

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

24 APRIL 2018

REPORT OF THE CORPORATE DIRECTOR COMMUNITIES

ENTERPRISE HUBS DEVELOPMENT PROGRAMME

1. Purpose of Report

- 1.1 The purpose of this report is to seek approval to take forward the development of the Enterprise Hub Development Programme which in total would cover the refurbishment and creation of new business premises in response to identified need at three key locations in the County Borough – Bridgend Science Park, Village Farm Industrial Estate and Brocastle.
- 1.2 The report updates on work undertaken since a previous Cabinet report on 31st January 2017 that related to the development of the Enterprise Hubs Development Project (Bridgend Science Park and Village Farm Industrial Estate) and seeks authorisation to move to the final stage of negotiations with the Welsh European Funding Office (WEFO) in relation to a funding package. The report also updates on work undertaken with Welsh Government in relation to the Enterprise Hub Development Project (Brocastle) and seeks authorisation to develop and enter into a suitable legal agreement to create and submit a proposal for investment at Brocastle and accept resulting funding offer.
- 1.3 In total, what is proposed within this report represents the largest single programme of business property development ever undertaken by Bridgend County Borough Council (BCBC).

2. Connection to Corporate Improvement Objectives/Other Corporate Priorities

- 2.1. This report supports the following corporate priorities:
 - Supporting a successful local economy
 - Smarter use of resources

3. Background

- 3.1. There are over 3,500 registered enterprises in the County Borough and 87% of these companies are self-employed and micro-enterprises, i.e. employee fewer than 9 people. These companies employ 32% of the workforce. Small companies (10-49 employees) employ 16% of the workforce and medium companies (50-249 employees) employ 13% of the workforce. The number of enterprises in Bridgend is increasing at a quicker rate than for Wales as a whole with a 10% increase from 2010 to 2015. In addition, recent research (Wavehill, 2016) highlighted that local customers and local supply chains are crucial for Bridgend companies – on average 96% of sales and 93% of suppliers are UK based.

- 3.2 However, both the number and recent growth in start-up businesses has created a situation where there are no available business premises available for rent in the County Borough for micro and small companies.
- 3.3 BCBC Property Department manages a range of business premises and keeps a comprehensive database of enquiries and expressions of interest for the units. Current demand is outstripping supply, possibly leading to a leakage of business from the local area due to the inability to secure suitable premises.
- 3.4 Similarly, Business in Focus report that at present the space they manage in the County Borough is fully let and they continue to receive a number of enquiries for space which they are unable to satisfy. Business in Focus also reports an awareness of a number of other Commercial Property owners who are having similar success.
- 3.5 Through a commitment to utilising the Public Estate, accessing external funds such as European Union (EU) funding in the pursuance of Economic Development outcomes, BCBC has an opportunity to respond to this situation in a way that supports the local economy.
- 3.6 On 31st January 2017, Cabinet approved a report entitled European Regional Development Fund (ERDF) Regional Scheme for Enterprise Hub Development. The report highlighted that in 2016 an Operation Logic Table (OLT) was prepared and submitted to WEFO by Blaenau Gwent County Borough Council in relation to the development of a regional Enterprise Hub Development Project as an 'expression of interest'. This set out the initial principles and objectives for the Project, but it did not commit the Authorities to Project delivery at that stage. Following initial consideration, WEFO then invited a full business plan for the Project.
- 3.7 In approving the report, Cabinet supported the proposal that Blaenau Gwent County Borough Council be supported as the regional lead and authorised the Corporate Director Communities to develop and submit a business plan and, subject to being satisfied that any grant conditions attached to the offer of funding are acceptable, enter into a funding agreement.
- 3.8 Since this time, WEFO have advised that each of the partners who were part of the regional project take forward their projects separately. Therefore, an OLT was prepared in May 2017 and following an invitation to move to Business Planning Stage a business plan was submitted in December 2017. The detail contained within that business plan matches that which was outlined in the Cabinet report of 31st January 2017 in relation to project aims, objectives and finances focusing on the Bridgend Science Park and Innovation Centre and other aspects of the portfolio where relevant. The main change related to the governance arrangements which have resulted in BCBC being a lead sponsor for a Bridgend specific project rather than a joint sponsor as part of a wider regional project with Blaenau Gwent County Borough Council as the lead sponsor.
- 3.9 In parallel to this, Welsh Government have secured ERDF agreement to take forward developments of site infrastructure and enablement works at three of their key strategic sites – Ty Du (Caerphilly); Cross Hands (Carmarthen), and; Brocastle (Bridgend). Following approval of outline planning permission for the Brocastle site

(P16/549OUT; P17/1044NMA), Welsh Government have approached BCBC in relation to a joint approach to the development of business premises.

