



## **CABINET – 28TH FEBRUARY 2018**

**SUBJECT: ERDF 4.4 FUNDING OPPORTUNITIES – THE LAWN INDUSTRIAL ESTATE, RHYMNEY AND TY DU, NELSON**

**REPORT BY: INTERIM CORPORATE DIRECTOR - COMMUNITIES**

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### **1. PURPOSE OF REPORT**

- 1.1 To agree that the Lawn Industrial Estate Rhymney and Ty Du Nelson be the Council's primary focus for ERDF Programme measure 4.4 and to identify and confirm the required levels of match funding to allow the projects to progress.
- 1.2 To agree in principle to enter into a Joint Working/Development Agreement with Welsh Government at Ty Du based on the draft Heads of Terms that are to be agreed with Welsh Government.

### **2. SUMMARY**

- 2.1 This report updates Cabinet on opportunities that exist to bid for European funding to WEFO for the phased provision of employment units at two sites in the county borough, namely, the Council owned Lawn Industrial Estate in Rhymney and Welsh Government (WG) owned land at Ty Du in Nelson.
- 2.2 External grant funding under the European Regional Development Fund (ERDF) Priority 4, Strategic Objective 4 has been sought by the Council to deliver the first phase of employment units and associated infrastructure at both sites. In order to draw down this external funding the Council is required to confirm match funding and also establish the joint working arrangements with WG at Ty Du, Nelson through entering into a formal Joint Working/Development Agreement.
- 2.3 Cabinet is requested to confirm that both the Lawn and Ty Du projects proceed as joint Council priorities and to identify the necessary match funding. The report recommends the best option available to the Council to allocate a total of £1.07m of match funding for both sites that is required to draw down £2.58m of overall ERDF funding and potentially at Ty Du an additional £0.35m of WG Department of Economy and Infrastructure funding.
- 2.4 The report sets out the main Heads of Terms presented by WG to the Council for a Joint Working/Development Agreement. Cabinet is requested to agree the principle of entering into a working relationship with WG and the use of the delegated powers process to approve that the Interim Head of Regeneration negotiate, in consultation with Property Services, Legal Services and the relevant Cabinet Member, and authorise the Head of Legal Services/Principal Solicitor to enter into the Agreement on behalf of the Council.

### **3. LINKS TO STRATEGY**

- 3.1 The opportunity to provide additional industrial and business units aligns with the Well-Being of Future Generations (Wales) Act 2015 with regard to:-
- A prosperous Wales
  - A resilient Wales
  - A more equal Wales
- 3.2 The opportunity to provide additional industrial and business units 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;
- 3.3 The project aligns with the Cardiff Capital Region's strategic vision as set out in "Powering the Welsh Economy". Additionally, both schemes are further aligned with this regional approach due to the sites close proximity to the strategic locations identified for the Cardiff Capital Region City Deal (CCRCD) and Valleys METRO initiatives specifically the Rhymney/Cardiff and Ystrad Mynach/Nelson corridors. In addition, it fulfils the aspirations of WG with their "Prosperity for All" economic action plan.

Ty Du has been identified for employment use for many years and is allocated for employment in the Caerphilly County Borough Local Development Plan up to 2021 (LDP). Ty Du is also a key site for WG who have identified it as a strategic site. It also sits within the Caerphilly Basin/Ystrad Mynach corridor identified as a hub of activity by the Valleys Taskforce.

The Lawn Estate is identified for a mixed use scheme within the LDP comprising a Health Centre and a Food store. The Health Centre has been developed however the land for the Food store remains available, and it is this land that is now proposed for an extension to the employment use.

### **4. REPORT**

#### **Background**

- 4.1 Over the last 18 months officers have been developing two projects that would bring further employment opportunities to the County Borough. The incentive to develop these projects has been the opportunity for the Council to secure additional EU grant funding, under ERDF Priority 4 "Connectivity and Urban Development".
- 4.2 A £15.5m Priority 4.4 ERDF budget has been allocated between the six South East Wales local authorities identified to benefit from this programme. This provides an allocation of approximately £2.58m per local authority based on an ERDF grant intervention rate of 65.66%. This regional and individual authority allocation has been endorsed at CCR Programme Board level. The expected duration of the ERDF programme is up to five years.
- 4.3 Detailed Business plans for both projects have been submitted to Welsh European Funding Office (WEFO) and on the 30<sup>th</sup> November 2017, WEFO provided the Council with grant approval letters to both schemes on condition that the relevant match funding contribution could be established.

