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# Interim Evaluation of Property Infrastructure Fund and Property for Business Development Grant

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# Interim Evaluation of Property Infrastructure Fund and Property for Business Development Grant

Hatch Regeneris



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Views expressed in this report are those of the researcher and not necessarily those of the Welsh Government

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## Glossary

Acronym/Key word	Definition
APS	Annual Population Survey: a population survey used to analyse demography and labour market characteristics
CBP	Community Benefits Plan: a plan which outlines how community benefits will be delivered by contractors
CCR	Cardiff Capital Region (Blaenau Gwent; Bridgend; Caerphilly; Cardiff; Merthyr Tydfil; Monmouthshire; Newport; Rhondda Cynon Taff; Torfaen; and Vale of Glamorgan)
CCT	Cross Cutting Themes: General principles which require action in multiple fields across programmes and operations. The three CCTs are equal opportunities and gender mainstreaming, sustainable development and tackling poverty and social exclusion
CSPT	Creating Sustainable Places Together: a guide for policymakers and practitioners on place-based working
DDA	Disability Discrimination Act
EAP	Economic Action Plan
ERDF	European Regional Development Fund
ESIF	European Structural Investment Funds: financial tools set up to implement the regional policy of the European Union. They aim to reduce regional disparities in income, wealth and opportunities.
EST	Department for Economy, Science and Transport
EZ	Enterprise Zone: designated areas across England and Wales that provide tax breaks and Government support.
JLL	Jones Lang Lasalle
OM	Operation Manager: Welsh Government officer responsible for overseeing the delivery of Property Infrastructure Fund or Property for Business Development Grants
OP	Operational Programme: detailed plans in which EU Member States set out how money from the European Structural Investment Funds will be spent during the programming period.
PA	Priority Axis: provide the structure of the Operational Programme. Each priority axis is linked to a certain theme (eg encouraging enterprise, increasing innovation)

	and identifies the priorities for investment, the specific objectives that operations should seek to address and the types of activities that can be funded.
PBDG	Property for Business Development Grant
PIF	Property Infrastructure Fund
PWE	Powering the Welsh Economy
RET	Regional Engagement Team: four teams set up across Wales to ensure EU funding proposals meet existing and future opportunities and investments at regional levels.
SBCR	Swansea Bay City Region: Carmarthenshire, Neath Port Talbot, Pembrokeshire and Swansea
SO	Specific Objective
SRO	Senior Responsible Officer
TTWA	Travel to Work Area: a statistical tool used to indicate an area where the population would generally commute to a larger town or city for the purpose of employment
WEFO	Welsh European Funding Office
WFG	Wellbeing of Future Generations Act
WWV	West Wales and the Valleys: Blaenau Gwent, Bridgend, Caerphilly, Carmarthenshire, Ceredigion, Conwy, Denbighshire, Gwynedd, Isle of Anglesey, Merthyr Tydfil, Neath Port Talbot, Pembrokeshire, Swansea, Torfaen

# 1. Introduction

## Background

- 1.1 The Welsh Government appointed Hatch Regeneris and OB3 in July 2019 to undertake an evaluation of both the Property Infrastructure Fund (PIF) and Property for Business Development Grant (PBDG) operations. Both operations seek to increase the quantity of high-quality employment floor space available to Welsh businesses. The focus of each of the funds is as follows:
- PIF awards grants to developers to fund speculative development of new premises or refurbishment of existing stock. This helps to ensure Wales can offer a portfolio of new and modern premises to attract inward investors and support the growth of Welsh businesses.
  - PBDG awards grants to businesses to invest in their existing property estate to enable them to expand their operations. This will help to retain growing businesses in Wales and create new job opportunities for Welsh residents.
- 1.2 The PIF and PBDG operations build upon the Welsh Government funded Property Development Grants under the 2007-13 Wales ERDF Convergence Programme. Welsh Government are responsible for managing the operation and are the beneficiary of the funding.
- 1.3 Both operations are part funded by the European Regional Development Fund (ERDF) under Priority Axis 4 (Connectivity and Urban Development) of the West Wales and the Valleys (WWV) Operational Programme 2014-20 (Welsh Government, 2015a). The Operational Programme was prepared and the funding managed by the Welsh European Funding Office (WEFO).
- 1.4 The PBDG operation has a total value of £21.5m, with £7m funded through ERDF and the remaining £14.5m leveraged through private sector investment. Similarly, the PIF operation has a total value of £17.2m, with £7m funded through ERDF and the remaining £10.2m match funded from the private sector.
- 1.5 The output indicator targets for PIF and PBDG are set out in the table below.

