

Cabinet – 14 September 2011

Black Country Business Property Investment Programme

Portfolio:	Councillor Andrew - Deputy Leader, Regeneration
Service:	Regeneration Services
Wards:	Wards within the SUD boundary (see Appendix A)
Key decision:	No
Forward plan:	No

1. Summary

- 1.1 Walsall has a new agenda to support employment growth and job creation throughout the borough and Black Country. This programme, along with a raft of other council initiatives, supports this wider comprehensive approach to business growth.
- 1.2 This report sets out progress made to-date in an application to European Regional Development Fund (ERDF) for £8million of funding for the 'Black Country Business Property Investment Programme'. This programme will assist Small Medium Enterprises (SMEs), property owners and developers across the Black Country make available new and refurbished accommodation to support employment growth across the Black Country. Specifically, support will be targeted for SMEs' and SME developers within the Sustainable Urban Development (SUD) boundary (**Appendix A**). It is recommended that the Council take the lead as accountable body. This will involve the development and administration of the programme on behalf of the four Black Country authorities.
- 1.3 The programme meets the council's priority around the 'economy', which is one of three priorities, as set out in Walsall's Corporate Plan for 2011 / 2012. The programme will also work towards delivering key policies within the recently adopted Black Country Core Strategy (BCCS). The BCCS recognises '*an urgent demand to renew existing employment areas*' and sets out the need for a three-fold increase in high quality employment land by 2026.
- 1.4 Subject to Communities and Local Government (CLG) approval of the outline application, this report seeks approval for the continued development of the Black Country Business Property Investment Programme including agreement for Walsall Council to act as the accountable body for any future grant award, in principle agreement of the Black Country wide governance structure, and the continued development of a full ERDF application.

2. Recommendations

- 2.1 That Cabinet endorse the approach to the preparation of a full application for ERDF funding.
- 2.2 That Cabinet agrees in principle the governance structure (as set out in **Appendix B**)
- 2.3 That Cabinet agrees to receive a future report prior to submission of the full application to CLG setting out the final governance structure, detailed financial and staffing resource implications and contractual arrangements for Cabinet's approval.

3. Report detail

- 3.1 Walsall's Local Economic Assessment (LEA) identifies a dynamic picture amongst Walsall's businesses with a large proportion of companies intending to expand in the next 5 years. However, aspirations to grow are hampered by a limited supply of quality employment land and premises and a viability gap in bringing forward speculative development. To combat these problems, Walsall proposes to introduce the Black Country Business Property Investment Programme which deals with supply and quality of land and premises and the viability gap in bringing forward development. Complementary to this, Walsall is also undertaking a number of work-streams including; the emerging inward investment strategy, work around employment corridors and site prioritisation. These are all linked to supporting the key objective of assisting employment growth and job creation.
- 3.2 Overcoming the viability gap to create new premises to encourage business growth is essential if the Black Country economy is to grow. The ERDF Priority 3 programme presents a unique opportunity to bridge this viability gap. As such, Walsall Council together with Sandwell, Dudley and Wolverhampton are working in partnership to secure £8 million of ERDF funding towards a project that will enable SME property owners and developers to secure funding. The definition of an SME is a Small Medium Sized Enterprise which, employs fewer than 250 persons and which have either an annual turnover not exceeding 50 million euro, or an annual balance sheet total not exceeding 43 million euro. The purpose of the funding will be to improve existing premises and bring forward employment sites making available new, modern business accommodation to support the growth plans of local businesses and new investors across the sub-region. Specifically, the programme is to improve commercial floorspace for industry and office developments. Retail development is ineligible from the fund. Support is only available within the designated SUD boundary (see Appendix A) not borough wide. In summary, within Walsall, this includes; Bloxwich, Blakenall, Birchills, Leamore, St Matthews, Palfrey, Pleck, Bentley and Darlaston North, Darlaston South and Willenhall South.
It is intended that the programme will operate from early 2012 until December 2015. The outline application was submitted at the beginning of August 2011.

