

Decision maker:	Cabinet member environment, economy and skills
Decision date:	Tuesday, 27th August 2019
Title of report:	Marches Building Investment Programme (MBIP)
Report by:	Economic Development Officer

Classification

Open

Decision type

Key

This is a key decision because it is likely to result in the council incurring expenditure which is, or the making of savings which are, significant having regard to the council's budget for the service or function concerned. A threshold of £500,000 is regarded as significant.

This is a key decision because it is likely to be significant having regard to: the strategic nature of the decision; and / or whether the outcome will have an impact, for better or worse, on the amenity of the community or quality of service provided by the authority to a significant number of people living or working in the locality (two or more wards) affected.

Notice has been served in accordance with Part 3, Section 9 (Publicity in Connection with Key Decisions) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012. Notice has been served in accordance with Part 3, Section 9 (Publicity in Connection with Key Decisions) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

Wards affected

County-wide

Purpose and summary

To agree to enter into a grant funding agreement with the Ministry of Housing, Communities and Local Government (MHCLG) to deliver the £3.0m Marches Business Investment Programme (MBIP).

An application for £3.43m has been submitted to MHCLG to deliver a capital grants programme across the Marches to support SMEs with growth and job creation. £2.2m of this will be made available as grants to SMEs to facilitate growth and expansion. Grants will part fund new

commercial builds, extensions, reconfigurations and refurbishments of existing premises along with equipment purchases within the newly created space. In addition, £800k will be made available to SMEs to help with small equipment purchases. MBIP will also support SMEs to bring redundant buildings back into economic use, with the added benefit of improving the commercial stock within the Marches area.

If approval is given, Herefordshire Council will act as accountable body for the scheme, providing grants to SMEs of no more than 50% of total project costs. Herefordshire Council will forward fund payments to SMEs of no more than £500,000 in total (per quarter) until European Regional Development Fund (ERDF) payments are received.

Recommendation(s)

That:

- (a) the council enters into a funding agreement with MHCLG to deliver the £3.43m Marches Business Investment Programme across Herefordshire, Shropshire and Telford & Wrekin Council areas, acting as accountable body for the programme; and**
- (b) the council provide forward funding grant payments to SMEs of up to £150k per grant claimant with a maximum of £500k advance payments at any one time, pending receipt of funds from MHCLG; and**
- (c) the Acting Director of Economy and Place be authorised to sign the MHCLG funding agreement to Herefordshire Council and approve any variations to the programme requested by the Programme Team; and**
- (d) the Head of Economic Development be authorised to sign all sub grant agreements to businesses and take day to day operational decisions, including variations to any sub grant agreements.**

Alternative options

1. Do nothing; there are no alternative sources of funding to deliver this programme. The European Structural and Investment Fund (ESIF) strategy has outlined priorities that need addressing and the Marches Business Investment Programme will help address some of these. By not accepting the funding offer of £3,433,737 this opportunity will be lost and Herefordshire Council will have fewer resources available to facilitate business growth, increase job creation and help to strengthen supply chains. The Marches Business Investment Programme will also leverage private sector investment to the value of £3,000,000 for the Marches, therefore encouraging the private sector to also invest in these priorities.
2. Operate the scheme with a reduced capital grant. This could be achieved, however, the management costs of the overall scheme would then be disproportionate and a number of the costs remain fixed, irrespective of the amount of capital grant available and therefore, the scheme would not offer value for money.
3. Operate the scheme but not forward fund SME claims ahead of receiving monies from MHCLG. This approach has been ruled out previously in order to minimise the financial risk to applicants. When applying for grants, the capital items/works only commence once the grant has been offered. SMEs have to fund the costs themselves prior to having any

grant monies reimbursed. The majority of businesses that apply could not afford to wait four months to be reimbursed. The reason SMEs apply for grant assistance is due to not having the ability to fully fund the project themselves and having limited working capital. The proposed approach would result in SME's receiving funds from the council approximately two weeks after they had paid their contractors.

