to be able to achieve the imposed early May 2017 deadline. Torfaen CBC have undertaken similar activities in order to meet the revised milestone dates.

- 4.8 The revised project list focuses on projects that have measurable targets that align more closely with Visit Wales and WEFO's expected outputs. The revised suite of projects is more focused on economic outputs and will help to increase visitor numbers at the Cwmcarn Visitor Centre and wider area.
- 4.9 The Canal itself will still remain the focus of activity as Council's Engineering Projects Group (EPG) will continue to undertake improvement works along its course to ensure that the Canal remains in a fit state. Canal relining will form a core part of the works programme.
- 4.10 Increased emphasis is now given to developing Cwmcarn Forest Drive as a visitor attraction. The introduction of an outdoor adventure play space aligned to improvements around the lake will see more people attracted to the centre. Adding value to the existing mountain bike offer to interest a wider audience is also key, as is the development of new luxury cabin style accommodation to give the attraction a stronger accommodation offer. The latter will build on the recent successful "Invest to Save" internal funding bid made for three "glamping" camping cabins to be provided at Cwmcarn. It is intended that a further three units will be provided using ERDF funding. It is estimated that the ERDF funded accommodation units could generate a rental income of circa £25,000 per annum. However, there are specific Welsh Government and EU regulations relating to ERDF projects which generate an ongoing revenue income stream as outlined below in the Financial Implications section of this report.
- 4.11 The Mynydd Maen project components have not changed since the January 2016 Cabinet report and still focus on protecting the mountain; making it more accessible to users and attracting more visitors. The enhancements at Mynydd Maen provide strong physical links between the Torfaen area proposals and those being taken forward by the Council.

Outputs

- 4.12 The core outputs of the original project have changed to reflect that there is now a sharper focus on economic outputs. The table in Appendix 2 outlines both the CCBC programme and Project specific outputs that were presented to Visit Wales in May 2017 as part of the overall business plan.

Match Funding

- 4.13 The Council's 2016/17 activity on the canal to restore the Cwmcarn Aqueduct had previously been identified as a source of match funding in the January 2016 Cabinet report. However, this contract has now been progressed and is scheduled for completion in July 2017. Officers have been advised by Visit Wales that it would be preferable to not include the Cwmcarn Aqueduct restoration costs towards match funding due to unforeseen increases during implementation of the works contract. It has been recommended that the required match funding budget is found from the programmed Canal works that remain to be undertaken. It is therefore proposed to utilise the Council's core capital indicative allocation to the improvement of the Canal over the next three financial years (2017/18, 2018/19 and 2019/20) as the Council's main match funding element within the revised "Adventure Triangle" project.
- 4.14 The indicative three year allocation of £212k per annum would identify a maximum of £636k available to be used as Council match funding. However, not all of the allocation is available to be used as match funding due to:-
- (i) Funding of the increased outturn costs of the 2016/17 Cwmcarn Aqueduct project requires top-slicing of the 2017/18 capital allocation for the Canal by an estimated £62k.
 - (ii) WEFO's specific financial requirements regarding defrayment of expenditure has previously resulted in internal service providers being unable to fully recover their fee charges. This WEFO requirement would result in approximately 40% of the fees incurred by EPG over the life of the Canal Adventure Triangle project being classed as "ineligible" project expenditure. Total internal EPG fees over the duration of the project are estimated to be circa £81k of which 40% would be ineligible i.e. £32k.

Consequently, it is recommended that the Council's match-funding element should be revised from a maximum of £636k to circa £542k over the next three financial years. At the time of the May 2017 Business Plan submission it was anticipated up to circa £600k eligible funding would be available from the capital budget for the canal.

- 4.15 Cabinet on the 15th March 2017 approved an "Invest to Save" funding award for the introduction of three "glamping" camping units at Cwmcarn. The £124k funding award will help towards bolstering the accommodation offer at Cwmcarn and will also be used as match against the ERDF bid. As noted in para 4.10, it is estimated that the ERDF funded accommodation units could generate circa £25,000 rental income per annum the implications of which are outlined in the Financial Regulations section of this report. In addition, it is also proposed to utilise a total of £60k of the Council's core capital indicative allocation for Countryside over the next three financial years as match funding element within the revised "Adventure Triangle" project.
- 4.16 A decision is awaited from Welsh Government on the request for Targeted Match Funding (TMF). The availability of this funding remains a key risk for the overall project programme. If the TMF funding is not approved then alternative sources of match funding will need to be identified within a very short timeframe, potentially putting the viability and deliverability of the whole project at risk.
- 4.17 If the TMF is not forthcoming, it may prove a significant challenge for Torfaen CBC in particular to secure alternative sources of funding. Consideration would then have to be given to the following options:
- Continuing with the project based solely in Caerphilly County Borough, using other sources of funding as match (alternate funding sources have yet to be identified)
 - Continue the collaborative project through identifying alternative match funding for both of the Caerphilly and Torfaen elements.
- 4.18 Given that the majority of the project's economic outputs are in the Torfaen area, if that element does not proceed, there is a significant risk that the grant funding bodies may decide that the overall project should not progress. In the event of these changes being necessary at a later date, a further report will be provided to Cabinet.

