Appraisal of the Business Resilience and Growth Proposal

A Report for Pendle Borough Council and the Towns Fund Board

May 2022

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Project Overview and Appraisal Approach

Key Points

- £2 million is sought from the Towns Fund to support the local manufacturing sector by providing grant funding across three strands of activity: investment in new plant or machinery; the lowering of CO2 emissions or energy consumption; and investment in premises to support growth.
- Grant will be awarded at an intervention rate of 50% in the first two years, falling to 20% by year 4.
- This appraisal considers whether the business case submitted to Pendle Town Fund has been developed in line with Green Book principles and whether the project is suitable to fund at this stage.

Following this assessment, we consider that the project is suitable to fund, however we have recommended some conditions of funding. These are set out below.

Scheme Overview

The Business Resilience and Growth project is seeking £2 million to support the local manufacturing sector as it responds to a range of external factors – including disruption associated with Covid 19, the impact of the UK exiting from the EU, and industrial digitalisation. The project will provide capital investment to support:

- Investment in new plant or machinery
- The lowering of CO2 emissions or energy consumption
- Premises improvements to support growth.

These improvements will be delivered through the provision of grants to 38 local manufacturing businesses (or businesses classified under a non-manufacturing SIC code which deliver manufacturing related activities). Business grants will initially be awarded at an intervention rate of 50% in the first three years, dropping to 30% in year 4 and 20% in year 5. Grants will be available up to £100,000 and the average grant amount is expected to be £50,000.

Match funding of £3.85 million will be provided by businesses in receipt of the grant funding based on the intervention rates set out above. A further £13,642 of in-kind contributions will be provided by Growth Lancashire which will provide circa 3 hours of business relationship support, advice, or follow-on guidance to each business that receives grant funding.

Overall, the investment is expected to deliver the following outputs:

- 38 business receiving support, comprising:
    - 17 businesses receiving grant for investment in new plant or machinery
    - 13 businesses receiving grant towards lowering CO2 or energy consumption
    - 8 businesses receiving grant towards premises improvements or expansion to facilitate growth
- 165 jobs created
- 335 jobs safeguarded
- 13 new non-domestic buildings with green retrofits completed
- 87 tonnes of carbon dioxide equivalent reduction
- 800 sqm new / adapted commercial floorspace

- 38 closer collaborations with employees.

Outputs are nested under each of the strands of activity – for example, the targets for carbon savings relate only to those businesses receiving support to lower CO2 emissions or energy consumption.

The outputs are expected to deliver combined economic benefits of £5.5 million (present value) relating to the uplift in employment, wider land value uplift, and carbon savings. This would result in a BCR of 2.4 which represents good value for money. Under the economic case, we provide some commentary on the approach adopted but are satisfied that good value for money could be achieved.

The outputs have been developed in response to a business survey carried out as part of soft market testing for the project. However, they are dependent on interest among Nelson's manufacturing base and the ability for businesses to provide sufficient match funding.

Appraisal Approach

This appraisal has been completed by ekosgen, an independent economic research consultancy specialising in the production and appraisal of business cases. Following receipt of the Business Case and supporting documentation, ekosgen completed an initial assessment against the requirements of the Towns Fund and HM Treasury Green Book before issuing clarifications to Pendle Borough Council and Hatch (the consultancy supporting the development of the business case). A meeting was held between Pendle Borough Council, Hatch and ekosgen to discuss the points of clarification in greater detail prior to Hatch providing written responses and an update Business Case to the appraisal team.

Further clarification questions were provided by the Project Appraisal Sub-Group and these are reflected in this appraisal report were relevant.

This assessment takes account of the information provided throughout this process and is based on:

- The business case and supporting appendices provided on 15th March 2022
- A written response to ekosgen's clarification questions and an updated business case provided on 7th April 2022.

Following this assessment, the recommendations of the appraisal are to recommend the scheme for funding to the Towns Fund Board subject to the following conditions:

- Pendle Borough Council should confirm that management of the project is affordable given that the cost estimates do not account for inflation or wage growth.
- A process is agreed for early stage monitoring of take up and for agreeing amendments to the scheme eligibility criteria should it be necessary to expand its coverage.
- Appropriate mitigations should be considered in the early stages of project deliver for a situation where support from Boost Lancashire is not provided after the first 18 months.
- The Town Board should also ensure that processes are in place to confirm that appropriate experience and expertise is included on the Grants Panel.

Strategic Case

Key Points

- There is a clear strategic case for investment and the proposals align with the priorities of the Towns Fund.
- The basis on which the investment strands have been prioritised are clear and the investments respond to the needs of local manufacturing businesses.
- There is a sound basis to support public investment in schemes of this nature and the proposals complement wider business support activity in Pendle and Lancashire.
- However, reflecting our comments in the economic case – the links between the proposed investments and some of the wider benefits cited could be more clearly evidenced.