4. A different LEP partner could be the accountable body – Telford & Wrekin and Shropshire Councils are currently managing other EU/ external funded grant schemes across the Marches area and therefore do not have the funding to cover the additional staff but have agreed to make a small financial contribution towards staff costs. Furthermore, Herefordshire Council have extensive experience in delivering this scheme with robust processes that have satisfied previous government audits.

Key considerations

5. The Marches Business Investment Programme will provide capital grants to small to medium sized enterprises (SMEs) up to £150,000 (maximum 50% of total project costs) to part fund new commercial builds, refurbishments, reconfigurations and extensions of commercial premises in the Marches LEP area, along with larger equipment purchases. SMEs will be expected to achieve outputs as part of the grant agreement including job creation and introducing new products to the market. In addition, a smaller grant scheme will provide grant assistance from £1,000 to £10,000 to SMEs to help with smaller capital equipment purchases only.
6. This programme builds on the success of the Redundant Building Grant Scheme (RBG), which ran from 2013 to 2016 and managed by Herefordshire Council on behalf of the three local authorities. The RBG scheme achieved full spend by May 2016, awarding £3m to businesses. Successful iterations of the schemes date back to 2004 (2004/07 – RRZ funded, 2008/12 – REG funded and 2013/16 – RGF funded). The current Marches Building Investment Scheme (2017 to date) has awarded £1.6m of grants to businesses. An independent evaluation concluded that the RBG scheme was “a powerful intervention for revitalising rural economies”. At the time of the evaluation it was calculated that for every £1 of RBG grant there was a return on investment of £10.37.
7. For the first time, the MBIP will include a small equipment grant to allow SMEs to bid for small pieces of equipment to facilitate their growth. Grants up to £10,000 will be available to businesses from a total pot of £800,000. The Small Equipment Fund will fill a gap in provision across the Marches as there are no other schemes offering grants to businesses for equipment under £10k. There are already a number of SMEs that have expressed an interest in the small equipment grant.
8. Herefordshire Council will be the accountable body and manage the scheme across the Marches area.
9. All eligible (not retail) business sectors will be able to apply for grant support, subject to applicant businesses being classed as small to medium sized enterprises (SME); are based or will be based in the Marches; and the site/building for expansion or conversion is located within the Marches LEP area. All proposals will be assessed through an appraisal process which will be fully compliant with ERDF and Herefordshire Council procedures. There is no automatic entitlement to the grant and applications are assessed on a first come first served basis. If there are any monies remaining at the end of the scheme and

applications exceed the amount remaining, applicants will either be offered a reduced grant, or the remaining monies will be awarded based on the best value for money against scheme outputs. All applicants must satisfy the state aid 'de minimis' requirement for the scheme. The 'de minimis' state aid regulation does not permit SMEs to receive more than 200,000 euros within any three year period. This is checked as part of the application process. Applicants will need to comply with ERDF rules when tendering, or obtaining quotations, and Herefordshire Council will have an oversight.

10. Shropshire and Telford and Wrekin councils will be delivery partners, and have agreed to make a financial contribution to the management of the scheme (see resource implications). Officers from the two authorities will also help to promote the scheme to their respective businesses.
11. MBIP will achieve job creation, support SME growth, encourage expansion and diversification, improve commercial workspace, increase productivity and encourage SMEs to bring new products into the market place. The Marches Local Enterprise Partnership (LEP) aims to create the conditions for enterprise and business to flourish. It aims to stimulate the drivers of economic development which will improve the economic prosperity of the Marches area and create sustainable private sector employment.
12. MBIP addresses the aims of the LEP prospectus by removing the barriers to business growth and as such the LEP has, in principle, agreed to make a financial contribution of £15,000 towards the management of the scheme.
13. A LEP wide steering group will once again be formed to approve applications for grant support. An officer and Business Board representative from each local authority will attend the steering group meetings and a representative from MHCLG will be invited as an observer.
14. The Economic Development Team has an approved forward funding facility in place to cover the current Marches Building Investment Grant. It is requested that this facility be increased to £150,000 per SME to take into account the new upper limit of the grant being proposed (previous maximum grants were £100,000). This allows the SME to be paid ahead of Herefordshire Council drawing the funding down from MHCLG in the quarterly claims. This is the only way that funding can be drawn down from ERDF, as funds cannot be paid in advance. The total of forward funded payments to SMEs would not exceed the £500,000 facility, per quarter, for the programme.
15. Grant applications will be processed by the MBIP Programme Management Team (having undergone checks against ERDF eligibility and an independent financial appraisal) and will be presented to a representative steering group (currently set up) who will take the final decision. The Head of Economic Development will then authorise the Programme Manager to inform the applicant of the decision.