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 wellbeing of the area.
- 5.2 As such it aligns with the following wellbeing goals:
- A Prosperous Wales – Providing a more attractive destination will increase visitor numbers and will create more wealth for the local population
 - A Resilient Wales – Providing additional and more diverse employment opportunities will make the area more resilient economically and ecologically, including protection of upland areas with benefits for wildlife and countryside management.
 - A More Equal Wales – presenting opportunities for all sectors of the population to access facilities and seek training or employment opportunities is at the heart of this project
 - A Wales of Cohesive Communities – providing local facilities will help to stabilise and develop local communities and prevent outmigration as people seek work. The project will help connect communities.
 - A healthier Wales – the existing range of outdoor activities will be extended and bolstered by the proposals within the project

- A Wales of vibrant culture and thriving Welsh Language – the proposals will contribute to the promotion and protection of heritage and culture, and encourage people to participate in new recreational activities
- A globally responsible Wales – the proposals will help sustain local habitats, protect the local environment and heritage, with benefits that will help address global concerns.

5.3 A long term approach to the economic wellbeing of the area will be taken to ensure that the Projects activities/components are targeted in a way that allows for long term growth of the leisure/tourism offer in this area. The Project aims to integrate with other public body's goals and aspirations including those of the Welsh Government through the Valleys Metro and Cardiff Capital Region City Deal measures.

6. EQUALITIES IMPLICATIONS

- 6.1 Equalities is a cross cutting theme for EU funding and each project must address this according to each theme. The planned investments inherent in the EU Funding programmes will benefit many different groups in the community.
- 6.2 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 The proposal is currently for a three year project, commencing in 2017/18 financial year. The current indicative total funding allocation for the Caerphilly elements is £2.026m including a contribution for Caerphilly County Borough Council staffing. As noted in Section 4 of the report, the overall project funding allocation is currently expected to reduce by circa £58k in comparison to the position at the time of the May 2017 Business Plan submission. Cost variances are not uncommon within externally funded projects of this nature and officers will notify the appropriate funding organisation of this anticipated variance through the necessary reporting mechanisms set out by Visit Wales and WEFO. There will be opportunities to revise and, if required, update cost profiles during project implementation in collaboration with Torfaen CBC, Visit Wales and WEFO, to ensure expenditure and match funding profiles remain accurate, robust and within accepted tolerances.
- 7.2 The Council's core canal works capital allocation (adjusted for EPG ineligible fees) for 2017/18, 2018/19 and 2019/20 totalling circa £542k will be used for programmed improvement works along the northern part of the Canal and will be the main element of the Council's match-funding for the overall project. These works will be included as a distinct project within the Visit Wales submission. This approach enables the Council's obligations to maintain the Canal to be met, whilst at the same time allowing the monies dedicated to it to be identified as match funding to this wider programme of investment.
- 7.3 In addition, £60k of Capital funding, over the three financial years has been identified from the forward work plan as match funding by the Council's Countryside section over the course of the project, although it is hoped that this commitment will reduce as various external grant bodies are approached for additional funding.
- 7.4 The current anticipated CCBC funding profile, together the position at the time of the January 2016 Cabinet report and the May 2017 Business Plan, is shown in the table below.

Source of Funding	Anticipated Totals as January 2016 Cabinet Report	Anticipated Totals at May 2017 Business Plan Submission	Current Anticipated Totals	Variance May 2017 to Current Totals
CCBC Canal Maintenance Budget (2015/16 and 2016/17) (Currently 2017/18, 2018/19 and 2019/20 Adjusted for EPG ineligible fees)	£441,000	£600,000	£542,000	(£58,000)
Countryside Core Capital	£60,000	£60,000	£60,000	£0
CCBC Invest to Save award – Glamping Units (secured)	Not Applicable	£124,000	£124,000	£0
ERDF (indicative - to be secured)	£1,000,000	£1,142,143	£1,142,143	£0
WG Targeted Match Funding (to be secured)	£373,107	£157,600	£157,600	£0
Total	£1,874,107	£2,083,743	£2,025,743	(£58,000)