Strategic Fit

Policy Fit

The Business Resilience and Growth project was prioritised for funding in the Nelson Town Investment Plan and clearly aligns with the priorities of the Towns Fund – predominantly through its support for local businesses and higher value employment and its alignment with the principles of supporting clean growth.

The business case set out the following specific TIP investments to which the activity aligns:

- SO3: To increase confidence and aspiration to succeed through improved access to skills and quality jobs.
- SO7: To drive resilience and growth through a diverse business base which celebrates innovation, entrepreneurship and ambition to grow.
- SO9: To enhance digital and physical connections to support inclusion and economic growth.
- SO10: To put the principle of clean growth at the heart of everything we do.

The project is also expected to contribute to the TIP cross-cutting principles relating to Collaboration and Engagement; Clean Growth; and Economic Recovery.

The Business Case clearly sets out how the project will respond to broader local and national priorities, including:

- Lancashire’s Covid-19 Recovery Plan
- Lancashire’s Local Industrial Strategy
- Pendle’s Local Plan
- The national Levelling Up White Paper
- The UK government’s Build Back Better plan for Growth
- The UK’s Ten Point Plan for a Green Industrial Revolution.

Response to Market Conditions

The investment proposals are supported by a Theory of Change which sets out how the proposals relate to needs and challenges in the town and how this activity will achieve the proposed outputs. We note that some of the elements of the Theory of Change are not sufficiently well demonstrated (for example, it is not clear how the proposals will directly support business starts or support an enhanced townscape), however the rationale for the core strategic and economic impacts of the proposals is clear.

The key challenges to be addressed by the intervention are clear and include:

- Nelson's **dependence on the manufacturing sector**, including some major employers, and the need to drive resilience and diversification into the manufacturing supply chains to strengthen its potential for future growth.
- The need to develop new **project and process innovation** as the areas reduces its dependency on the aerospace sub-sector and the need to link this to **productivity improvements in the wider business base**.
- The need to **support and nurture local entrepreneurial capacity**, given the recent level of business registrations which has bucked the national trend.
- Addressing issues relating to **poor quality premises**
- Addressing challenges associated with **business accessing finance to invest**
- Supporting local **skills shortages**, particularly in the manufacturing sector

The Business Case sets out how the proposals have learnt from good practice in supporting business growth through capital investment – including the Regional Growth Fund and the Growth and Innovation scheme funded through the Community Renewal Fund. The Business Case includes case studies illustrating the types of investment that could be supported and the associated outputs and the Business Case is supported by a soft market testing survey (with 12 responses, or 10% of the local manufacturing business base) informing the priority investment themes.

Evidence of Market Failure

The business case sets out market failures associated with coordination failure (and associated positive externalities) and information failure as a basis for investment. Both are reasonable and appropriate to the challenges identified and investment proposals. Furthermore, there are well recognised challenges that constrain investment by business of all sizes, particularly SMEs and we are therefore confident that there is a sound basis for public sector investment.

Project Objectives

The project objectives are identified as:

- IO1: to provide the business infrastructure needed to enable businesses in Nelson to grow and scale up to widen their market
- IO2: To enable Nelson businesses to access new markets through product and process innovation
- IO3: To facilitate supply chain resilience and diversification
- IO4: To stimulate private investment in business growth and infrastructure
- IO5: To support clean growth through investing in energy efficient business improvements

There is a clear alignment between these objectives and the proposed project activity, as evidenced through the Theory of Change.

Economic Case

Key Points

- The approach set out is broadly consistent with the requirements of the Green Book and Towns Fund.
- We have provided a number of minor comments relating to project costs and how some benefits have been considered.
- More substantive points include the used of wider land value uplift (which would typically be provided to place based investments or investments driving footfall and spend), and the potential need to reprofile outputs to allow for projects to be implemented.
- It should be noted that the core assessment of value for money would be improved by diverting funding away from Strand 2 (which is targeting CO2 savings) however this would overlook the wider economic and strategic benefits associated with this activity and is not recommended.
- We note that regarding employment, a conservative approach has been adopted for considering additionality and on this basis, we are confident that the scheme will deliver good value for money.

Options Identified and Assessed

The business case sets out three alternative investment options.

1. Do Nothing: Continuation of existing situation. Under this option business support will be limited to existing available funding targeting business start-up and growth.
2. All Encompassing Option. This option will comprise an open invite for applications across Nelson, with the prioritisation of sectors to support scale up activity.
3. Targeting Option. A targeted programme of capital grant investment in key sectors (defined as manufacturing and engineering).

