

**Black Country LEP**

# **Black Country Land and Property Investment Fund**

[Previously referred to as the WMCA / BCLEP Land Fund)

**Proposal for funding of administrative functions to support the Black Country Land and Property Investment Fund**

## **Background**

The Black Country Land and Property Investment Fund, (the Investment Fund) proposed by the Black Country LEP (BCLEP), seeks to invest in projects which support the re-use of brownfield land and buildings and the delivery of supporting infrastructure.

The Investment Fund is predominantly a grant funding programme.

The West Midlands region has a range of publicly operated funds designed to support economic development. This includes funds which are intended as loan/recycling finance. Grant funding is designed as a last resort and where awards are made, these should be on a minimum necessary basis.

The fund has been created as a £200M loan, which the WMCA Authority is allocating a proportion to Finance Birmingham £50M and the remainder to the BCLEP.

## **Administration and Governance arrangements for the Investment Fund**

### **The role of City of Wolverhampton Accountable Body**

The BC LEP Board has been asked to endorse the request of City of Wolverhampton (CWC) to become the Accountable Body for the Black Country Land and Property Investment Fund.

The Wolverhampton Accountable Body will:

- Provide the Treasury Management functions to obtain and manage funding facilitated WMCA to enable delivery of Approved Schemes
- Ensure full Due Diligence processes are in place to validate Bidders and scheme bids, focused on the use of a set of Frameworks providing expert professional suppliers who will deliver:
  - Professional Property scheme evaluations
  - Financial evaluations of the Bidder's ability to deliver the Scheme
  - Professional evaluations of the Company's trading status
  - Expert Property based proposed Heads of Terms for each Scheme
  - Commercial Legal expertise to Draft Theme specific Contracts
  - Professional QS or Property Surveyor validation of Scheme grant claims
  - Legal State aid advice to each proposed scheme.
- Manage the contractual relationship between BC LEP Investment Fund and each of the contracted projects.
- Provide the Secretariat function for the Fund administration, delivering submissions relating to the Investment Fund to the Joint Committee

- Administer a best practice processes consistent with a Compliance Framework which delivers both effective Financial Control and appropriate Management Risk
- Manage Claims Payment system for the Fund consistent with effective Financial Control and linked to each of the Compliance processes deployed.
- Account for the effective financial administration and performance of the Investment Fund on a regular basis to the BC LEP, utilising its own internal audit, accountancy and treasury management systems to delivery that role.

The Wolverhampton Accountable Body will ensure conflicts of interest for all types of Professional Service providers are not allowed to arise.

For example: Professional Property suppliers may not hold more than one of the following roles in relation to bids for Grant support:

- Development of Schemes and Preparation of Scheme Bids
- Appraisal of Scheme bids, & recommendations to the Funding Sub Group
- Verification of Grant Claims from bidders

It is estimated that the annual cost of delivering the Accountable body services will be in the region of £175,000, this cost will increase in line with inflation each year and may be subject to further increase or decrease depending on the demands of the accountable body role. In addition to the Accountable body costs there will be a requirement to cover professional advisor fees incurred as part of appraising each bid, the required professional services detailed below will be procured using a competitive tendering process to ensure value for money. A breakdown of all costs per year will be submitted to the LEP board retrospectively for agreement and sign off, any known increase to costs above those proposed here will be submitted in advance to the LEP for approval. Regular reports will also be submitted to the LEP board to confirm expenditure on these services supporting the administration of the scheme.

This Accountable Body and Professional Services costs will be made up as detailed:

<b>Administrative functions</b>	<b>Total</b>	<b>Annual</b>
	£0	£0
Accountable Body (to include Finance support, Project delivery QS, Admin support)	700	175
Professional Property advisors	200	50
Commercial legal advisors – Contract draft	200	50
State Aid Legal advice	40	10
Financial status appraisals & due diligence	40	10
Evaluation	50	12.5
<b>Total</b>	<b>1,230</b>	<b>308</b>

These figures are based on the number of project bids anticipated to come forward against the initial tranche of £53m awarded during the first 4 years (17/18 – 20/21).

These estimates are subject to change and will be reviewed regularly as the programme matures. All professional advice will be procured and costs based on invoices paid, ensuring value for money and transparency.

It is to be noted that the City of Wolverhampton Council will act as Accountable Body for both the £50m allocated to Finance Birmingham for the WMCA Brownfield Land and Property Development Fund, the “Fund” as well as the initial £53m allocated to the BCLEP for the Black Country Land and Property Investment Fund, the “Investment Fund”. The Accountable Body costs included in the table above (£175k p/a) are inclusive of both funds.

### **The role of BC LEP Programme Management Office**

The Programme Management Office (PMO) provides the decision support behind successful programme management. It is responsible for supporting the programme governance, project processes and day to day management of the Programme, informing the oversight and governance of the programme by the LEP Board, Joint Committee and the relevant sub-committees. It provides information to the Black Country LEP Board advising them of the progress of projects against plan, conflicting priorities and programme risks. It will scrutinise and challenge Project submissions against the SEP and recommend accordingly.