- 7.5 In addition to the project actions, improvements and outputs listed in Section 4, this represents significant added value to the Council investment as proposed. The £726k Council contribution will “lever in” circa £1.3m of external funding.
- 7.6 Discussions with WG are ongoing with respect the TMF bid. As noted in 4.17 and 4.18, in the event TMF is not approved, this may pose a significant risk to the viability of the project as a whole. The project may have to be further reduced in scope or may not proceed at all, if the resulting funding “gap” cannot be resolved.
- 7.7 The Project will be subject to specific EC regulations in relation to State Aid and Net Revenue Income Generation that will be clarified during the ongoing appraisal of the Business Plan. As elements of the Project are anticipated to generate net revenues (e.g. from the rental income of the provision of accommodation at Cwmcarn Forest) in due course the level of income will need to be monitored and periodically reported to WEFO. Activities that generate substantial levels of net revenue are at risk of a potential reduction or repayment of EU grant funding.
- 7.8 As a general principle, EC Revenue Generation regulations require that any net revenues or “profit” generated by project activities are re-invested back into the Project. Therefore, to comply with EC grant conditions and avoid potential grant clawback, any income generated from the hire of the additional Cwmcarn accommodation units or the project as a whole should be ring-fenced for reinvestment into the facilities delivered by the Project.

8. PERSONNEL IMPLICATIONS

- 8.1 In terms of staff required to deliver this project, most of the activity is anticipated to be carried out by existing staff within the various teams involved. The overall funding package includes an element of staff revenue costs which will help to support a number of existing posts in Regeneration, Finance and Engineering Divisions

8.2 The delivery of the Countryside led elements of the Mynydd Maen project will entail the creation of one new part-time post. This post would be 100% externally funded and be fixed term for the duration of the Project.

9. CONSULTATIONS

9.1 Responses from consultees have been incorporated into the report.

10. RECOMMENDATION

10.1 That Cabinet:-

10.1.1 Commits £542k of the Engineering budget indicatively allocated for canal improvement works in 2017/18, 2018/19 and 2019/20 as match funding for this proposal, on the basis that it is used to carry out canal restoration work that complements the wider Visit Wales Project submission.

10.1.2 Endorse the use of £60k of Countryside Services core Capital budget as match funding through the course of the 3 year project.

10.1.3 Notes and approves the indicative list of Revised Projects as set out in Appendix 1.

10.1.4 In the event of further changes to the scope of the revised projects referred to in Appendix 1, these are considered under the Scheme of Delegation by the relevant Head Of Service or Director in consultation with the relevant Cabinet Member.

11. REASONS FOR THE RECOMMENDATIONS

11.1 To endorse the collaborative European bid for the Canal Adventure Triangle Project forwarded by Visit Wales for grant approval.

11.2 The Monmouthshire and Brecon Canal has been identified as a destination of regional significance and this project has been developed in partnership with Torfaen CBC. Without the CCBC financial contribution, it would not be possible to participate in the project as WEFO has indicated that it expects a local authority contribution.

11.3 In addition to the anticipated outputs, the return on Caerphilly County Borough Council's investment would be very significant at circa 178%. The project would maximise the value of our investment in maintaining the canal and might well reduce ongoing maintenance costs as a result. Moreover, Cwmcarn is a key tourist attraction and further investment will enhance the facility's sustainability moving forward.

12. STATUTORY POWER

12.1 Local Government Act 2000.

Author: Allan Dallimore, Urban Renewal - Team Leader
Consultees: Cllr Sean Morgan, Deputy Leader and Cabinet Member for Economy, Infrastructure, Sustainability & Wellbeing of Future Generations
Christina Harrhy, Corporate Director Communities
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Marcus Lloyd, Deputy Head of Programmes, Communities
Kevin Kinsey, Acting Engineering Projects Group Manager
Phil Griffiths, Acting Countryside Manager
Michael Owen, Cwmcarn Forest Drive Project Manager
Stephen Harris, Interim Head of Corporate Finance
Lisa Lane, Corporate Solicitor
Dave Roberts, Principal Accountant
Mike Eedy, Finance Manager
Liz Lucas, Head of Procurement
Shaun Watkins, HR Manager

Background Papers:

Cabinet Report – 20th January 2016 “Visit Wales ERDF Projects – The Mon & Brec Canal Adventure Triangle”

Regeneration and Environment Scrutiny Committee Report - 28th June 2016 - “Monmouthshire & Brecon Canal Action Plan”

Appendices:

Appendix 1 - List of Revised Projects (Indicative)

Appendix 2 - List of Outputs

Appendix 3 - Project Site Map