4. Current Situation / Proposal

- 4.1 There are no 'start up' units currently available from Bridgend County Borough Council or Business in Focus and both have waiting lists. The Sony Incubation units at Pencoed are all occupied and there is also a waiting list there.
- 4.2 It is considered that the current market climate makes speculative private sector development in response to this unlikely. In relation to office development catering for small scale occupancy in particular, it is suggested that the achievable sales or rents coupled with current build costs present a viability issue for private sector developers to respond to current demand. This is a view supported by recent market analysis undertaken by Knight Frank (2016) for the Welsh Government in considering future options of Welsh Government owned land in Bridgend County Borough and also by Alder King (2017).
- 4.3 The Enterprise Hub Development Programme proposes to support the refurbishment and creation of business premises at Bridgend Science Park, Village Farm Industrial Estate and Brocastle and as a programme aims to deliver the following:
 - Support to new business start-ups
 - Support for the development of resilience in the early years of trading
 - Access to new markets and supply chains locally, regionally and nationally
 - Provision of business premises for start-up businesses
- 4.4 In response to advice from WEFO, an OLT was prepared by BCBC in May 2017 with business plan being submitted in December 2017 for the delivery of the Enterprise Hubs Development Project (Bridgend Science Park and Village Farm Industrial Estate). WEFO have anticipated a potential approval date of April or May 2018.
- 4.5 Following approval of funding from WEFO, WG are in the process of delivering site infrastructure and enablement works at Brocastle. WG have now approached BCBC to discuss the development of new business premises at Brocastle in a manner similar to that which they are working in partnership with Caerphilly County Borough Council for the development of the Ty Du site and Carmarthenshire County Borough Council for the development of the Cross Hands site.
- 4.6 In total, the Enterprise Hubs Development Programme will result in the refurbishment of the Innovation Centre, the development of three new light industrial blocks at Village Farm Industrial Estate and the creation of 1,800m² of business premises at Brocastle as detailed below.

	Jobs accommodated*	SMEs accommodated	Premises created or refurbished (m2)	
Bridgend Science Park, Innovation Centre	Anticipated use class order B1 – 73 jobs from 1170m2 Gross Internal Floor Area (GIIFA) using an area per FTE (m2) of 12.	15	1170m2 Gross Internal Floor Area	
Village Farm Industrial Estate	Anticipated use class order B2 – 42 jobs from 1510m2 Gross Internal Floor Area (GIFA) using an area per FTE (m2) of 36.	20	1510m2 Gross Internal Floor Area, made up of 3 separate developments on 2 sites: (a) 465m2 (b) 465m2 (c) 580m2	
Brocastle	40	23	1,800m2 Gross Internal Floor Area	
Total	145	58	2680m2	

*The jobs accommodated have been calculated using the employment densities guide (2010) relating to relevant use class orders as advised in WEFO guidance.

**The SMEs accommodated have been calculated based on the number of separate units that will be created

4.7 The total funding package for the Enterprise Hubs Development Programme is outlined below:

Site	ERDF grant (65%)	Match Funding (35%)	Total Cost
Bridgend Science Park, Innovation Centre	£1,389,544	£748,216	£2,137,760
Village Farm Industrial Estate	£958,222	£515,966	£1,474,188
Brocastle	£1,243,450	£669,550	£1,913,000
Total	£3,591,216	£1,933,732	£5,524,948

4.8 The costs as currently projected have been based on work undertaken by Jones Lang LaSalle (Innovation Centre); Alder King (Village Farm), and; Knight Frank (Brocastle). In addition, details relating to Brocastle as currently considered have been provided by Welsh Government.