- 3.3 The commercial viability of new land and premises development is affected by the costs involved relative to income/rental levels, and the new Programme will address this gap by providing up to 35% of total costs, subject to a number of criteria.
- 3.4 The level of support will be sufficient to address cost deficit issues and to reduce the risk of projects to acceptable levels for developers/occupiers/investors. The focus of support is on sites and premises where the gap is of a manageable scale and new accommodation can be brought forward at relatively modest costs to the public sector.
- 3.5 The project is based on a tried and tested formula and builds on previous experience from the former Advantage West Midlands Gap Funding Programmes and a new model recently introduced in the East Midlands.

In summary, the project will aim to:

- By 2015 to have facilitated the start up and expansion of 15 new businesses through the provision of £8m of public sector finance and by securing at least £24m of private sector investment.
 - By 2015 to have improved the built environmental quality of the Black Country by providing 15,000m² of new floorspace built to BREAM Very Good, Excellent or Outstanding level.
 - To improve the economic performance of the Black Country by contributing £9m per annum additional GVA to the Black country through the provision of floorspace to accommodate 300 jobs.
- 3.6 To date, comments on the Outline ERDF application have been sought from the grant administrators, CLG. Initial feedback has been positive, confirming that the Black Country Business Property Investment Programme meets SUD objectives. The regional ERDF programme has to deliver new floorspace as a programme output. Currently the programme is seriously underperforming on this target. As such, the Black Country Business Property Investment Programme is seen as a priority for development by CLG.
- 3.7 Walsall will lead the development and administration of this programme. However, it is proposed that the overall governance for the programme will be led by a Black Country-wide steering group, with the day-to-day management of the programme being undertaken by a dedicated officer, with support from finance and legal teams within Walsall Council. Please refer to **Appendix B** for details of the draft governance / management structure.
- 3.8 Once CLG approval is received for the full application, promotion would take place nationally and SMEs' and developers will be invited to submit expressions of interest to the programme. An initial assessment of expressions of interest will be undertaken by the Black Country wide steering group. This group will be facilitated by the programme manager who will be based at Walsall Council. Successful projects will be invited to make a full application to the business property investment programme. This is a detailed process and applications will be verified by an external technical adviser against the programme criteria.

- 3.9 Due to the procurement timescales associated with appointment of a technical advisor, the Council will need to undertake an Official Journal (OJEU) process prior to knowing the outcome of the full application to CLG. Consultants will therefore tender at risk. The external technical support will provide a valuation, surveying and contract assessor function. Once the programme is approved, the technical advisor will verify individual SMEs' full applications to the Business Property Improvement Programme. It is anticipated that the private sector will bear the full costs associated with this appraisal. Once individual projects are approved the Council will issue a funding agreement and works will commence on site. SMEs' business and developers will then submit claims to the programme administrator based on works completed, these claims will be verified by the experienced technical advisor and then paid by Walsall MBC, the accountable body, based on this successful verification process.

Walsall MBC will then claim the money back from ERDF on a monthly basis. This minimises the risk for the council as the council will only need to bank roll one month of expenditure before we are able to claim from ERDF. ERDF will pay 50% towards the costs associated with verification of claims (the technical advisor). The remainder 50% will either be split between the 4 local authorities or paid in full by the council benefitting from the investment. This will be decided by the 'collaboration agreement'.

4. Council priorities

- 4.1 The project will have positive implications for the boroughs economy. The project seeks to increase the quality and supply of employment land promoting the re-use of existing sites and premises. Ultimately, the programme will promote investment and support employment growth in the Black Country.
- 4.2 The programme meets the councils economic priority, as set out in the corporate plan 2011 / 12. Specifically, the programme will support existing businesses to thrive through difficult economic times and attract new businesses to the borough through the development and promotion of our major land assets.