**Table 1.1: ERDF output targets for PIF and PBDG**

	PIF	PBDG
Jobs accommodated		663
SMEs accommodated		5*
Premises created or refurbished (sq m)	16,000	23,225

Source: PIF and PBDG business plans.

\*the business plan for PBDG identifies a range of 5 to 10 SMEs accommodated.

1.6 The evaluation is being delivered in two stages:

- An interim stage, the findings of which are presented in this report
- A final impact stage, which will be conducted in 2022.

### **Evaluation Objectives**

1.7 The objectives of the interim evaluation are to:

- i. Evaluate the extent to which the operations are aligned to the key policy and strategic priorities of the Welsh Government and WEFO, as set out in the business plans.
- ii. Examine programme management and monitoring processes and provide assessment of whether they adequately support operation delivery and impact evaluation.
- iii. Review the process of selecting project sites for both operations and provide recommendations if issues with this process are identified.
- iv. Evaluate the suitability of the advance build development project sites in contributing to the aims and objectives of the business plan.
- v. Explore the extent to which the operations are successfully implementing and delivering the objectives of the WEFO Cross Cutting Themes (i.e. Sustainable Development, Equality and Diversity including Welsh Language and Tackling Poverty).
- vi. Assess whether the operations are on track to meet the commitments in the business plan on time and to budget.

## Structure of the Report

1.8 The report is structured as follows:

- Chapter 2 provides a summary of the methodology and key research tasks.
- Chapter 3 scrutinises the need for the PIF and PBDG operations, considers whether it was based on a sound logic model and whether it was consistent with Welsh Government policy and strategy documents.
- Chapter 4 reviews the process of selecting projects for each operation and whether the projects which were selected will contribute to the operations' aims and objectives.
- Chapter 5 reviews the project management, governance and monitoring systems and processes implemented for PIF and PBDG, and how effectively these are working.
- Chapter 6 assesses the progress to date and whether the operations are on track to meet their targets.
- Chapter 7 provides the overall conclusions.
- Chapter 8 provides recommendations for the remaining part of the delivery period.

## 2. Methodology

2.1 The research for the interim evaluation has included the following tasks:

- A review of Welsh Government, regional and local policy and strategy documents (e.g. Well Being of Future Generations Act (Welsh Government, 2015b), Prosperity for All (Welsh Government, 2017a) and the Economic Action Plan (Welsh Government, 2017b)
- A review of operation documentation, including the original business plans, application documents, independent appraisals, progress reports and correspondence related to the operation.
- Analysis of monitoring information, including financial expenditure data and monitoring reports.
- Analysis of local labour market conditions in the areas affected by PIF and PBDG. This has used Annual Population Survey (APS)<sup>1</sup> data.
- An independent review of property market trends for those areas with PIF projects, carried out by Cooke and Arkwright (see Annex A) and supplemented with data from CoStar<sup>2</sup>.
- 35 semi-structured telephone consultations with Welsh Government staff and other stakeholders including WEFO staff, Regional Engagement Teams (RETs) and commercial property agents. A list of consultees is provided in Annex B.

2.2 It should be noted that it has only been possible to consult one of the applicants for PIF/PBDG funding as part of the research due to several projects being at a sensitive stage of the application process. There is therefore a risk that the interim evaluation does not provide a complete and objective assessment of the factors which have affected the delivery of each operation, as the research has needed to rely predominantly on the views of Welsh Government representatives. This should be borne in mind when reviewing the findings. The final evaluation will undertake consultation with all grant recipients and also with some unsuccessful applicants.

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<sup>1</sup> ONS (2018): [Annual Population Survey](#)

<sup>2</sup>CoStar (2019) [Market Analytics](#)

2.3 Consultations were undertaken in late 2019 and early 2020. Therefore most of the analysis in the report reflects the position at the end of January 2020. Where more up to date information on PIF or PBDG projects has been made available this has been included in the report and made clear in the text.