These options are considered against the five Investment Objectives outlined in the Strategic Case and five Critical Success Factors (CSFs)[1]. Each option is RAG rated against each of these criteria, which are consistent with the CSFs cited in the Green Book.

Option 3 is the only option that is scored Green against each of the Investment Objectives and CSFs and is prioritised on this basis. In the assessment it is noted that a targeted approach is necessary to drive the greatest productivity gain and target investment to build resilience in an exposed part of the economy.

Option 1 (Do Nothing) is scored as Red or Amber against all criteria is it represents no additional investment in capital grant funding. However, it is taken forward as the Reference Case in line with Green Book guidance.

Option 2 (All Encompassing) scores less well than Option 3, reflecting that investment would be less targeted and focused than Option 3. The assessment notes that, under this approach, resources would be spread too thinly and would not be sufficiently targeted at those sectors of most importance to Nelson's economy or sectors at risk from exposure to disruptors such as the pandemic, Brexit and automation. On this basis, it is argued that additional funding would be required to provide the necessary

[1] Defined as: Strategic Fit; Alignment with Existing Local Provision; Address Market Failure and Need; Affordability; and Deliverability.

scale across different sectors. On this basis, the option is rated Red against The CSF associated with 'addressing market failure and need' and 'affordability' and is not taken forward on this basis.

Typically, the detailed economic appraisal should include two or more alternative options (in addition to the Reference Case), however the basis on which the preferred option has been identified is clear and the approach is considered to be proportionate to the level of investment sought. While there may be additional options that could be considered in the longlist (such as targeting the fund at one of the three investment strands or considering alternative forms of business support), based on the evidence provided we do not expect this to have a significant impact on the selected preferred option.

Project Costs

The headline outturn costs used in the economic assessment are consistent with those set out in the financial case. However, while costs follow the same profile, in the economic case costs are assumed to commence in 2021/22 whereas costs commence in 2022/23 in the Financial Case. It will therefore be necessary to push costs in the economic case back by a year – effectively reducing the economic cost by 3.5% to reflect the social time preference as outlined below.

In the Business Case Document, Table 3.8 appears to exclude the £100,000 Towns Fund contribution towards revenue costs of the scheme, however we can confirm that these costs are captured in the economic assessment (having also reviewed the supporting excel summary) and the economic costs presented in Table 3.9 do include the £100,000 revenue funding.

Further adjustments are in line with the Green Book:

- Outturn costs are adjusted to 2021/22 prices by applying the GDP deflator (a discount of circa 2% a year)
- Optimism bias is applied at 24%. No rationale has been provided for the level applied, but this is consistent with the upper bound for standard build costs from the Green Book supplementary guidance and is therefore considered to be an appropriate adjustment. OB is applied to all costs, which is a conservative approach to adopt as OB is often only applied to the public sector costs of an investment.
- Costs in future years are discounted at 3.5% to reflect the social time preference rate.
- Economic costs were further updated following receipt of a revised financial profile reflecting comments from an initial draft of this appraisal report.

The business case states that costs have been adjusted to remove VAT, however this adjustment does not appear to have been made in the supporting economic analysis. If non-recoverable VAT will be incurred by businesses, then it would be appropriate to remove this from the economic costs (providing a maximum discount of 17% on the costs currently presented[2]) which would have a positive impact on the BCR.

The total (public and private) economic costs set out in the business case are £6,565,390. Adjusting for spend commencing in 2022/23 and reflecting the revised financial profile, we estimate economic costs to be marginally lower – at £6,182,578 with the split by funding source set out below.

[2] VAT charged at 20% would represent 17% of the total cost incurred (i.e. costs excluding VAT plus VAT @ 20%).

Overview of Economic Costs

	Value in Business Case	Appraiser Estimate
Towns Fund	£2,291,290	£2,151,816
Public Sector Costs	£15,629	£14,360
Private Sector Costs	£4,258,471	£4,016,402
Total	**£6,565,390**	**£6,182,578**

Our other comments above relating to VAT and Optimism Bias would potentially have a greater downward impact on the economic costs, if applied, and on this basis could potentially improve on the scheme BCR.