5. Risk management

- 5.1 The approvals sought in this report will enable officers to progress a full application to ERDF. A comprehensive risk assessment will inform this application and will consider, in detail, all risks associated with the project. At this stage, an initial assessment of risk has been undertaken which considers the following:
- 5.2 Claw Back – Any risk of claw back is to be minimised by a thorough verification process which will be undertaken by an externally appointed technical assistant. Claims will only be paid based on this verification process that will involve the technical assessor / surveyor visiting the site to ensure works has been completed to the required standard.

- 5.3 Walsall Council as Accountable Body – It is intended that Walsall will act as accountable body for this Black Country wide programme. As such, to minimise risk to the council, officers have been working closely with the Council's finance team from an early stage, to ensure that **both** the council's accountable body protocol and the Grants Manual are followed precisely. Procedures will therefore be put in place for Finance to support the continual monitoring of the programme over its life time through both the normal financial monitoring processes and a series of checks by the grants coordinator. An internal risk assessment and exit strategy have also been completed these have been assessed by the Council's finance team and signed off by the accountable officer.

In practice, the risks associated with the Council acting as accountable body for this programme will be minimised by the legally binding Grant agreements which, will be put in place between the council and the individual projects. These agreements will set out clearly roles, responsibilities, expectations of Walsall Council as the accountable body. They should transfer the risk of clawback and other conditions to the third party. Additionally, the comprehensive verification process which will be undertaken by the experienced technical adviser will also minimise risks. It is intended that the Council will pay project claims based on this process. Once the Council makes payments to the individual projects, the authority will then claim money back from CLG.

- 5.4 Limited interest in the programme from SMEs' / developers – Officers at the council and the ERDF programme manager have undertaken initial market testing work, approaching a number of developers / businesses to see if there is appetite in today's market for the programme. Generally, there has been a positive response. Several potential projects have been identified.

A comprehensive marketing campaign, completed at the beginning of the programme, should ensure maximum exposure of the programme.

- 5.5 Project Costs – Various costs have been identified for requirements to support the delivery of the project including officer time, costs of scheme promotion, costs associated with the appointment of the external technical adviser and payment of the claims verification process. Costs will be minimised as much as possible, also ERDF will support 50% of the programme management costs. It is likely that the remainder of the costs will be split between the four Black Country local authorities or be borne in full by the council benefitting from the project. This will be confirmed within the 'collaboration agreement'.

- 5.6 At this stage, the key risk to the programme is financial – as with all programmes that are externally funded, there is no guarantee that this programme will receive full and final approval.

6. Financial implications

- 6.1 To prepare the full application to CLG will require minimal resources from Black Country authorities as many of the associated costs can be met through existing staff resources.

- 6.2 Once CLG approve the programme, wide promotion of the scheme will be undertaken. To minimise costs for this element, it is proposed that internal Local Authority websites and partners websites are fully utilised. Current initiatives such as 'Business Friendly Planning', the BCCS launch 'Open for Business' and 'Find it in the Black Country' also provide good opportunities, at minimal cost, to promote the programme with relevant agents, developers and businesses.
- 6.3 External technical support will assist with the management and delivery of the programme. An OJEU process may need to be undertaken, to appoint this supporting role if an appointment cannot be made from a suitable existing framework agreement. The costs associated with the OJEU will be minimal, mainly being officer time. Once appointed, the technical adviser will appraise full applications to the property investment programme and will verify individual project claims. It is expected that the costs associated with appraisals will be met by the private sector – the grant beneficiary. Nevertheless, the Black Country Local Authorities will be expected to contribute 50% of the costs associated with the verification of claims, the remainder 50% will be met by ERDF. At this stage, there is a limited understanding of the overall programme management costs. Potentially, each local authority will be required to contribute to this cost, although this may depend on the location of the final projects. This is something that will need to be agreed within the 'collaboration agreement' between the local authorities (see 7.2 below). At this stage, it is estimated that the costs for local authority will be £10K per year (3 year programme), **for which no funding is currently identified**" This figure includes the costs associated with the technical support, programme management and promotion of the programme. A further report will be taken to cabinet which will detail costs in full.
- 6.4 The programme will promote private investment throughout the Black Country. Through the provision of £8m of public sector finance it is expected that at least £24m of private sector investment will be levered. This is based on a SUD intervention rate of 25%.

