

Cabinet
Council

16 April 2013
25 June 2013

Name of Cabinet Member:

Cabinet Member (City Development) – Councillor Kelly

Director Approving Submission of the report:

Director of City Services & Development

Ward(s) affected:

All

Title:

European Regional Development Fund (ERDF) Accountable Body Report

Is this a key decision?

Yes - it has the potential to affect all wards within the City and expenditure is in excess of £500,000.

Executive Summary:

European Regional Development Fund (ERDF) allows the City Council to bid for grant funding for economic development projects. In the most recent bidding round we have received first stage approval for 4 projects totalling £6.5m ERDF as follows:-

- Far Gosford Street Phase 2 - £1.14 million ERDF
- Public Realm Phase 2 - £1.75 million ERDF
- International Transport Museum Project - £3.1 million ERDF
- Coventry & Warwickshire Small Business Loans - £0.52 million ERDF

In addition, we have also received full approval for a further project:-

- FarGo Village - £3.4 million ERDF

A Local Authority is required to act as accountable body for ERDF projects as it has the financial and monitoring mechanisms in place to ensure spend takes place as appropriate. Although the Coventry Transport Museum (CTM) applied for ERDF in their own name, the City Council have been asked by the Department for Communities and Local Government (DCLG) to act as guarantor for the project due to the size of the grant. Having had outline approval, the projects then submitted full applications by the end of February. DCLG will now appraise them all before awarding ERDF which is then followed by contracting which should allow the projects to start in the summer.

The FarGo Village was submitted under a previous call for projects and has received full approval but needs Cabinet and Council approval for the City Council to act as guarantor for the grant.

Recommendations

Cabinet is asked to:

1. Agree the funding opportunity from ERDF as a significant opportunity in delivering the City's priorities and authorise the City Council to act as guarantor and to delegate authority to the Director of City Services & Development to enter into grant aid agreements for the individual projects: Far Gosford Street Phase 2, Public Realm Phase 2 and Coventry & Warwickshire Small Business Loans;
2. Provide approval for CTM to draw up to £55k from its own reserves/balances to cover any expenditure on the ERDF project pending official notification from DCLG to award the full ERDF grant. CTM is to ensure by reasonable endeavours through their Business Plan to replenish the level of reserves/balances at the first opportunity; and
3. In the event of a successful award of ERDF for the CTM (estimated for the end of April/beginning of May 2013), approve the Council to act as guarantor and to delegate authority to the Director of City Services & Development to enter into grant aid agreements for eligible expenditure to be incurred by CTM of up to £95k on the ERDF project between the date of decision by DCLG (to award £3.1million ERDF) and the Council's decision to act as accountable body for the overall project.

Cabinet is requested to recommend that Council:

4. Agree the funding opportunity from ERDF as a significant opportunity in delivering the City's priorities and authorise the City Council to act as guarantor and to delegate authority to the Director of City Services & Development to enter into grant aid agreements for the individual projects: International Transport Museum Project and FarGo Village; and
5. Agree to delegate authority to the Director of City Services & Development to grant a 30-year lease to CTM at a peppercorn rent over the properties known as 10a and 10b Hales Street and 31 Silver Street.

Council is asked to:

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List of Appendices included: None

Background papers: None

Has it been or will it be considered by Scrutiny? No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body? No

Will this report go to Council? Yes - first Council in the new municipal year 2013/14 (date tbc)

Report title: **European Regional Development Fund (ERDF) for Coventry City Council Projects**

1 Context (or background)

1.1 Coventry City Council has been awarded first stage approval for £6.5m of ERDF for four projects in the city. This is in addition to the £15.3m of ERDF already given full approval since 2007 which is either completed or still in delivery in the city. The projects with first stage approval submitted full applications to DCLG by the end of February for a final decision on whether they will get ERDF funding. As part of the appraisal process carried out by DCLG there is a requirement upon the City Council to agree to act as guarantor for the grant in the unlikely event that it has to be repaid.