Project Benefits

Identified Benefits

The core economic benefits monetised for this economic assessment include:

- 165 jobs in manufacturing businesses in Nelson
- Wider land value uplift of 1% a year, persisting for five years
- Carbon reduction of 87 tonnes per annum

Considering each in turn:

Manufacturing Jobs

The estimate of 165 jobs is based on *'the project's budget and evaluation evidence from similar interventions'*. The business case includes a series of case study summaries setting out the types of benefits that have been delivered from similar schemes, and further clarification from the applicant sets out that these estimates are based on *'relevant experience such as the CRF project(,,,), was agreed by the project group as an appropriate target, and profiled according to spend. This was tested with industry experts including Growth Lancashire and Boost to check it was realistic'.*

With £1.2 million allocated to Strands 1 and 2 (investment in new machinery and premises), the public sector cost per job created is in the order of £7,300.

In terms of the assumptions applied to this benefit:

- Employment outputs are profiled from 2022/23 – the year in which spend commences and through the clarification process the applicant has revised the profile of outputs to reflect that it will not be possible to deliver a full years' worth of benefits in the first financial year of investment.
- Indirect employment is estimated by applying a multiplier of 0.9, which is consistent with the central estimate of 'tradable sectors' from the Green Book.
- Each job is valued at £91,000 per year which is the average GVA for manufacturing roles in Pendle. While this figure is high, it reflects the capital-intensive nature of manufacturing and is considered to be a reasonable approach.
- Persistence is stated as 'five years' however there is some confusion over how this has been applied as (i) persistence in the economic model and in the clarification response appears to be 3 years, and (ii) persistence has not been applied correctly in the model. In the economic assessment, all 165 jobs are assumed to persist for three years beyond 2025/26. In effect, using this approach, jobs created in 2022/23 are assumed to persist for 6 years overall. We therefore consider the impact of correctly applying persistence rates of 3 and 5 years below.
- Additionality has been applied on a highly conservative basis, which provides some confidence in relation to the value for money assessment given the comments above. The

applicant has assumed leakage of 55%, displacement of 50% and deadweight of 75% which equates to a combined additionality rate of 6%.

As set out below, the appraiser adjustments reduce the economic value of jobs created in the order of £1 million to £4 million depending on the persistence assumptions which are applied.

However, this is offset by our assessment of additionality. An additionality rate of only 11% (equivalent to deadweight of 50% alongside the other assumption set out above) is sufficient to bring the benefits assessed up to over £8 million, in line with the original assessment, even if only 3 year of persistence is assumed.

	Direct and Indirect Employment Benefits
Presented in Business Case	£8,100,511
Appraiser Estimates:	
Assuming 6% additionality and 3-year persistence	£4,437,181
Assuming 6% additionality and 5-year persistence	£7,150,856
Assuming 11% additionality and 3-year persistence	£8,874,361
Assuming 11% additionality and 5-year persistence	£14,301,712

Wider Land Value Uplift

The business case states that wider land value uplift will be achieved by driving demand for commercial and residential space through investment and job creation facilitated by this project. For this project it is estimated to be worth £1,490,000 when applied to 6,010 residential premises and 241,000 sqm of commercial space and applying 50% displacement.

Wider Land Value Uplift is typically applied to public realm and related investments that directly improve perceptions of a place and/or drive footfall and local spend. While a more resilient local economy will indirectly feed through to local commercial and residential values, the links are less direct for a scheme of this nature and in the appraiser's view the benefits attributed to wider LVU should be treated with caution.

Below we consider the impact of removing wider LVU from the analysis.

Carbon Savings

Carbon savings are estimated to be £132,000 across the 13 businesses receiving support under Strand 2. This is based on the firms achieving a 10% reduction in carbon – or 87 tonnes per annum.

The basis of a 10% reduction in Carbon Savings is not presented in the business case however the applicants confirm in the clarification responses that this is based on *'the insight of a carbon expert at East Lancashire District Chamber and experience of delivering similar projects, namely the 'Carbon Reduction Programme', taking into account the scale and duration of the scheme'.* While this appears to be a reasonable approach it has not been possible for the appraisers to verify the assumptions based on the information provided.

We also note a similar issue concerning how the persistence of benefits has been estimated and again suggest that outputs are reprofiled to commence in 2023/24. This reduces the value of these benefits to £97,000. However, given the small economic contribution of this element, these assumptions are not expected to significantly impact on the VfM recommendation.

It should be noted that, as £700,000 is allocated to Strand 2, the assessment suggests that this element will deliver poor value for money. However, we recognise that there are range of wider economic and social benefits associated with carbon reduction which are not captured in the narrow assessment of the costs of carbon. Given that the overall investment programme is likely to deliver value for money, we do not recommend reprofiling of activity away from this strand on the basis of a narrow measure of VfM.

Forecast Return on Investment

As indicated above, the business case estimates that the combined economic benefits are £9.7 million, which provides a business case of 2.4 and would represent good value for money.