### 3. Operation Rationale and Design

#### Key Findings

##### *Strategic Fit*

- Both PIF and PBDG are strongly aligned with Welsh Government strategies and policies, particularly the Economic Action Plan (Welsh Government, 2017b) which recognises the need for public intervention to deliver sites and premises.
- Strategies emphasise the need for property interventions to deliver growth but also to address labour market disadvantage. It is found that PIF and PBDG have achieved this through their balanced approach to determining which projects receive funding, which considered both of these factors.

##### *Need for the Intervention*

- Both PIF and PBDG are responding to clear evidence of need in the labour and property market. The operations will help to address the need for job creation in WWV and to address the undersupply of business premises, which is acting as a barrier to growth and investment.
- There is a strong case for public intervention to address viability challenges in WWV. However these challenges are not necessarily an indication of market failure, but a reflection of structural weaknesses in the economy of WWV which result in low demand at the prices required for development to be viable. Public intervention is still justified on grounds of social equity. Failure to intervene would put Wales at a competitive disadvantage to other areas and act as a constraint on growth.

##### *Logic model*

- Overall it is found that the logic models for both PIF and PBDG are sound. All of the underpinning assumptions used to calculate costs and outputs are robust and the project activities follow a tried and tested model.
- However the aims and objectives of each operation are not clearly articulated in the business plans, making it difficult to assess what measurable change they are seeking to bring about.

- The success of project activities in bringing about the desired outcomes will ultimately depend on the projects which are funded and delivered. This is assessed in Chapter 4.

