

Sandwell Metropolitan Borough Council

Report to the Cabinet Member for Regeneration and Transport

16th November, 2005

Black Country Investment
Future Management of European Union Funded Programmes

1 Summary Statement

- 1.1 The Government Office for the West Midlands (GOWM) awarded a number of projects from the first round of European Regional Development Fund (ERDF) proposals within the 2000 - 2006 Objective 2 programme.
- 1.2 Of the applications approved by GOWM, three are being delivered by Black Country Investment (BCI.). The ERDF & European Social Fund (ESF) Cluster and Diversification Programmes and the ERDF Relocation and Investment Fund have been running since May, 2002 providing capital and revenue funding support to a range of businesses to attract inward investment into the Black Country sub-region.
- 1.3 Under the ERDF Cluster Fund the following activities have been supported:-
 - (a) £2,308,749 for the delivery of a Black Country-wide promotion and marketing programme until December 2006;
- 1.4 Under the ERDF Relocation and Investment Fund the following activities have been supported:-
 - (a) £160,722 to thirty nine small business grants supporting enterprise companies relocating in the Black Country. The project runs until December 2005.
- 1.5 Under the ESF Cluster Fund the following activities have been supported:-
 - (a) £476,280 in 26 small business grants to companies recruiting and training new staff. This project will close in December 2005.

- 1.6 The planned transfer of BCI activity into Black Country Consortium (BCC) requires an early resolution of BCC's accountable body status if it is to continue delivery of the ERDF programme after April 2006 as part of those transfer arrangements.
- 1.7 Whilst the Council has accepted accountable body status for these grant programmes, it is proposed that, on an interim basis pending the transfer of these programmes to the Black Country Consortium, the Head of Regeneration be authorised to approve expenditure, award grants to and/ or procure services from external bodies, up to a maximum sum of £35,000, without having to refer a further request for Cabinet Member Approval. The timely management of the budget is necessary to ensure slippage does not occur and that the grant award is maximised for the Borough.

Further details are attached for your information.

2 Recommendations

- 2.1 That, the Council maintains its responsibilities as Accountable Body in respect of the projects being delivered by Black Country Investment for European Regional Development (ERDF) and the European Social Fund (ESF) across the Black Country area, until 31st March 2006.
- 2.2 That the Council transfers the management and delivery arrangements for the ERDF Cluster Fund into Black Country Consortium with effect from 1st April 2006 as part of the transfer arrangements for Black Country Investment.
- 2.3 That the Council instructs the Head of Legal Services to draw up a Service Level Agreement with Black Country Consortium, to deliver the ERDF Cluster Fund until such time as the Consortium can accept the ERDF Programme as the accountable body.
- 2.4 That, on an interim basis pending the transfer of these programmes to the Black Country Consortium, the Head of Regeneration be authorised to approve expenditure, award grants to and/ or procure services from external bodies, up to a maximum sum of £35,000, without having to refer a further request for Cabinet Member Approval.

2.5 That the Black Country Consortium be urged to resolve its accountability status with the Government Office for the West Midlands to enable formal transfer of the programme to be finalised.

In accordance with the authority delegated to the Cabinet Member for Regeneration and Transport, the following course of action has been agreed, which will be set out in the formal record of the decisions taken by the Cabinet Member:

- (1) the recommendation(s) above is/are approved;
- (2) the recommendation(s) above is/are approved as now amended;
- (3) the recommendations above are not approved.

Cabinet Member for Regeneration and Transport

Date: 16th November, 2005

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3. Strategic Resource Implications

3.1 The authority's exposure to risk for all three projects is summarised in the table below.

<u>Description</u>	Risk £
Grant repayment (ERDF Cluster Fund)	1,181,906
Grant repayment (ERDF Relocation and Investment Fund)	nil
Grant repayment (ESF Cluster Fund)	nil
Excess profit clause	nil
Project overspend	Nil
Total	1,181,906

Grant repayment

3.2 The projects are being partially funded using ERDF & ESF grant.

A condition of all grant funding is that the project must deliver their contracted outputs during the lifetime of the project and must be subject to any independent scrutiny required by Government Office. If any of the funded schemes fail within this timescale, there is a risk that the grants may need to be repaid.

Since the grant awards are subject to the recipient proving delivery of the contracted outputs prior to receipt of funds, the Council's exposure to this risk is effectively nil subject to the grant funds being spent in accordance with the approved profile.

Excess Profit clause

3.3 All new ERDF contracts include a clause about excess profits. If an initiative folds within twenty years of the work being completed, the Government Office can reclaim part of any profits for itself. If the organisation no longer exists then this liability will clearly fall on the Authority.

If the facility is sold, the Authority can use the sale proceeds to make the repayment. However, if a decision is taken to change its use, the Council risks having to make the repayment itself.