Considering comments above, the appraiser's revised estimates of the total economic benefits are £8.7 million which provides a BCR of 2.1 and is just above the threshold for good value for money. This assumes a five-year persistence of employment, which is considered to be a reasonable assumption for such investments, and additionality assumptions in line with the Business Case. We have also adjusted the economic cost to reflect a profile commencing in 2022/23.

If wider land value uplift is removed from the estimate, total benefits fall to £7.2 million which provides a BCR of 1.5 and is considered an acceptable BCR.

With the BCR demonstrating a good or acceptable BCR in line with Green Book Guidance with the appraiser adjustments, it would be appropriate to fund the project on this basis. However, it should also be noted that the assessment is highly sensitive to the additionality assumption for GVA related to jobs created and, as noted above a conservative additionality assumption of 6% has been applied in the business case.

In the table below we provide switching values to achieve a BCR of 2:1 in the scenario which excludes wider land value. This demonstrates that additionality need only increase from 5.6% to 6.6% to achieve good value for money.

On this basis, we are satisfied that good value for money could be achieved, however to ensure this is the case, when allocating funding there should be a focus on selecting firms and investments where the proposed activity is unlikely to proceed without grant.

Appraisal Summary

	Business Case	**Appraiser Estimate (5-year persistence & 6% additionality)**	**Appraiser Estimate (5-year persistence & 6% additionality, excluding wider land value uplift)**
Total economic benefits (A)	£9,724,799	£8,690,000	£7,247,820
Towns Fund cost/funding (B)	£2,291,290	£2,151,816	£2,151,816
Total public sector funding (C)	£15,629	£14,360	£14,360
Private sector funding (D)	£4,258,471	£4,016,402	£4,016,402
Benefit-Cost Ratio (A-C) / (B+C)	**2.4**	2.2	1.5
Additionality Switching Value for a BCR of 2	*n/a*	n/a	6.5%

Risk and Sensitivity Analysis

As outlined above, the economic analysis considers Optimism Bias of 24% which is applied to both public and private sector costs and is considered to be a conservative approach (as often OB is only applied to public sector funding).

In addition, the applicant has considered a range of sensitivity testing, including:

- A reduction to the employment multiplier to 0.4
- A reduction in the employment multiplier to 0.2

In both cases the business case states that the economic benefits continue to exceed the economic costs. When taking into account the appraiser adjustments set out above both tests result in a BCR below 1 if wider land value uplift is excluded from the analysis and a multiplier of 0.2 results in a BCR of 0.9 even when it is included. However, as noted in our assessment of the central BCR, modest increases to additionality are sufficient to counter this. For example, a BCR of 1 can be achieve if:

- Additionality were to rise to 6.5% if an employment multiplier of 0.4 is applied.
- Additionality were to rise to 7.6% if an employment multiplier of 0.2 is applied.

In light of these findings, we are confident that a minimum of acceptable value for money will be achieved were indirect employment not achieved on the basis set out in the central case. However, this assessment does highlight the sensitivity of the value for money findings to the employment assumptions and the Town Board should have confidence that the estimated employment outputs are achievable.

Financial Case

Key Points

- As the proposed investment is a grants programme, private match funding is not committed at this stage, however appropriate processes are in place to ensure that this funding has been incurred before Town Fund investment is defrayed.
- In-kind match funding from Boost Lancashire is currently only committed for the first 18 months of the programme and appropriate mitigations should be considered in the early stages of project deliver for a situation where support is not provided beyond this point.
- In terms of the cost assumptions:
    - Pendle Borough Council should confirm that management of the project is affordable given that the cost estimates do not account for inflation or wage growth.

Project Cost Breakdown

The project is seeking £2 million from the Towns Fund - £1.9 million of which will be allocated to the three investment strands for capital grants to manufacturing and engineering businesses and £100,000 (or 5%) will for revenue funding to cover the management, governance and marketing of the grants programme.

Following an initial draft of the appraisal report, expenditure on grants has been reprofiled with £250,000 allocated to 2022/23, £750,000 to 2023/24 and £450,000 to 2024/25 and 2025/26. The staff and marketing costs are uniformly distributed with £25,000 allocated to each of the four years.

In-kind match funding of £13,642 Boost Business Lancashire and represents circa three hours of business relationship support which will be provided to each grant recipient.

Private sector match funding of £3.85 million will be secured through business contributions to the investment projects receiving grant funding. Businesses will be expected to contribute 50% for grants approved in the first two year, rising to 70% in year 3 and 80% in year 4. Private sector match is not committed at this stage, however this reflects the nature of the grants programme – such funding will be secured as part of the application process.