### **Purpose of Chapter**

- 3.1 This chapter scrutinises the need for the both the PIF and PBDG operations and whether they were designed in a way which is fit for purpose. This includes the following:
- A critical analysis of the logic model for PIF and PBDG. This is used to illustrate the rationale for intervention and the design of the operation.
  - A review of the economic and policy context for PIF and PBDG, and an assessment of whether the operations' objectives and activities remain consistent with national, regional and local policy objectives and economic conditions.

### **Summary of PIF**

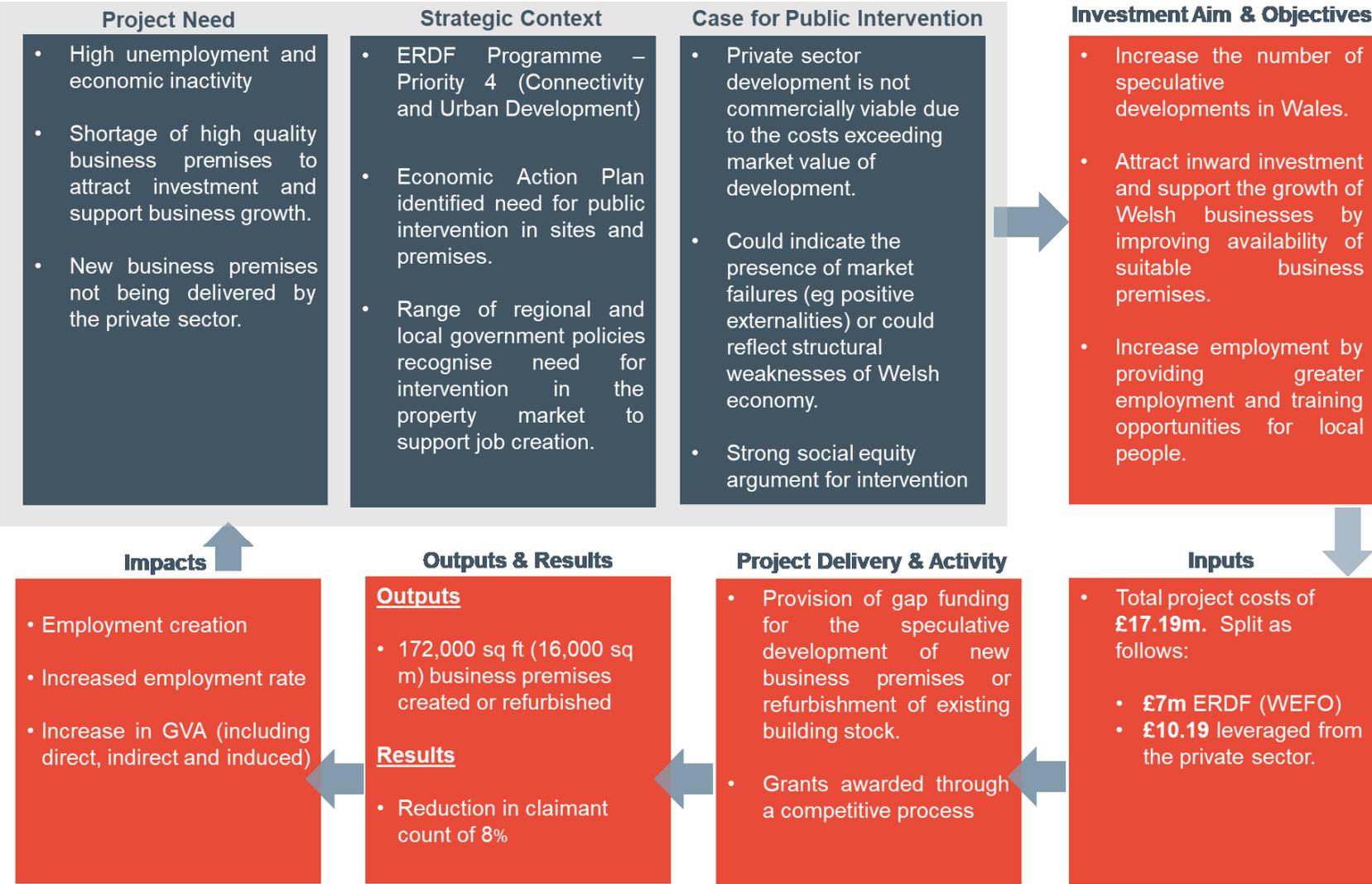
- 3.2 The purpose of PIF is to provide high quality business premises through new speculative development or refurbishment of existing stock. This will help to ensure Wales can offer a portfolio of new and modern employment buildings to attract inward investors and support the growth of Welsh businesses.
- 3.3 The operation is designed to overcome a property market challenge in WWV, whereby the cost of site preparation and commercial property development is greater than the end property values on the sites (i.e. the viability gap). These market conditions mean there is not a strong enough commercial incentive for development of new business premises without public intervention. PIF overcomes this by awarding a grant to the developer (through a competitive process) with a value equal to the viability gap. The operation was originally awarded £7m of ERDF funding which would be matched by £10.2m of investment from the private developers.
- 3.4 The logic model for PIF is presented in **Error! Reference source not found.** This provides a graphical illustration of the operation components, including the need for intervention and the inputs, activities, outputs and intended impacts. This shows