The programmes subject of this report do not make provision for capital funding where commercial profit is an allowable cost. Excess profit is not applicable in this case and therefore the Council's risk of loss or non recovery, is nil.

Project overspend

- 3.4 Although there will always be issues about the cost of proposals being higher than originally estimated, there will be no risk to the Authority. This is because BCI will only issue offer letters to those applicants who can demonstrate that they have the resources to meet any financial shortfall.

Minimisation of Risk

- 3.5 The figures in para 3.2 represent the worst- case scenario and is based on the each of the initiatives failing during the early stages.

The Council will look to minimise this risk through the introduction of the following measures:-

- (a) B.C.I. will introduce a system of appraisal for all funding applications. This process should ensure that it is only those schemes that have the potential to deliver all of its outputs, will receive funding
- (b) Enter into legal agreements with each of the applicants to ensure that, wherever possible, risk is transferred to them.

Local Authority costs

- 3.6 If the report is approved, work will need to be carried out by Officers working for Director of Finance and Business Systems, the Head of Legal Services and the Head of Corporate Property, to ensure that risks to the Council are minimised.

The costs of this work have already been accounted for within the E.R.D.F. and ESF programmes and has already been reimbursed by B.C.I.

Technical Assistance

- 3.7 Technical assistance costs for these projects amounts to £17,200.

4. **Legal and Statutory Implications**

- 4.1 The Authority already has a policy that enables it to act as an Accountable Body for organizations applying for funding from central government (e.g S.R.B.)
- 4.2 The proposal from the GOWM that the Council becomes the Accountable Body, and contract with them for the delivery of a particular scheme is consistent with this policy.
- 4.3 The proposal to provide grant funding to private, commercial organisations is consistent with State Aid legislation as applied to this European Programme.

5. **Implications for the Council's Corporate Priorities**

- 5.1 Better employment and training prospects will contribute to the development of a more sustainable community by helping to reduce social exclusion and improving the quality of life.
- 5.2 This project will have a positive impact on young people as it provides the basis for supporting the formation and development of new companies and enterprise; a sector where young people are highly represented.

6. **Background Details**

- 6.1 The Government Office for the West Midlands (GOWM) has awarded a number of projects from the first round of European Regional Development Fund (ERDF) proposals within the 2000-2006 Objective 2 programme.
- 6.2 A total of three applications were been approved that are being delivered by Black Country Investment (BCI.) These projects have been running since May 2002 providing capital and revenue funding support to a range of businesses to attract inward investment into the Black Country sub-region.
- 6.3 The projects, being funded under ERDF and ESF programmes are designed to ensure that the Black Country does not lose investment opportunities and consequent job creation, by removing barriers placed upon business growth as a result of the shortage of highly trained personnel; access to finance to develop new products for manufacture and; promote the Black Country as a location to relocate for new and expanding businesses.

These programmes have been capable of making a significant contribution in providing new company-led investment in parts of the sub-region considered unattractive to external investors.

- 6.4 The combined Key Economic Outputs for the projects are shown in the table below.

Table 2- Key Economic Indictors

Key Economic Indicators	BCI
New jobs	810
Safeguarded Jobs	938
Business Assisted	39

A full description of each of the projects outputs can be found in the attached appendices.

- 6.5 The key advantages, to the Authority, of it becoming the Accountable Body for this project is that ERDF & ESF resources of £2.2m has been secured for the Borough. When matched with other public and private sector match funding, a total of £7.2m, of additional resources has been available since May 2002 to support delivery of activities specifically designed to improve employment and investment opportunities across the Black Country.
- 6.6 As the Accountable Body, The Council carries with it the responsibility for ensuring compliance with the agreed project details and contractual conditions thereby carrying risk.
- 6.7 The programmes are being administered and managed by Black Country Investment which is currently part of the Urban Regeneration Division of the Council. All programmes are being delivered according to contract profiles and present no current risk to the authority. Proposals have been agreed with the Council to transfer the staff at BCI into Black Country Consortium. It is planned that this will be completed by 1st April 2006.
- 6.8 Only one of the three European funded programmes will continue (ERDF Cluster Fund) as the remaining two will time expire in December of this year. It is proposed that this programme be transferred into the delivery arrangements for Black Country Consortium with effect from 1st April 2006. A number of project commitments form part of the ongoing delivery of this programme requiring significant future funding.

- 6.9 As part of the interim management arrangements for this programme, it is proposed that the Head of Regeneration be authorised to sign off future expenditure claims and to enter into new arrangements as supplier contracts are renewed, up to a maximum of £35,000..
- 6.10 Black Country Consortium will be required to resolve accountable body issues with Government office as a matter of urgency to ensure the transfer of the Programme is not delayed. It is proposed that a service level agreement is put in place to formalise any interim arrangement for the programme's future management until such time as the Consortium can accept the fund as accountable body.

Source Documents