7. Legal implications

- 7.1 Legal support will be required throughout the programme. Initially, support will be necessary to assist with the procurement process and preparation of a contract for the appointment of the external technical adviser. Legal assistance will also be required to draft individual grant agreements following a standard template. In total, it is expected that there will be approximately 10 / 15 projects.
- 7.2 The programme will be promoted to SMEs / developers across the Black Country. As such, Sandwell, Wolverhampton, Walsall and Dudley local authorities will work in partnership, through a Black Country wide steering group to deliver the programme. Initial discussions have taken place with the other authorities who, have confirmed that the programme is supported in- principle. Legal support will also be required to assist with the preparation of a 'collaboration agreement' between the four local authorities. This agreement will set out the terms of the collaboration which will include the formal procedure for authorities to work together, make decisions on allocations of grants and split any costs associated with the management / promotion of the programme as well as apportion responsibilities and indemnities where necessary. Further discussions are needed between the local authorities in relation to the nature and extent of this agreement.

8. Property implications

- 8.1 In terms of Council owned property, there are no implications arising from the proposals in this report. The council could not promote a project through the programme, projects have to be promoted by the private sector.
- 8.2 The Black Country Investment Programme will however, increase the quality and supply of existing private employment sites and premises across the borough, attracting inward investment from occupiers and investors alike.

9. Staffing implications

- 9.1 The council would need to continue to commit staff resources to the project in order to progress the full application. This will involve officers time within the Regeneration directorate and namely the Development and Delivery Service to support the development of the application, work with the council's procurement and legal teams to undertake an OJEU process to appoint technical support and assist with the formation of the overarching Black Country wide governance structure.
- 9.2 If the application for funding is successful then an officer, who will be based at Walsall Council, will be recruited as the programme's overall manager. A recruitment process will be undertaken to appoint this officer. Potentially, this could be an external appointment or from another Black Country local authority. 50% of programme management costs can be provided by ERDF. The remainder will need to be agreed from the Council's / Black Country Local Authorities revenue budget. The officer will oversee the day to day running of the programme, organise and oversee the promotion of the scheme, facilitate the Black Country wide steering group, complete project claims to CLG (the grant administrator), manage the external technical adviser. Support will also be required from the Councils legal and finance teams. **Appendix B** illustrates the draft governance / management structure.

10. Equality implications

The Property Investment Programme will help support opportunities across the Black County, supporting new business close to existing communities and in locations which have been the focus for employment for many years. The project will increase the number of local employment opportunities, especially within deprived wards included in the SUD area. This is important given the social disadvantage which has arisen as a result of the decline in the area's traditional industries as highlighted in the recently published Employment Land Review (2011).

11. Consultation

- 11.1 Initial consultation has taken place with internal staff including legal, finance, officers within the Regeneration Directorate, Strategic Regeneration Board, the portfolio holder for Regeneration and heads of Regeneration at Sandwell, Dudley and Wolverhampton. All have indicated, in principle, support for the programme.
- 11.2 Council staff have completed initial market testing work, approaching a number of developers / businesses to see if there is appetite in today's market for the programme. Generally, there has been a positive response. Further consultation will be completed as part of the full application.