### **The Lawn Industrial Estate, Rhymney**

- 4.3 On 15th February 2017 Cabinet approved progressing the development of additional business units at the Lawn Industrial Estate, Rhymney. Overall the proposed project will focus on unlocking, over two phases, approximately 1.3 hectares of underutilised brownfield land located at the southern end of the Council owned Lawn Industrial Estate. When fully developed, the land has the potential to accommodate approximately 20 small modern business units. WEFO have approved the revised business plan on condition that the match funding requirements of £0.71m minimum can be identified.
- 4.4 The February 2017 Cabinet report highlighted the need to establish a minimum of £0.71m of match funding, and this remains the case. A total budget of circa £2m (comprising £1.29m ERDF and £0.71m of Council match funding) would result in delivery of Phase 1 of a scheme comprising site preparation, groundworks and the associated highway infrastructure along with the initial provision of up to 7,000 sq ft of employment space. An indicative Phase 1 layout plan is attached at Appendix 1.
- 4.5 In order to satisfy WEFO grant award requirements, the Council is required to confirm a minimum of £0.71m match funding for Phase 1.

### **Ty Du Nelson**

- 4.6 Ty Du, Nelson has been identified as a Welsh Government Strategic Employment site. In October 2016 outline planning permission (16/0373/OUT) was granted to develop a major mixed use development on the Welsh Government owned site. The masterplan for the site (Appendix 2) comprises a mixed use development of up to 200 dwellings and up to 3.8ha of B1 employment floor space. An opportunity has presented itself for the Council to work jointly with WG to deliver employment units at Ty Du. The arrangement between WG and the Council would be formalised by entering into a Joint Working/Development Agreement, the detailed terms of which remain to be agreed.
- 4.7 The employment element of the wider Ty Du project would see a speculative scheme of terraced B1 starter units on the land designated for employment. Officers submitted the business plan to WEFO and a grant approval letter has been received from WEFO on condition that the match funding requirements can be identified.
- 4.8 Ty Du is owned by Welsh Government and WG's Department for Economy and Infrastructure has secured EU investment to deliver the primary infrastructure to the whole site. The current WG programme indicates work on the site's infrastructure would commence in early 2018 for completion by early 2019.
- 4.9 WG is prepared to enter into a Joint Working /Development Agreement with the Council to develop the project and commence the first phase build construction of business units on the employment land. WG have proposed that Council officers lead on the process to secure grant funding under ERDF Priority 4 and that the match funding requirements are split equally between the Council and WG. WG's draft Heads of Terms for the proposed Joint Working/Development Agreement have been issued for the Council's consideration and are summarised below:

### **Proposed Joint Working/Development Agreement**

- 4.10 The draft Heads of Terms of the proposed Joint Working/Development Agreement tabled by WG are annexed at Appendix 4 and summarised below:-

#### **Parties:**

The Welsh Government (WG) and Caerphilly County Borough Council (CCBC).

**Duration:**

A 5 year minimum from the final payment of WG grant until disposal of the last unit or 20 years (whichever is later).

**Development Works:**

The construction of speculative business units on the JV site.

**Development Expenditure:**

Expenditure to undertake the Development Works.

**Financial Arrangements:**

- Match funding will be provided by the Parties towards the capital costs of the scheme with the WG contribution being capped at £0.35m.
- WG and CCBC will pay the proportion of capital on a quarterly basis on receipt of certificates produced by the appointed cost consultants.
- Receipts from the development will be apportioned between the parties in accordance with the respective financial contributions of the Parties, including the value of the land provided for the development by WG.
- Deductions will be allowed for reasonable management costs incurred by CCBC.

**Governance Arrangements:**

Upon signing of the JV a Steering Group comprising officers from WG and CCBC will formulate proposals and recommendations for the parties, as defined above, to approve. The Steering Group will meet periodically as defined in the JV.

**Disposals:**

A disposal strategy will be agreed between the Parties. There will be an ultimate long stop date of 20 years from the date of the JV whereby if any part of the property remains unsold CCBC will be required to acquire a long leasehold interest (not less than 99 years) from WG at market value. (This is a recently introduced standard requirement of WG).

**Grant Support:**

WEFO to award a conditional grant offer to contribute to the cost of the development works. It is the responsibility of CCBC to ensure that the conditions attached to this grant are adhered to.