Funding Summary

	2022/23	2023/24	2024/25	2025/26	Total
Towns Fund: Capital	£250,000	£750,000	£450,000	£450,000	£1,900,000
Towns Fund: Revenue	£25,000	£25,000	£25,000	£25,000	£100,000
Boost Business Lancashire (In-Kind)	£3,583	£3,583	£3,238	£3,238	£13,642
Private Sector Match	£250,000	£750,000	£1,050,000	£1,800,000	£3,850,000
Total	**£1,028,583**	**£1,028,583**	**£1,528,238**	**£2,278,238**	**£5,863,642**

Project Cost Assumptions

Limited information has been provided on the cost assumptions, however given the nature of the proposals there we would not expect there to be significant detail on precisely what would be funded at this stage. However, the financial case does state that:

- The split of funding between the three investment strands has been informed by the soft market testing.
- Revenue costs are £20,000 towards a 0.5 FTE and £5,000 towards a small marketing budget. These costs have been provided by Pendle BC.
- The intervention rate is lower in earlier years to promote take up and recognising that businesses may not be less able to provide significant match funding post-Covid.

The approach set out is considered to be reasonable given the nature of the intervention and there will flexibility to reprofile funding as necessary to reflect business demand.

However, we do note that the revenue costs are distributed on a uniform basis and do not consider inflation. PBC should confirm that the resourcing of this project is affordable to the council and how any cost increases relating to wage inflation or other factors will be managed.

Funding Sources and Certainty

The majority of match funding will be secured through private sector contributions to investment projects approved for grant funding, based on the intervention rates described above. The business case and clarifications note that grant will be awarded on evidence of defrayal, so there is limited risk in relation to this match funding not being provided at the time that Towns Fund investment is drawn down for the project.

In terms of the intervention rates being targeted, the Business Case notes that these are in line with similar grant scheme – including the PBC Grants for Growth and CRF Innovation and Growth Grants Scheme. If demand is lower than expected, it will be possible to review the eligibility criteria and potentially open up the scheme to a broader range of businesses.

Regarding the match funding, a letter of support is provided by Growth Lancashire. However, it should be noted that the contract for Boost 4 is currently only agreed for the first 18 months of the Business Resilience and Growth project.

Commercial Case

Key Points

- Procurement and contracting arrangements are clear, including the role of PDB and the Grant Panel.
- A Grant Funding Agreement will form the main basis of contracting with applicants and the offer letter will include provisions to claw back funding if necessary.
- Capital procurement and confirmation of required planning permissions and consents will be managed at a grant level, with appropriate processes in place to manage this.
- Independent subsidy control advice has been provided.
- We do however note that the project is targeting a high proportion of Nelson Manufacturing businesses (30%) and if demand is below the expected level it may be necessary to broaden the eligibility criteria. Early-stage uptake should be closely monitored and a process should be agreed with the Town Board for confirming and changes to the proposed investment activity.

Procurement and Contractual Arrangements

There are clear arrangements in place for the allocation of grant funding, which will be overseen by a Grants Panel which will be established to analysis and approve grant funding. The Terms of Reference for the Grants Panel and the grants application and scoring processes are provided as appendices and provide a clear basis on which investment opportunities will be funded and allocated.

Day to day management will be overseen by a PBC Economic Development Officer, overseen by the Senior Responsible Office – identified as the Planning, Economic Development and Regulatory Services (PEDRS) Manager form PBC.

Once grant has been awarded, capital works will be procured by the companies awarded grant, however clear processes are in place to ensure that procurement of contractors is on a competitive basis – including the requirement for three quotations, the requirement for sign-off before works can commence, and payment of grant after evidence of spend has been provided.

In terms of contracting with businesses, the business case states that *a Grant Funding Agreement (GFA) will be drawn up between PBC and The Government. This GFA will set out all the conditions of funding, including reporting mechanism, milestones, monitoring and evaluation*.

Regarding the ownership of assets, as the programme is a capital grants programme, the assets will be owned by the applicant or the financing company (depending how the investment is acquired) and ongoing maintenance will be the responsibility of the applicant. As part of the signed offer letter, businesses will need to inform PBC if they sell the asset or move away from Pendle and claw-back of the grant is a possibility in this situation.

The roles and responsibilities of the PBC, the Towns Board and Boost Lancashire is clearly set out - however please note the comment in the Financial Case that the Boost Lancashire contract is only currently agreed for the first 18 months of the programme. If the business support provided by Boost Lancashire is considered to be a critical element to the success of the scheme, contingency arrangement should be considered in the early stages of the project.