Background papers

N/A

Author

Hannah Thompson
Regeneration Officer
☎ 652494
✉ thompsonh@walsall.gov.uk

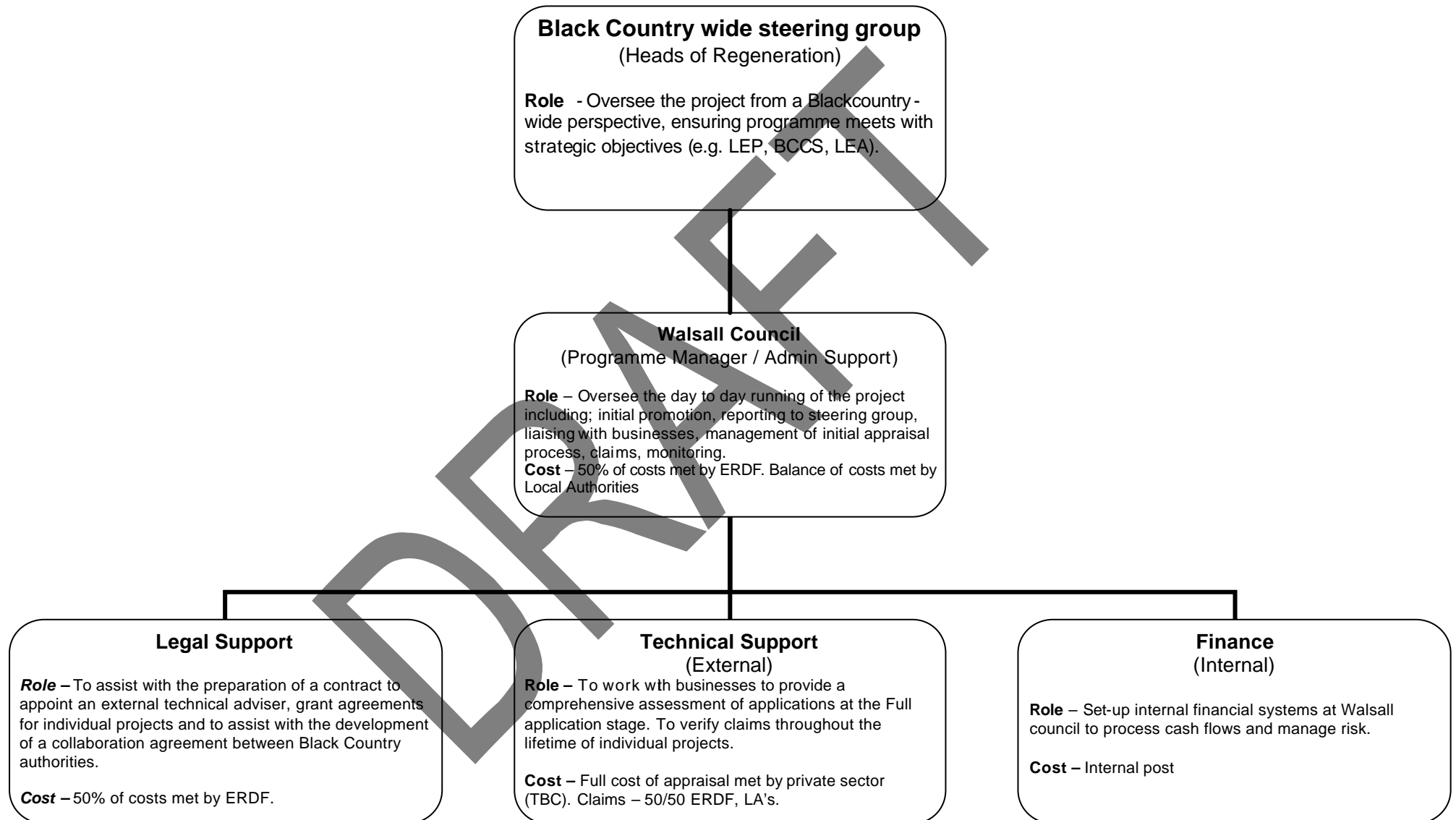


Tim Johnson
Executive Director – Regeneration
25 August 2011



Councillor Andrew
Portfolio holder Regeneration
5 September 2011

Appendix B – DRAFT Governance / Management Structure



Appendix C - The Programme

Once approval of the Black Country Business Property Investment Programme is gained, the following process will be undertaken.