The Programme Office’s objective is to ensure that the Black Country LEP fully utilises the opportunities the Investment Fund offers in delivering outputs consistent with both Black Country and the wider WMCA SEP priorities, at the earliest opportunity.

The PMO will be responsible for production of the monthly management dashboard information required for the BC LEP Board, the BC Joint Committee as well as the WMCA.

It is estimated that the annual cost of delivering the PMO services will be in the region of £191,000 per annum, again it is expected that this cost will increase in line with inflation each year, anything beyond this will be explained and agreed.

This cost will be made up as detailed:

<b>PMO</b>	<b>Total</b>	<b>Annual</b>
	£000	£000
SEP Delivery Director, PMO Manager, PMO Analyst x3,	764	191
<b>Total</b>	<b>764</b>	<b>191</b>

The costs of the PMO are currently funded through a top slicing mechanism of the Growth Deal. Approval is only in place to fund the PMO through to the end of 2017/18.

It is suggested that the PMO could continue to be funded wholly through the Growth Deal or alternatively the costs could be split between the two operating funds, being the Local Growth Deal and the Land Remediation Fund on a 50:50 share (£191k across each programme); this being the preferred option.

BCC Ltd will cashflow the costs of the PMO and submit monthly claims to Wolverhampton Accountable Body to recharge the costs against the programme to the value of £191k per annum.

A total funding requirement for the administration of this fund is estimated to be £308 CWC accountable body functions plus up to £191,000 PMO costs. Up to £499,000 per annum.

### **Funding of Accountable Body, Administrative Functions and the PMO**

Consideration needs to be given to the possible funding options to ensure the costs are fully recovered. As the fund has been created through a loan and borrowing can only be for capital purposes, suggested options are proposed below:

#### **Option 1**

It is proposed applicants are charged fees to apply for money from the fund. Generating a revenue income which could cover some costs.

Finance Birmingham currently operate a fee based approach for applicants, therefore this could be in line with their approach.

Application fee	£1,000
Delivery fee – payable if project is approved	5% value of application
Monitoring fee	0.5% value of application

Fees would be added to the total costs of any proposed scheme and could be claimed as an element of the applicants bid. An initial application fee would be payable in advance of approval and therefore at risk by the applicant to the investment fund until the scheme was approved. Following this it is proposed that a 5% delivery fee is paid and a 0.5% monitoring fee, however it should be recognised that not all schemes will proceed to delivery and therefore these fees would not be collected.

This option facilitates recovery of costs of the administration functions of the fund, as given above. Enabling the costs to be covered as an aspect of each proposed scheme.

Alternatively, part recovery of costs could be considered through an element of a fee charging based approach. For example, monitoring fees could be charged, to assist

cost recovery of the accountable body monitoring a programme an agreed level of fee could be charged based on the value of the funding applied for, as suggested above or a fee determined on the number of site visits a scheme would require. This would help reduce the impact of funding the accountable body functions directly from the fund itself.

The risk associated with this fee based option is the amount of fees charged may not cover the full costs of the administrative functions. Proposing fees to applicants may also be a deterrent to using the fund particularly for marginal projects that may not be approved, using a monitoring fee only to partially recover costs would obviously be less of a deterrent. Administering this option would also be more onerous.

## **Option 2**

An alternative is that the WMCA authority pay a management fee to CWC to fund the Accountable body and associated costs. This could be done through an additional payment alongside the loan repayments however this option requires further discussion and agreement with the WMCA. There would also be a requirement to review how the PMO costs are funded going forward

## **Option 3**

It is proposed the administrative costs of supporting effective programme development delivery and ongoing monitoring of schemes funded through the Investment Fund monies are recovered through a top slice of the total fund.

In effect these costs would need to be capitalised to enable financing through capital monies, the model suggested would be that the function of administering these funds enables the development of capital programmes and therefore generates or increases the value of an existing asset and so is eligible as capital. Therefore, allowing the full cost to be recovered in advance of allocating funding to schemes and eliminating any risk associated with the fee based approach which could result in a shortfall of income against the administrative function costs. This option would require agreement from the Accountable Body's external auditors.

It is proposed that the underwriting of these costs would be provided via the gain share awarded to the WMCA.

In the circumstance that costs incurred are unable to be capitalised, e.g. professional services fees incurred appraising a project that does not receive approval to proceed by the "Board", then the revenue gain share will provide a mechanism for any abortive costs to be recovered.

## **Recommendation**

It is recommended that the most straight forward option subject to approval by CWC external auditors is to top slice the funding and classify the costs of supporting the fund as capital, supporting the delivery of capital schemes.

Also to note that costs are proposed and as such subject to change, particularly over the first year, updates will be provided to confirm the level of cost being incurred in delivery of the programme funding.