Required Permissions

No permissions are required to deliver the grants programme. Where individual grant funded projects require planning permission or other consents, the business case notes *a copy of the relevant planning permission (where applicable) and/or building regulations approval will be required before grants are paid out to applicants. This will form part of the offer letter given to successful applicants.*

Market Demand

The business case provides evidence of soft marketing testing which has been used to inform PBCs understanding of business needs and the allocation of Towns Fund investment across the three strands of activity. The business case also provides examples of similar funds which demonstrate that the proposals build on lessons of what has worked well elsewhere.

We do note that by targeting 38 manufacturing businesses, the project is expecting to support 30% of the 124 manufacturing businesses in the area. In the clarification responses the applicant notes that:

- A database of manufacturing companies is in place to support effective marketing and targeting of businesses
- Soft market testing has revealed strong interest
- Consideration will also be given to sectors that have a high proportion of manufacturing activity but may be classed under a different SIC code (eligibility will be linked to Class C businesses) which will expand the pool of candidate businesses.
- If demand remains too low, it will be possible to expand the sector covered by the scheme and adapting the grant criteria to match the business needs of those sectors.

This is considered to be a reasonable approach, but any changes to the scope of the project should be with the agreement of the Town Board.

Subsidy Control

Independent Subsidy Control advice has been provided as an appendix to the business case and indicates that the project can be delivered under the Small Amounts of Financial Assistance regime – which is similar to the previous de minimum criteria associated with State Aid. However, PBC should ensure that adequate processes are in place to ensure the applicant businesses do not exceed the maximum levels for grant funding in cases where they are in receipt of grants from multiple sources.

Management Case

Key Points

- Project delivery and management arrangements are relatively clear and straightforward. However, we note that further information could be provided on how the relationship with Boost Lancashire will be managed (including how businesses will be referred).
- We do note that the project will not commence operation until October 2022 and it may be necessary to reprofile proposed activity for 2022/23 on this basis.
- In relation to monitoring and evaluation, the applicant should confirm the expected profile of outputs in light of the comments in the economic case and the point above about activity in 2022/23.
- The Town Board should also ensure that processes are in place to confirm that appropriate experience and expertise is included on the Grants Panel.

Project Management Arrangements and Capacity

The project will be delivered by Pendle Borough Council who will act as the lead and accountable body. Clear roles are identified to deliver the project, including the Senior Responsible Officer (the PEDRS Manager) and an Economic Development Officer who will oversee the management and administration of the Business Resilience and Growth project under the direction of the overall Town Deal Lead and SRO.

As noted in the financial case a contribution to the Economic Development Officer role is included in the Towns Fund revenue element (£20,000 a year for 0.5 FTE).

Governance arrangements include a Grants Panel that will consist of public and private organisations who will review and approval grant applications, and the Town Board which will review progress and milestones. The business case notes that the Grants Panel approach has worked well previously, however the Town Board should ensure that processes are in place in order that appropriate experience and expertise is included on the panel.

Partner Relationships

The Business Case does not state how the relationship with Boost Lancashire will be managed or how such support will be provided were the current contract not renewed after the first 18 months of the programme. While this represents a small element of the overall programme, the arrangements for this should be set out.

The risk register also notes that an MoU will be drafted to support integration of the programme with other business support services and to avoid duplication.

Delivery Programme

Given that it is a grants programme, there is clearly a high degree of flexibility, however early-stage progress should be carefully monitored to confirm that the project is on track and, if necessary, amendments to the approach can be made.

We note that funding approval is scheduled for September 2022 with implementation commencing from October. The applicant should therefore confirm whether the proposed capital and revenue spend for

2022/23 is reasonable or whether it would be appropriate to reprofile expenditure and associated outputs at the outset.

Risk Management

A high-level risk register is provided in the Business Case. The main risk relates to demand being lower than expected (given the high proportion of manufacturing businesses that will be targeted) and early-stage review of progress will be important to understand if the programme should be amended to expand its scope.

Investment level risks should be managed through the grant approval process and the basis on which funding is released, however it is essential that processes are followed on the basis set out in the business case and supporting annexes to mitigate this risk.

Monitoring and Evaluation

A clear monitoring framework has been provided and it will be important that businesses understand their obligations to provide monitoring information as requested. However, linked to our comments above:

- It may be appropriate to reprofile the forecast outputs to reflect a gap between grants being provided and outputs being realised.
- Given that only six months of activity will be delivered in year 1, PBC should confirm the reasonableness of activity profiled for this period.

Conclusions and Recommendations

Conclusions

An overview of the assessment of each of the five cases is set out below.

Strategic Case

There is a clear strategic case for investment and the proposals align with the priorities of the Towns Fund.

The basis on which the investment strands have been prioritised are clear and the investments respond to the needs of local manufacturing businesses.