European Regional Development Fund (ERDF)

1.2 The 2007 – 2013 ERDF Programme for the West Midlands is allocated regionally across three priorities. Priority 1 is largely aimed at universities and research institutions while Priority 2 is aimed at offering support to businesses and generating business start-ups and Priority 3 has geographical targeting on "major urban areas". The Coventry & Nuneaton P3 Package has an indicative sum of just under £12m ERDF and has been committed to projects in the city including NUCKLE, Public Realm, Far Gosford Street and FarGo Village. DCLG held an open call for projects in Priorities 2 and 3 in September. The following projects totaling £6.5m ERDF were submitted from this sub-region:-

- P3 : Far Gosford Street Phase 2 - £1.14 million ERDF
- P3 : Public Realm Phase 2 - £1.75 million ERDF
- P2 : Coventry & Warwickshire Small Business Loans - £0.52 million ERDF
- P3 : International Transport Museum Project - £3.1 million ERDF

1.3 These projects have all received outline approval and were asked to submit full applications to DCLG by 28 February. The full applications will be appraised by DCLG in the spring and if approved should be able to start in July. Although the CTM were the applicant for their project, one of the conditions attached to their outline approval is the need for the city council to act as applicant and therefore guarantor for the full bid. A brief summary of each project is below:

1.4 **Far Gosford Street phase 2** - This project will continue the City Council's successful area-base regeneration programme in the Far Gosford Street area of the city. As in the first phase, it will offer grants to property owners for 50% of the cost to carry out full restoration and front façade improvements, the balance being put in by the owners. It is expected to create 30 jobs, assist 20 SMEs and upgrade 760 sqm of floorspace. It will build on the highly successful first phase which was also ERDF-funded which has led to 30 properties being upgraded and a much improved perception and appearance of the conservation area.

1.5 **Public Realm phase 2** - This is an extended programme of streetscape enhancements complementing the successful phase one improvements which also received ERDF funding and were completed in the summer of 2012 for the Olympics. Their aim is to link key employment sites and public and private sector led developments with an attractive high quality public realm that will enhance the perception and image of the city. Phase two will focus on improvements to four new routes:- High Street - Council House Square - Jordan Well, Fairfax Street, Belgrade Junction and Queen Victoria Road / Lidice Place. Success will be measured by an increase of 5% in footfall, 2% increase in average visitor spend and a 5% reduction in the number of vacant units in the defined area. It will remediate 2.53 hectares of city centre land.

- 1.6 **Small Business Loans** - This project will offer a cohesive package of business support activities tailored to meet the specific needs of Coventry & Warwickshire. It will help to establish over 400 new businesses, and create at least 660 new jobs by working with established firms with potential for growth, assisting them to invest, exploit new markets, and to develop local supply chain opportunities. Over a two year period it will assist 1,625 individuals to start a business, create 406 new businesses, assist 490 existing businesses to improve performance and create 660 jobs as well as lever in nearly £10m of private sector investment.
- 1.7 **International Transport Museum** - ERDF is one strand of a total of £7.45m investment to both restore the 12th Century Old Grammar School to create new exhibition and event space and to create a new entrance for the Museum. There will be five upgraded galleries for the display of cycles, the "Spirit of Speed", a technology gallery, the "Ghost Town" gallery and a temporary exhibition gallery. It is forecast to generate an additional £18m of visitor spend within Coventry in five years thereby supporting over 360 local jobs for residents. It will be achieved by demolition of properties adjacent to the Museum in Hales Street owned by the City Council.
- 1.8 The CTM are hoping to get their project approved during April to ensure the scheme can deliver by the end of the programme period which is June 2015. All expenditure in the Package must be committed by 31 December 2013 and defrayed by 30 June 2015.
- 1.9 In order to implement the scheme for which the CTM are seeking grant funding the museum needs additional space into which it can expand to host a wider range of exhibits. Accordingly it is proposed to grant a 30-year lease to the CTM over 10a & 10b Hales Street and 31 Silver Street at a peppercorn rent. These properties are owned by the City Council; 31 Silver Street and 10a Hales Street are currently being held vacant whilst 10b Hales Street is let to a Pawn Brokers at a rent of £12,400 per annum. It is estimated that these three properties have a combined rental value of circa £33,000 per annum. The Council would forgo this income in the event that the proposals proceed. CTM will have to pay all other outgoings on the properties including business rates and be responsible for repairing obligations.
- 1.10 The start date for eligible spend for the CTM's ERDF project will be the date of DCLG's Investment Decision Group (IDG) meeting in April / May. Any expenditure incurred by the Transport Museum prior to that date will not be eligible from ERDF so will need to come from another source; the proposal is CTM's reserves / balances. It is anticipated that CTM will incur upfront design costs that will not exceed £55k. In the event that this project is given its ERDF approval of £3.1m by IDG in April/May, the City Council will be required to be the guarantor for any eligible expenditure incurred by CTM of up to £95k between that date and the first full Council of the municipal year when the Council is being asked to agree to act as accountable body for the overall project.
- 1.11 **FarGo Village** - The creative industries sector is a growing part of Coventry's business and innovation landscape. However there is insufficient space for successful high-growth businesses to expand into. A further problem which Coventry experiences is a lack of graduate level jobs which means that our graduate retention rate is only 35% compared to 45% for the West Midlands as a whole. This project takes the largest single site in Far Gosford Street and creates an enterprise hub for the creative industries thereby creating much needed business space and graduate level employment opportunities.
- 1.12 In an earlier bidding round, the FarGo Village project was submitted and has now received full approval for £3.4m ERDF. DCLG are asking the city council to act as guarantor for this project as DCLG do not wish to contract with the private contractors who are the developers for the scheme. This is normal procedure for DCLG. This brings the total value of the ERDF which the city council is being asked to guarantee in this report to £9.9m. This is subject to all projects receiving full approval.