Community impact

16. The Marches Business Investment Programme will help to achieve Herefordshire Council's Corporate Plan priority of supporting economic growth by improving access to finance for SMEs.
17. MBIP meets ESIF Strategic Activity 1 by offering access to finance and support for enterprise by helping SMEs finance their growth, create jobs and increase productivity.

18. The Marches ESIF Strategy has the ambition of creating 1,052 jobs through ERDF direct investment in enterprises, which would potentially lead to a substantial increase in GVA (at £41,307 per job). MBIP aims to achieve no less than 128 jobs and will contribute to the overall ESIF target. The project will also, as detailed in the ESIF Strategy, form part of the integrated offer available through the Marches Growth Hub.
19. During the lifetime of the programme, MBIP will also support 119 businesses (including 5 new start-up businesses). The programme will encourage the introduction of 25 new products into the market place and support the build and/or redevelopment of 13,764 sqm of commercial premises.

Equality duty

Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
20. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. We do not believe that it will have any negative impact on our equality duty but will advance equality of opportunity for many groups as SMEs will be employing people who share a protected characteristic. Grants will be awarded solely on an SMEs ability to meet ERDF criteria which is already pre-defined by the European Union.
 21. Grants will be offered to SMEs based purely on their compliance with ERDF eligibility.
 22. Herefordshire Council will, where practicable and if requested, make documentation available in alternative languages and formats.

Resource implications

23. The cost to deliver the scheme is as follows:

CAPITAL	Amount
MBIG- Grant Contribution for capital awards for buildings and equipment at 50%	£2,200,000
Small Equipment Fund	£800,000
REVENUE	
Salaries	£319,306
Overheads (15% of salary costs)	£47,896

Redundancies	£15,000
Other Costs Travel/mileage/venue hire etc.	£8,000
Evaluation	£15,000
Legal costs	£2,000
Financial appraisal	£16,200
Publicity	£10,335
TOTAL COST	£3,433,737

24. The capital grant element of the scheme (£3m) is broken down into two parts; the Marches Building Investment Grant (MBIG) will be £2.2m and the Marches Small Equipment Fund (MSEF) will be £800k. These grant pots will be available for businesses to bid for and will form up to 50% of their project costs. MSEF grants will be available from a minimum of £1,000 to a maximum of £10,000 and MBIG grants will be made available up to £150,000 per SME.
25. As the match funding is provided by SMEs, there is no risk to the council with regards to the capital grant element. However, we have, with all previous schemes reimbursed SME claims ahead of receiving the grant from MHCLG. It is requested that this be continued for the new programme to assist SMEs with cash flow, helping them to remain financially stable. It is requested that the limit of £500,000 be approved for the new scheme to allow this process to continue.
26. The revenue cost of the scheme, over the three year period, is £433,737 as set out in the table below. £404,025 has been requested from ERDF. The three local authority costs are contributions from Herefordshire Council £4,904 (Economic Development Team budget) and Shropshire and Telford and Wrekin Councils each making a contribution of £4,904 during the lifetime of the scheme. The LEP is also making a contribution of £15,000 to assist with the Management and Administration of the scheme.