- 4.11 Cabinet approval is sought for the use of delegated powers process to approve that the Interim Head of Regeneration negotiate, in consultation with Property and Legal and the relevant Cabinet Member, with WG on the detailed terms and conditions of the Joint Working/Development Agreement and authorise the Head of Legal/Principal Solicitor to enter into the Agreement on behalf of the Council.
- 4.12 Limiting the initial Ty Du employment development project costs to circa £2m (£1.29m ERDF plus £0.36m Council match funding and £0.35m WG match funding) would result in delivery of Phase 1 comprising up to 10,000 sq ft of floor space. If successful, this initial phase would potentially stimulate further development on the remainder of the residual land allocated for employment use.
- 4.13 Whilst outside the scope of this report Cabinet are reminded that Council officers are also in discussions with WG officials and local housing associations to explore development options to realise the residential phases of this important strategic WG scheme.
- 4.14 In order to progress Ty Du Phase 1, the Council are required to confirm a minimum of £0.36m match funding submission to the project and for the Joint Working/Development Agreement terms to be approved in principle in order to secure the £0.35m WG match contribution.

## **Council's Overall Match Funding Requirement**

- 4.15 For the initial phases of Lawn Industrial Estate and Ty Du projects to progress the Council's match funding requirement will be £1.07m (£0.71m at the Lawn and £0.36m for Ty Du) in order to be able to secure the £2.58m indicative CCBC ERDF allocation and £0.35m WG match funding. Should additional ERDF Priority 4.4 funding become available the indications to date from WEFO and the region via the CRR Programme Board, are that the Council's projects at the Lawn Estate and Ty Du are well placed to receive further funding that would deliver subsequent phases of business units. However, should this opportunity arise the Council may well have to consider allocating further additional match funding.
- 4.16 Officers have been tasked with identifying sources of funding which could contribute to establishing the overall required Council match funding budget of £1.07m for Phase 1 developments at both sites. This is covered in more detail in the following section.

## **5. FINANCIAL IMPLICATIONS**

- 5.1 As outlined above, an indicative ERDF P4.4 allocation of approximately £2.58m grant per local authority at an intervention rate of 65.66% has been endorsed at CCR Programme Board with the potential opportunity for these schemes to secure additional grant should it become available.
- 5.2 The employment unit proposals at Ty Du and the Lawn Industrial Estate are at an early design stage but certain assumptions based on costs per square metre can be made. The table in Appendix 3 sets out the match funding requirement for the first phase of both schemes which is restricted to a £2m total budget per project due to a restricted ceiling figure of ERDF funding being imposed for Caerphilly County Borough Council. Appendix 3 also sets out the indicative floor space that could be built and also the anticipated rental income once all the business units are let.
- 5.3 As outlined above, the match funding requirement to secure the £2.58m indicative ERDF allocation to the Council will be £1.07m (£0.71m for the Lawn and £0.36m for Ty Du). Officers have been tasked with identifying sources of funding which could contribute to establishing the required match funding budget.
- 5.4 The February 2017 Cabinet report on Lawn Industrial Estate outlined the Cardiff Capital Region City Deal (CCRCD) Wider Investment Fund as a potential match funding source. However, this CCRCD fund is not yet active, so to secure monies from this source at this moment in time is not feasible. However, when this fund becomes active then there should be opportunities to secure the necessary match-funding from this source. Until such time as the CCRCD Wider Investment Fund is activated however, the Council is required to commit the necessary match-funding in the knowledge that there is no guarantee that funding will be secured from CCRCD.
- 5.5 A number of financial options have been considered with the Council's Finance Section and it has been proposed that the Council use its Capital earmarked reserve which currently stands at circa £6.5m to underwrite the projects.
- 5.6 This approach gives security to WEFO whilst officers pursue external funding mechanisms to deliver the necessary match. Cabinet are being asked to endorse this approach.
- 5.7 In summary, it is clear that the best option for identifying match funding for both projects is through the establishment of a regional CCRCD Wider Investment Fund. However until such time as this fund is active and monies secured, it will be necessary for the Council to agree to underwrite both projects.

- 5.8 Both Projects may be subject to detailed and technical European Commission regulations in relation to State Aid and Net Revenue Generation. Broadly, EC regulations state that any net revenues or surplus generated by activities (e.g. rental income from new employment units) 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 for the first five years of the project.