1.13 Outputs Across all Five Projects

1.13.1 The five projects are forecast to deliver a range of outputs which in total will include:-

- 225 jobs
- 100 jobs safeguarded
- 16 business start-ups
- In-depth business support to 93 businesses
- 4 Ha of brownfield land developed
- 16,710 m² Floorspace
- £13.9m private sector investment levered

2 Options considered and recommended proposal

2.1 The City Council acts as accountable body for ERDF

2.1.1 The City Council has acted as lead applicant or accountable body for many European-funded projects since 1984 when the area first became eligible for such funding. In essence it means being responsible for monitoring the spend, submitting grant claims to DCLG for eligible expenditure and demonstrating that the grant has been spent in achieving the outputs of the project. By taking on this role, the City Council will bring in an additional £9.9m of European funding which will significantly assist in delivering their corporate priorities. This funding is awarded with an intervention rate of up to 50% which means in effect doubling what could be achieved with the Council's funding alone or with Heritage Lottery in the case of the CTM, Growing Places funding in the case of Small Business Loans or private sector funding in the case of FarGo Village and Far Gosford Street.

2.2 Other Options Considered

2.2.1 **Proceed without ERDF** - Without ERDF support for the Far Gosford Street second phase it is likely that some of the owners would be able to fund the necessary work. However, without grant support the number of refurbished properties would not be great enough to have any real impact. There is always the risk that the street might revert to its previous run-down condition without a significant boost from grant funding.

2.2.2 If the Public Realm work were to be funded by City Council funding and no ERDF, the overall impact would be diminished and it would only be feasible for the statutory duties to be funded such as maintenance of footpaths and highways. With increasing pressure on the Council's capital programme an opportunity would be missed to improve the public realm environment of the city centre.

2.2.3 If the CTM were to do nothing then it would continue to operate as it does presently and an opportunity to significantly increase visitor numbers would be lost. In addition the Old Grammar School would remain derelict and continue to blight the area.

2.2.4 Without ERDF for loans to small businesses, they would continue to struggle to secure bank loans which would in turn hamper their ability to create new jobs and to even survive.

2.2.5 Without ERDF the FarGo Village would not happen and a large site at a key gateway to the city centre would remain derelict and continue to give a negative image of the city.

2.2.6 **Decline to take on the accountable body role** - For both the CTM and the FarGo Village projects the Council could decline to take on the role of accountable body. This would result in DCLG withdrawing the applications for funding due to their unwillingness to contract with bodies other than those in the public sector. DCLG need to be sure that the accountable body has a track record of successful delivery and are satisfied that the City

Council will fulfil this role. In addition, the fewer accountable bodies that DCLG contract with, the lower the cost of managing the whole programme and the greater cohesion across the programme.

2.3 Recommended Proposal

2.4 It is recommended that the Council recognise the significant opportunity to Coventry from the acquisition of ERDF and acts as guarantor for all five projects.