There is a sound basis to support public investment in schemes of this nature and the proposals complement wider business support activity in Pendle and Lancashire.

However, reflecting our comments in the economic case – the links between the proposed investments and some of the wider benefits cited could be more clearly evidenced.

Economic Case

The approach set out is broadly consistent with the requirements of the Green Book and Towns Fund.

We have provided a number of minor comments relating to project costs and how some benefits have been considered.

More substantive points include the used of wider land value uplift (which would typically be provided to place based investments or investments driving footfall and spend), and the potential need to reprofile outputs to allow for projects to be implemented.

It should be noted that the core assessment of value for money would be improved by diverting funding away from Strand 2 (which is targeting CO2 savings) however this would overlook the wider economic and strategic benefits associated with this activity and is not recommended.

We note that regarding employment, a conservative approach has been adopted for considering additionality and on this basis, we are confident that the scheme will deliver good value for money.

Financial Case

As the proposed investment is a grants programme, private match funding is not committed at this stage, however appropriate processes are in place to ensure that this funding has been incurred before Town Fund investment is defrayed.

In-kind match funding from Boost Lancashire is currently only committed for the first 18 months of the programme and appropriate mitigations should be considered in the early stages of project deliver for a situation where support is not provided beyond this point.

In terms of the cost assumptions:

Pendle Borough Council should confirm that management of the project is affordable given that the cost estimates do not account for inflation or wage growth.

Commercial Case

Procurement and contracting arrangements are clear, including the role of PDB and the Grant Panel.

A Grant Funding Agreement will form the main basis of contracting with applicants and the offer letter will include provisions to claw back funding if necessary.

Capital procurement and confirmation of required planning permissions and consents will be managed at a grant level, with appropriate processes in place to manage this.

Independent subsidy control advice has been provided.

We do however note that the project is targeting a high proportion of Nelson Manufacturing businesses (30%) and if demand is below the expected level it may be necessary to broaden the eligibility criteria. Early-stage uptake should be closely monitored and a process should be agreed with the Town Board for confirming and changes to the proposed investment activity.

Management Case

Project delivery and management arrangements are relatively clear and straightforward. However, we note that further information could be provided on how the relationship with Boost Lancashire will be managed (including how businesses will be referred).

We do note that the project will not commence operation until October 2022 and it may be necessary to reprofile proposed activity for 2022/23 on this basis.

In relation to monitoring and evaluation, the applicant should confirm the expected profile of outputs in light of the comments in the economic case and the point above about activity in 2022/23.

The Town Board should also ensure that processes are in place to confirm that appropriate experience and expertise is included on the Grants Panel.

Recommendation

On the basis of the assessment outline above we recommend that the project is suitable for approval at this stage. However, to mitigate some of the potential risk in relation to delivery, we recommend that this is subject to the following conditions:

- Pendle Borough Council should confirm that management of the project is affordable given that the cost estimates do not account for inflation or wage growth.
- A process is agreed for early stage monitoring of take up and for agreeing amendments to the scheme eligibility criteria should it be necessary to expand its coverage.
- Appropriate mitigations should be considered in the early stages of project deliver for a situation where support from Boost Lancashire is not provided after the first 18 months.
- The Town Board should also ensure that processes are in place to confirm that appropriate experience and expertise is included on the Grants Panel.

Appendix 1: Expenditure and Output Profile

Proposed Funding Profile

	2022/23	2023/24	2024/25	2025/26	Total
Towns Fund: Capital	£250,000	£750,000	£450,000	£450,000	£1,900,000
Towns Fund: Revenue	£25,000	£25,000	£25,000	£25,000	£100,000
Boost Business Lancashire (In-Kind)	£3,583	£3,583	£3,238	£3,238	£13,642
Private Sector Match	£250,000	£750,000	£1,050,000	£1,800,000	£3,850,000
Total	**£528,583**	**£1,528,583**	**£1,528,238**	**£2,278,238**	**£5,863,642**

Proposed Output Profile

Note – it will be necessary to revise this profile in light of the comments set out in the Economic and Management cases.

Output Indicator	Indicator Type	Total	2021/22	2022/23	2023/24	2024/25	2025/26
No. of full-time equivalent (FTE) permanent jobs created through the projects [direct only]	MHCLG mandatory	165	0	20	50	55	40
No. of full-time equivalent (FTE) permanent jobs safeguarded through the projects	MHCLG mandatory	335	0	40	100	110	85
No. of enterprises receiving grants	MHCLG Project specific	38	0	6	14	9	9
Number of closer collaborations with employers	MHCLG Project specific	38	0	6	14	9	9