- 4.9 Grant funding in respect of the Enterprise Hubs Development Project (Bridgend Science Park and Village Farm Industrial Estate) will be subject to the conditions set out in the Welsh Government support for sports, multifunctional and local Infrastructure Projects General Block Exemption Regulation Scheme (State aid reference no: SA.3957348467) (the Block Exemption). The Block Exemption allows the Welsh Government "to provide investment support for...local infrastructure that contributes at a local level to improving the business and consumer environment and modernising and developing the industrial base." This Block Exemption enables the construction or upgrade of local infrastructure that contribute at a local level to improving the business and consumer environment and modernising and developing the industrial base. Upon completion, the infrastructure will be made available to interested users on an open, transparent and non-discriminatory basis. The price charged for the use or sale of the infrastructure will correspond to market price. In addition, any concession or entrustment to a third-party to operate the infrastructure will be assigned on an open, transparent and non-discriminatory basis and in line with EU procurement rules.
- 4.10 This Block Exemption contains within it a clause relating to clawback of the grant. Advice from WEFO is that it is considered that the period over which any clawback would apply would be the depreciation timeframe of the assets, estimated to be 25 years and that is part of the basis on which this application is submitted.
- 4.11 With uncertainty relating to the United Kingdom's exit from the European Union (EU) and post-EU funding it is considered that the timing of this programme not only maximises EU funding while it exists but by providing match funding for its delivery it demonstrates BCBC's commitment to the corporate priority of supporting a successful economy.
- 4.12 The Programme will deliver against a number of key economic opportunities outlined within the Welsh Government's Economic Prioritisation Framework (EPF), which is used to guide the allocation of EU funds. This will link with the targeted investment plans of Welsh Government through priority property interventions and would in turn benefit the overall economy and job market across the Cardiff Capital City Region.
- 4.13 The Programme will take into account other strategic work taking place across the region and in doing so will also link with relevant regional and national strategies and the report by the Cardiff Capital Region City Deal Growth and Competitiveness Commission. Alignment with City Deal and Valleys Task Force and as they develop opportunities will be explored to further develop the Enterprise Hubs Development Programme with additional opportunities for investment being advocated.
- 4.14 A key rationale for this Programme is the refurbishment and development of Public Sector owned business sites and premises. In doing so, the justification for investment is similar to that which Welsh Government have argued in the creation of their Property Development Fund, albeit this operation will specifically target assets in Public Ownership where opportunities for private investment does not exist.

5. Effect upon Policy Framework & Procedure Rules

- 5.1. The delivery of the Enterprise Hubs Development Project (Brocastle) will require BCBC to enter into a legal agreement with WG which is considered satisfactory by BCBC legal department.

6. Equality Impact Assessment

- 6.1. Screening has highlighted that no issues arise as a result of this report.

7. Financial Implications

- 7.1. The total Programme value is outlined in section 4.7. The match funding is proposed from the following sources and will require Council approval for inclusion within the Capital Programme:

Project	Sites	Match funding requirements (total)	Match funding amounts (BCBC only)	Secured/ Unsecured	Match funding sources
Enterprise Hubs Development Project – Bridgend Science Park and Village Farm Industrial Estate	Bridgend Science Park, Innovation Centre and Village Farm Industrial Estate	£1,264,182	£175,000	Secured	earmarked reserve
			£90,000	Secured	SRF revenue
			£200,000	Secured	Capital works
			£75,000	Secured	Capital minor works
			£180,000	Secured	SRF Capital
			£544,182	Unsecured	Prudential borrowing
Sub-total		£1,264,182	£1,264,182		
Enterprise Hubs Development Project – Brocastle	Brocastle	£669,550*	£334,775	Unsecured	Prudential borrowing
Sub-total		£669,550	£334,775		
Total		£1,933,732	£1,598,957*		

*It is currently proposed that as joint partners BCBC and WG each contribute half the £669,550 match funding requirement, i.e. 17.5% of the full project cost - £334,775. Therefore the BCBC contribution and the overall financial package is dependent on WG supplying sufficient match funding and the project requires this to proceed.

- 7.2 The costings outlined in section 4.7 and the resulting match funding outlined in section 7.1 are the amounts that form the basis of the business plan submissions

and as such value for money considerations. If as the project develops it is considered that these values may change then with a fixed budget a value engineering exercise will be undertaken to remain within budget.