the desired pathway that the operation will take. Critical analysis of the logic model and its key assumptions is provided later in the chapter.

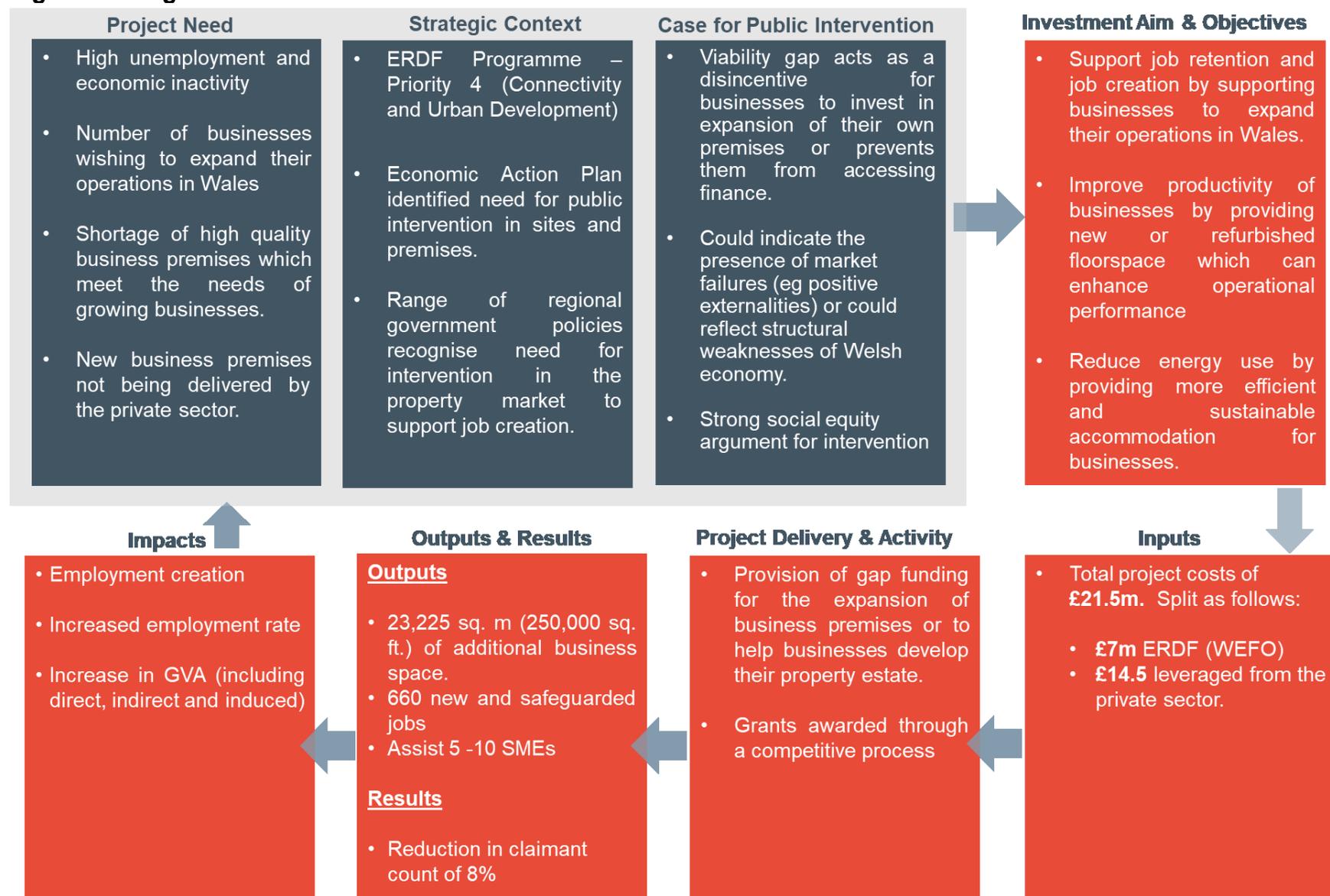
### **Summary of PBDG**

- 3.5 PBDG also offers grants to incentivise the development of new employment floorspace, but differs from PIF in that the grants are awarded to businesses themselves to invest in their business premises. This enables them to expand their operations and increase employment, helping to retain growing businesses in Wales.
- 3.6 PBDG is responding to the same viability challenge as PIF, which has been found to act as a disincentive for businesses to expand their operations in Wales or made it difficult for them to access finance. Again the value of the grant is equal to the scale of the viability gap, and grants are awarded through a competitive process. The operation was originally awarded £7m of ERDF funding which would be matched by £14.5m from the grant recipient businesses.
- 3.7 The logic model for PBDG is presented in **Error! Reference source not found.**, with analysis of its key components later in the chapter.

**Figure 3.1: Logic model for PIF**



**Figure 3.2 Logic model for PBDG**



Source: Welsh Government (2016a): PIF & PBDG Business Plans, ERDF West Wales and the Valleys Priority 4

## Strategic Fit of PIF and PBDG

- 3.8 The purpose of this section is to assess whether the aims, objectives and design of PIF and PBDG remain consistent with the Operational Programme (OP), as well as other Welsh Government and regional policies and strategies, and hence that they remain appropriate and relevant to current policy.

*West Wales and the Valleys Operational Programme, 2014-20 (Welsh Government, 2015a)*

- 3.9 The OP represents the agreement between Welsh Government and the European Commission on what will be delivered with the support of ERDF during the 2014-20 programme. It sets out the Welsh Government's strategy and priorities for the economic, social and environmental regeneration of WWV based on a series of Priority Axes (PAs) and corresponding Specific Objectives (SOs) and actions.
- 3.10 Both PIF and PBDG are funded under PA4: Connectivity and SO 4.4. This aims "*to increase employment through investments in prioritised local or regional infrastructure supporting a regional or urban economic strategy*". The types of action that could be supported include "*business sites and premises in strategic sites, including property development and land remediation*". Both PIF and PBDG operations are therefore aligned with the types of activity which can be funded under the SO.
- 3.11 The OP provides further guidance on the types of interventions that should be funded and the key principles which should be considered. Table 3.1 provides a summary of the extent to which the PIF and PBDG operations have been consistent with these principles through their selection of projects. A more detailed assessment is provided in Chapter 4.