## **6. WELL-BEING OF FUTURE GENERATIONS**

- 6.1 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.
- 6.2 As such it aligns with the following 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.
- 6.3 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 public sector organisations 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, the Valleys Metro and the Valleys Task Force.

## **7. EQUALITIES IMPLICATIONS**

- 7.1 Equalities is a cross cutting theme for the European Structural Investment Funds programmes and each project must address this according to each Priority and Theme. The planned investments inherent in the EU Funding programmes will benefit many different groups in the community.
- 7.2 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.

## **8. PERSONNEL IMPLICATIONS**

- 8.1 Business Plan to WEFO in collaboration with Welsh Government. As the project progresses, technical advice and expertise from other Service Areas including the Council’s Engineering Projects Group, Building Consultancy, Caerphilly Homes and Housing Service Area, Corporate Finance, Procurement and Legal Service will be required with Officers from Regeneration and Planning’s Urban Renewal Team co-ordinating delivery. Where appropriate, the relevant staff time charges for support services (including financial grant management, procurement services and legal inputs) will be identified and included within the project financial cost profiles.

## **9. CONSULTATIONS**

- 9.1 Arising from consultation on the report, a local Member has sought reassurance over the design of the proposed employment units at Ty Du, Nelson, specifically in relation to the range of size units and their integration within the local environment. The Councillor also requested that consideration be given to the provision of ancillary services, such as a crèche or gym facilities.
- 9.2 Officers have responded with assurances that B1 class units are considered to be acceptable in or close to residential areas. In addition, Officers have also advised that the integration of the units with the nearby residential development will be an important design consideration, as the aspiration for the Ty Du site is to create a high quality, attractive, sustainable form of development that respects the existing topography and landscape features. The overall project's design objective is to support existing natural features to provide a layout that takes account of its semi-rural location and to provide a characterful and attractive place to live and work.
- 9.3 In relation to the suggestion of gym/crèche facilities, Officers have advised that, whilst these sit outside the planned B1 class use, there are examples within the County Borough of such uses having been granted planning consent in or adjacent to areas of employment.

## **10. RECOMMENDATIONS**

- 10.1 It is recommended that Cabinet:
- (i) Confirms the Council's priorities for the ERDF Programme measure 4.4 as the Lawn Industrial Estate and Ty Du to create new employment opportunities in the County Borough.
  - (ii) Approve that the initial match funding of £1.07m be established to secure up to £2.58m of ERDF grant and potential £0.35m of WG funding.
  - (iii) Approve that funding of £1.07m be committed from the Council's Capital reserve.
  - (iv) Approve that when CCRCD establish a Wider Investment Fund and allocate resources to new employment provision, that the relevant Head of Service be authorised to submit a bid for the necessary match-funding for the delivery of the Lawn Industrial Estate and Ty Du projects.
  - (v) Endorse the Council's collaborative working arrangement with Welsh Government to realise the full development of the mixed use site at Ty Du, Nelson.
  - (vi) Agree in principle to entering into a Joint Venture agreement with WG based on the Heads of Terms presented by WG with the approval of final Heads of Terms being delegated to the Interim Head of Regeneration in consultation with Property Services and Legal Services and the relevant Cabinet Member, and that the Head of Legal Services /Principal Solicitor be authorised to enter into the Agreement on behalf of the Council.
  - (vii) Agree that, should additional ERDF grant become available, that the relevant Head of Service investigate opportunities to secure match funding to implement the further phases at the Lawn and Ty Du sites.

## **11. REASONS FOR THE RECOMMENDATIONS**

- 11.1 To allow CCBC, working collaboratively with its partner organisations, to bring forward employment opportunities at the strategically significant site at Ty Du, Nelson and the council owned brownfield site at The Lawns Industrial Estate, Rhymney. These developments will deliver a series of significant economic and social benefits in line with existing local, regional and national priorities.

## **12. STATUTORY POWER**

- 12.1 Local Government Act 2000.

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Mike Eedy, Finance Manager  
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Shaun Watkins, Human Resources Manager  
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### Appendices:

- Appendix 1 – The Lawn Phase 1 draft layout plan
- Appendix 2 – Ty Du Masterplan
- Appendix 3 – Scheme Costs, match funding and rents
- Appendix 4 - Draft Heads of Terms for Proposed Joint Venture Agreement at Ty Du, Nelson