- 7.3 There will be a requirement for the Council to approve the Prudential Borrowing of £544,182 for the Bridgend Science Park and Village Farm Industrial Estate project and £334,775 for Brocastle. This results in an annual revenue charge for both the repayment of the principal and interest for the amount borrowed of approximately £50,000. A cash flow forecast has been undertaken that identifies the gross rental income is sufficient to repay the prudential borrowing costs, management costs and other running costs and still leave a net projected surplus. This model forecasts that for the Innovation Centre, forecast rents would have to fall by 30% to make the Innovation Centre unviable from a value add perspective over a 10 year retention period. In the case of Village Farm, they would have to fall by 54% to make the project unviable from a value add perspective and by 71% to mean that the council did not have sufficient net cash flow to cover the initial borrowing costs. This model is subject to final approval by WEFO prior to approval.
- 7.4 From the Net Income sub-total, an amount, following a set formula from WEFO, will be transferred to an Equalisation Reserve. This will be available then to repay any clawback of grant due to Operating Profit whilst applied during the depreciation period. This reserve will be built up over the twenty- five years. The reserve will not be increased if there is a deficit during a financial year. If during the twenty five years, the grant awarded is built up in the reserve, this could be paid back to WEFO at this time which would allow the Council to benefit from 100% of the annual net project income from thereon in.
- 7.5 A consideration of the anticipated values of each asset at project completion compared to the prudential borrowing values is presented below. This shows that if the asset was to be sold then the capital receipt would be sufficient to repay any outstanding prudential borrowing. These figures do not include repayment of ERDF grant which applies during the retention period, currently advised by WEFO to be 10 years after final payment of grant. Clawback potential relating to Operating Profit would remain. This will be confirmed with WEFO prior to entering any funding agreements.

Project	Site	Total completed values £	Prudential borrowing value £
Enterprise Hubs Development Project – Bridgend Science Park and Village Farm Industrial Estate	Bridgend Science Park, Innovation Centre (current market value of c £630,000)	£1,200,000	£544,182
	Village Farm Industrial Estate (current land value c £100,000-200,000)	£738,000	
Sub-total		£1,938,000	£544,182
Enterprise Hubs Development Project – Brocastle	Brocastle	£900,000	£334,775
Sub-total		£900,000	£334,775
Total		£2,838,000	£878,957

7.6 The funding package will directly result in the main outcome of a greatly enhanced employment space offer and in turn an improved business environment. Without the funding, it would be unlikely that the project would proceed or if it was to proceed, scale and quality would be compromised and the impact of any spend would be insignificant and would not have the desired effect on the economy.

8. Recommendation

8.1. Note that further to the Cabinet report of 31st January 2017, entitled European Regional Development Fund (ERDF) Regional Scheme for Enterprise Hub Development, and in response to advice from WEFO, an OLT was prepared by BCBC in May 2017 with business plan being submitted in December 2017 for the delivery of the Enterprise Hubs Development Project (Bridgend Science Park and Village Farm Industrial Estate). The OLT and business plan propose the delivery of a County specific project with BCBC as Project Sponsor, rather than the regional project with BCBC as a joint sponsor as outlined in the report of 31st January 2017.

8.2 Authorise the Corporate Director, Communities, to finalise details with WEFO in relation to the Enterprise Hub Development Project (Bridgend Science Park and Village Farm Industrial Estate) and, subject to the approval of the Section 151 Officer, enter into a funding agreement to deliver the project as outlined above. In doing so, seek approval from Council for a sum of £544,182 to be met from prudential borrowing in addition to the already secured match funding, and for the scheme to be included within the capital programme for delivery once all funding sources have been approved.

- 8.3 Authorise the Corporate Director, Communities, to finalise discussions with Welsh Government in relation to a proposed Joint Venture for the development of the Enterprise Hub Development Project (Brocastle) and, in consultation with the Corporate Director, Operational and Partnership Services, enter into a satisfactory legal agreement.
- 8.4 Authorise the Corporate Director, Communities, to submit and, subject to the approval of the Section 151 Officer, accept a funding offer from WEFO for the Enterprise Hub Development project (Brocastle) to deliver the project as outlined above and in doing so seek approval from Council for a sum of £344,775 to be met from prudential borrowing, and for the scheme to be included within the capital programme for delivery once all funding sources have been approved.

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Background documents:

- Cabinet report, European Regional Development Fund (ERDF) Regional scheme for Enterprise Hub Development, 31 January 2017.
- Wavehill Research, Bridgend Business Research, August 2016
- Knight Frank, Market Analysis, February 2016
- Alder King, Commercial Property Review, May 2016
- Alder King, Development Appraisal, August 2016
- Alder King, Innovation Centre, summary and conclusions report, October 2017
- Jones Lang LaSalle, Budget Costs – Innovation Centre, Bridgend, July 2016
- Jones Lang LaSalle, Strategy report – Innovation Centre, June 2017
- WEFO, Employment Densities Guide, 2010