**Table 3.1: Consistency of PIF and PBDG with the requirements of Operational Programme (4.4)**

Principle	Consistency of PIF and PBDG
<p><b>Focus on growth:</b> schemes should support “<i>key regional or urban growth opportunities</i>” as opposed to seeking to mitigate the effects of decline. Investments should align with existing economic development interventions (e.g. Enterprise Zones, City Deals or other local economic strategies) or build on sector strengths to maximise impact.</p>	<p><b>Good:</b> the assessment process to determine which projects are awarded grant funding included criteria relating to whether the site was within an EZ, Local Growth Zone or City Region. A large proportion of the projects being funded are located in one of these areas.</p>
<p><b>Integrated approach:</b> schemes “<i>will be expected to demonstrate how they complement wider investment programmes and other strategic investments across the suite of ESI<sup>3</sup> programmes</i>”. This means investments in sites should complement other major investments such as transport improvements on the road network.</p>	<p><b>Moderate:</b> alignment with wider investment programmes and other ESI investments was not explicitly considered in the assessment process. However, given that a large proportion are in EZs, LGZs or City Regions which are the focus of major investment, the funded schemes are likely to complement these programmes of investment.</p>
<p><b>Addressing labour market disadvantage:</b> schemes should “<i>demonstrate that they have identified nearby areas of low employment or deprivation and can demonstrate how new employment opportunities will be made accessible to those areas</i>”. It also states a proportion of new jobs created through supported schemes “<i>should be filled by jobseekers in nearby areas and appropriate measures should be incorporated into plans to ensure that happens</i>”.</p>	<p><b>Good:</b> Applicants are expected to demonstrate how the investment will benefit areas of low employment within their application. The assessment process also included a criteria relating to the claimant count in the relevant Travel to Work Area (TTWA) to assess the accessibility of jobs for unemployed people.</p>

<sup>3</sup> European Structural Investment

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**Partnership working:** the limited resources available means that only a small number of schemes can be supported. To ensure that the best sites are targeted, the OP states that *“the Managing Authority will expect all applications to provide clear evidence of comprehensive partnership working and to demonstrate a degree of prioritisation”*.

**Moderate:** Regional Engagement Teams (RETs) were engaged and asked to identify priority projects in their region. However, several RETs were not in a position to do this and have since had limited engagement with either operation. None of the RETs were involved in the scoring of bids or asked for their feedback on which are greatest priority. Nevertheless, all RETs stated that they agree with the selection of projects which are being funded.

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*Vibrant and Viable Places: New Regeneration Framework<sup>4</sup> (Welsh Government, 2013)*

- 3.12 This framework defined regeneration as *“an integrated set of activities that seek to reverse economic, social, environmental and physical decline to achieve lasting improvement, in areas where market forces will not do this alone without some support from government”*.
- 3.13 The framework identifies three main outcomes. The PBDG and PIF operations aligns with outcome one (Prosperous Communities), which aims to
- improve levels of economic activity and deliver more jobs
  - support strong and diverse local economies
  - encourage a thriving private sector and social enterprise
- 3.14 Both operations will help to deliver these outcomes by supporting the development of new and expanded business premises which will help create and safeguard jobs and strengthen local economies.

*Programme for Government 2011-2016<sup>5</sup> (Welsh Government, 2011)*

- 3.15 This was the concurrent Programme for Government when the PIF and PBDG operations was designed (both in November 2016) and set out Welsh Government’s priorities for 2011 to 2016. The first priority was *“Growth and*

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<sup>4</sup> Welsh Government (2013): [Vibrant and viable places: framework](#)

<sup>5</sup> Welsh Government (2016): [Programme for Government](#)

*Sustainable Jobs*” which aimed “to strengthen the conditions that will enable business to create jobs and sustainable economic growth” and included a commitment to “work with European Commission funding programmes to stimulate sustainable growth and jobs through investing in skills, infrastructure and job creation”

- 3.16 The PIF and PBDG operations are aligned with the commitment stated above by stimulating jobs growth through investment in sites and premises.