Funding Type	Public/ Private	2019 £	2020 £	2021 £	2022 £	Total £
ERDF	Public	24,087	129,972	134,540	115,426	404,025
Herefordshire Council	Public	292	1,578	1,633	1,401	4,904
Shropshire Council	Public	292	1,578	1,633	1,401	4,904
Telford & Wrekin Council	Public	292	1,578	1,633	1,401	4,904
LEP	Public	895	4,825	4,995	4,285	15,000
Total		25,858	139,530	144,435	123,914	433,737

Legal implications

27. Herefordshire Council will be the accountable body for the grant scheme and will enter into a contractual agreement with MHCLG to deliver the scheme.

28. Advice on the funding agreement will be provided by Legal Services, and the main issues with the funding agreement anticipated, being the risk of clawback and the risk of funds becoming unavailable when commitments to SME recipients may have already been made.
29. As indicated in this report, the Project Management Team is expected to liaise with Legal Services to draw up a sub-grant agreement with SMEs to whom funding is provided. That agreement should ensure the council complies with the ERDF Funding Agreement, particularly the issues described above.
30. Herefordshire Council will issue individual sub-grant contracts to applicants across the LEP area. The maximum grant award is £150,000. Herefordshire Council must ensure that grants are awarded to those applicants that satisfy ERDF criteria and that they comply with de minimis state aid regulations.
31. The contract to grant applicants will state the terms and conditions of the grant award and the implications of these, if they are breached. A clear policy of grant claw back will be instigated by Herefordshire Council and forms part of the contract. The contract template to be used by Herefordshire Council will be approved by legal services before it is issued.

Risk management

Risk / opportunity	Mitigation
Scheme compliance – process not compliant with government regulations	Appraisal, approval and financial procedures are already in place and compliant with ERDF due to Herefordshire Council's vast experience as accountable body. Legal Services have provided advice on compliance.
The application to MHCLG is unsuccessful	The project will not go ahead.
Staffing – inability to recruit experienced staff	MBIG already exists as a scheme and managed by very experienced Project Management Staff. The Economic Development Team also has a number of qualified and experienced Programme Managers.
Not all grants are taken up	As the current MBIG is operational there is a pipeline of projects that will be eligible for the new scheme. The Herefordshire contribution is already committed for the current scheme demonstrating its popularity with SMEs. The Marches Growth Hub actively promotes the opportunities in all three areas.
Businesses do not create all of their contracted outputs	A clawback clause forms part of the funding agreement between the business and the Council. The Council can request the grant is returned (all, or in part) if the outputs are

	not achieved. Returned funds would be re-allocated to another business or will be returned to MHCLG if the programme has ended.
Programme fails to achieve all the outputs	A Steering Group meets bi-monthly to monitor progress. Under achievement would be highlighted at this point and fed back to MHCLG for advice. Uncommitted funds would be returned to MHCLG to be reallocated to another programme and the contracted outputs would be recalculated and reduced to reflect the new programme total.
No deal BREXIT affected the future of the MBIP Programme	The Department for Business, Energy & Industrial Strategy (DBEIS) updated the ERDF 'no deal' BREXIT guidance on 25 th March 2019 stating that all ERDF projects funded within 2014-2020 programme period would be guaranteed.
Council forward funds SMEs in advance of claiming ERDF funds	MHCLG could withhold funds if they believe a project has been wrongly given funds. Herefordshire Council has a stringent due diligence programme in place to appraise the project which includes checking eligibility against the scheme criteria, an independent financial appraisal carried out for each project in addition to a steering group, made up of representatives from the three local authority areas that also assess and approve the applications. The withholding of ERDF funds has never happened in previous schemes. Also, the forward funding amount of £500k is spread over a number of businesses and therefore, it would be very unlikely that all would be non-compliant.

32. All risks will be managed and mitigated by the Programme Management Team (line managed by the Head of Economic Development). Major risks will be escalated to the Marches Business Investment Programme Steering for consideration and then to the Acting Director of Economy and Place to agree the council's agreed course of action. Risks that may result in non-compliance will be directed to MHCLG for advice.

Consultees

33. Political groups have been consulted and no objections or comments received.

34. Marches LEP, Shropshire and Telford and Wrekin Councils have been regularly consulted with throughout the bidding process and have provided written confirmation of their financial contribution to the programme.

Appendices

None.

Background papers

None identified.