3 Results of consultation undertaken

3.1 The Jobs Strategy is the Council's proposal for taking forward the economy of the city in the light of the changed circumstances experienced over recent years. ERDF matched against core funds for these projects is aligned to delivering the Jobs Strategy and the priorities of the CWLEP set out in their 5-year strategy based on the Local Economic Assessment and feedback from local businesses which include:

- Creating New Jobs
- Creating business growth
- Removing barriers to growth

3.2 The development of the ERDF projects has been completed with LEP partners and reflects the priorities most in need of public investment.

3.3 There has been considerable consultation with property owners in Far Gosford Street and a signed register has been compiled containing over 20 businesses and property owners who are keen to take part in the second phase of the project. The views and opinions of local residents and businesses have been canvassed in extensive surveys and ongoing consultation during the development of the Far Go Village proposals.

3.4 A city centre stakeholder group involved in phase one of the Public Realm works were hugely supportive from concept to delivery stages and will continue to be closely engaged with phase two with significant discussions already taking place around concept plans to influence both form and materials to be used. Extensive local consultations have taken place on public realm strategies and the Core Development Strategy for Coventry. Over 2,500 people took part in this exercise.

3.5 The CTM consulted almost 2,000 people in 2012 to inform the development of the project. The feedback demonstrated that the proposed works would encourage visitors to make return visits. The Old Grammar School has been the subject of a long-running public campaign to save it. In 2009, a major consultation by the City Council found that a large number of the 800 responses wanted to preserve the city's best buildings such as the Old Grammar School.

3.6 The CW LEP has undertaken a consultation exercise with local business to determine the priorities it should focus on, priorities which the loans package sets out to deliver on.

4 Timetable for implementing this decision

4.1 The full applications will be appraised by DCLG in April/May and approvals made during April to June. The projects then go into contracting phase and finally delivery can commence – hopefully by late summer. As stated above, the CTM are hoping for a fast turnaround as their capital scheme has very little room for slippage if it is to complete by June 2015. The FarGo Village project can proceed immediately as it already has approval.

5 Comments from Director of Finance and Legal Services

5.1 Financial implications

- 5.1.1 The Council are proposing to be the accountable body for each of the five ERDF projects as specified in the report, totalling £9.9m. Whilst there is some financial risk, there is no immediate implication of being accountable body. These schemes will bring significant economic benefit to the city. Grant risk is discussed further in section 6.
- 5.1.2 The properties referred to in section 1.9 have an approximate annual rental value of £33k. The report proposes these properties are leased for 30 years to the CTM at a peppercorn rent. Whilst two of the three properties are currently vacant, this decision still represents a loss of potential income to the Council of £33k.
- 5.1.3 CTM will be incurring costs from its own balances of up to £55k prior to any decision from the DCLG. Further spend will not be incurred unless ERDF is awarded for the project. In the event of a successful award, to ensure delivery of the scheme within the ERDF programme period, further costs will need to be incurred by the CTM of up to £95k. These costs will be eligible for grant, however it should be noted that the Council will not have been asked to formally agree to act as guarantor for the ERDF until its first meeting in the next municipal year (date tbc).

5.2 Legal implications

- 5.2.1 The Council will act as the accountable body for the ERDF projects on the terms of the EU and DCLG requirements. The Council will be issued with a grant offer containing terms and conditions. For two of these projects, the terms and conditions will be devolved across to the Transport Museum Trust and the private sector developer Complex Developments Limited in a grant agreement. . These will ensure appropriate conditions and obligations which are imposed upon the Council are passed to the grant recipients who receive the funding for delivering projects. The Council has power to act as guarantor under Section 1 of the Localism Act 2011 and in respect of the leisure function at the transport museum under section 19 of the Local Government (Miscellaneous Provisions) Act 1976.
- 5.2.2 A lease of 10a and 10b Hales Street and 31 Silver Street will be granted to CTM for a term of 30 years at a nil rent pursuant to section 19 of the local Government (Miscellaneous Provisions) Act 1976.

6. Other implications

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

The City Council's **Jobs Strategy** highlights the importance of creating jobs which the city needs. All these schemes will indirectly or directly provide jobs across the city and sub-region. The Jobs Strategy specifically acknowledges the importance of public realm improvements in creating new jobs in the city centre. **Coventry's Sustainable Community Strategy** sets out the ambitions for "a prosperous Coventry with a good choice of jobs and business opportunities for all the city's residents". One of its long-term outcomes is accelerating economic growth for the city and creating a more diverse range of businesses and employment. The FarGo Village will help to achieve this outcome by helping Far Gosford Street to diversify its business base by transforming the city's creative quarter. This will attract new businesses to the city and create much-needed high value jobs which will in turn encourage higher level learning and graduate retention in the city.

The **Coventry & Warwickshire Local Enterprise Partnership (CWLEP)** recognises the importance of a successful Coventry city centre to the sub-region as a whole in its strategy. A key objective of the LEP is to develop strong private-public sector partnerships in order to grow the sub-regional economy. One of its key target sectors is the creative and cultural industries. The FarGo Village project helps the LEP address this priority through the development of a public-private partnership between the City Council and CDP/Mazing Ltd. who are the developers for this creative quarter of the city.

6.2 How is risk being managed?

6.2.1 Arrangements are in place within City Services and Development Directorate to deliver the accountable body role ensuring that procedures are in place to manage risk for these five projects.

6.2.2 The financial risk associated with the ERDF sits with the Council. However the risk of claw back by DCLG and/or the EU is minimal so long as the expenditure is defrayed against eligible activity and in the permitted timeframe. This risk will be mitigated by the implementation of strict procedures for the project management of ERDF-funded work and ensuring that the risks for the two outside projects are devolved appropriately to the partner organisations. We will maintain close liaison with our monitoring officer in DCLG, and ensure that funding contracts awarded by the Council for the completion of infrastructure works place risk on the organisations which complete the works.

6.2.3 The Council has a good track record for maintaining and achieving significant financial controls and well established procedures for handling public funds and these will be applied to the ERDF projects in order to ensure that the best possible value is achieved for the EU's investment in the schemes. Therefore the view of officers is that risk of clawback for each scheme is minimal.

6.2.4 Both the CTM and CDP Ltd. will enter into a "back-to-back" Grant Aid Agreement (GAA) with the City Council as accountable body. It is standard practice within GAAs to transfer as much risk as possible to the successful applicant and project deliverer.

6.2.5 All ERDF projects within the city will be overseen by an overarching steering group which will include representatives from Coventry City Council, Warwickshire County Council and other representatives from the CWLEP. This group will oversee the strategic direction of the funds, ensuring they are used to maximum effect and that the overall purposes of the funds are met.

6.2.6 The City Council's Resources & New Projects (RNP) Team will lead the programme management for the various ERDF projects ensuring that suitable monitoring and governance arrangements are in place. The individual projects will each have project officers responsible for managing compliance with the funding requirements such as publicity and procurement and for monitoring progress and making grant claims to DCLG. The RNP Team will have regular meetings with the project officers to check overall progress and to liaise between them and DCLG's Programme Delivery Team.

6.3 What is the impact on the organisation?

6.3.1 HR Implications

6.3.2 To ensure successful delivery of these large projects and the Council's ability to provide an adequate accountable body function, additional staff resources may be required. Staff are already in place for the existing ERDF-funded projects and they may be able to continue to carry out this function and take on the new projects.

6.4 Equalities / EIA

6.4.1 Each of the infrastructure projects will undertake an Equality Impact Assessment as part of project development and impact. Although the Small Loan programme focuses on business, close attention has been paid to equality and diversity principles. The expectation is that those businesses assisted will generate significant employment opportunities. The crucial issue, therefore, is applying equality and diversity principles to these opportunities.

6.5 Implications for (or impact on) the environment

6.5.1 The loans to small businesses and the large scale infrastructure projects will have an impact on the environment in the city centre. All businesses are now very conscious of energy costs. At the point of making investments in plant and machinery or indeed property the opportunity to reduce energy consumption per unit of output is invariably taken. The Far Gosford Street projects and the CTM are all aimed at improving the visual environment of the city centre.

6.6 Implications for partner organisations?

6.6.1 The CTM project will have a significant implication for the Museum and enable it to increase its attraction to visitors.

6.6.2 The small loans project will operate in Coventry and Warwickshire and will offer loans to SMEs in all of the Local Authority areas covered by the CWLEP. The LEP is a partnership and is the strategic body with responsibility for the use of these funds. The key local partners of the LEP are the Chamber of Commerce and Warwickshire County Council who are delivery partners and are committed to the project.

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