*Tackling Poverty Action Plan, 2012-16<sup>6</sup> (Welsh Government, 2012)*

- 3.17 This action plan outlines Welsh Government’s commitment to social justice and tackling poverty. It aims to achieve better outcomes for all citizens, focusing on three priority actions:

- Preventing poverty
- Helping people in to work
- Improving the lives of people living in poverty

- 3.18 PBDG and PIF helps to address these priorities through the creation and safeguarding of jobs (once sites have been developed or expanded) which can keep people in work and ensure businesses remain in a location (PBDG) or attract new business to an area and create new jobs. This can often address poverty in areas where there is a shortage of job opportunities.

*The Well-being of Future Generations<sup>7</sup> (Wales) (WFG) Act 2015*

- 3.19 The Well-being of Future Generations (WFG) Act is legislation requiring public bodies to put long-term sustainability at the forefront of their thinking. It is based on the principle that quality of life is shaped by a range of economic, social, cultural and environmental factors, and that addressing these in a holistic and integrated way should be the primary goal of all public bodies. The WFG Act recognises prosperity and economic growth as important goals, but attaches equal weight to reducing inequality, improving health, ensuring cohesive communities and maintaining a vibrant Welsh culture.

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<sup>6</sup> Welsh Government (2012): [Tackling Poverty Action Plan 2012-2016](#)

<sup>7</sup> Welsh Government (2015b): [Well-being of Future Generations \(Wales\) Act 2015, The Essentials](#)

3.20 The aims and objectives of PIF and PBDG are consistent with WFG Act insofar as the operation will help to create new job opportunities and improve access to employment which directly contribute to the first goal of the Act ('A Prosperous Wales'). However, the operation is also aligned with a number of other goals through its contribution to Cross Cutting Themes:

- 'A Resilient Wales': all new-build projects which receive funding are all expected to meet BREEAM Excellent or Very Good standards for energy efficiency (dependent on the size, level of public sector support and whether it is located on Welsh Government land) and have targets for waste reduction and use of local materials.
- 'A More Equal Wales': all procurement activities undertaken by PIF and PBDG required contractors to demonstrate that they have equal opportunities policies in line with Welsh Government requirements.

*Taking Wales Forward*<sup>8</sup> (Welsh Government, 2016a)

3.21 Taking Wales Forward is the Welsh Government's programme for the current term (2016 – 2021) and sets out how Welsh Government will deliver a stronger and fairer economy and reform public services.

3.22 The document identifies four cross-cutting strategies to meet its goals. These reflect many of the principles in the Well-being of Future Generations Act, including raising prosperity, improving health and delivering inclusive growth.

3.23 Although the document does not make any explicit commitments to delivering land and property interventions, both PIF and PBDG operations are consistent with a number of these aims for the reasons set out above.

*Prosperity for All*<sup>9</sup> and the *Economic Action Plan*<sup>10</sup> (Welsh Government, 2017a and 2017b)

3.24 Prosperity for All and the accompanying Economic Action Plan (EAP) provide more detail on how Welsh Government will deliver on the commitments outlined in Taking Wales Forward. The EAP is the first Welsh Government policy document to

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<sup>8</sup> Welsh Government (2016a): [Taking Wales Forward: 2016-21](#)

<sup>9</sup> Welsh Government (2017a): [Prosperity for All: the national strategy](#)

<sup>10</sup> Welsh Government (2017b): [Prosperity for All: Economic Action Plan](#)

explicitly identify a need for intervention in the property market to overcome market failure. It states:

*“Wales needs modern sites and premises to allow businesses to expand and grow, so we will proactively intervene where there is market failure. We will do this either by incentivising investment from developers and investors, by creating development consortia to allow us to maximise and capture the benefits of our Metros, or by being committed to direct delivery of sites and premises in parts of Wales where the private sector is not prepared to invest.”*

- 3.25 The EAP commits to providing a delivery schedule that focuses on “*regional priority operations for North, Mid and South West Wales and South East Wales*” which will be identified with the support of regional stakeholders.
- 3.26 Both the PIF and PBDG operations are clearly consistent with the EAP as it aims to incentivise development of commercial property in parts of Wales that the private sector is not prepared to invest. In some instances, RETs were involved in the identification of sites and have stated that they support the selection of projects for both operations.

#### *Regional Policies*

- 3.27 A number of regional policy and strategy documents also recognise the property market challenges that PIF and PBDG were designed to respond to. Although these strategies do not explicitly identify the sites being funded as priorities, they do identify a need for the public sector to intervene in order to improve the supply of high-quality business premises.

**Table 3.2: Summary of key points from regional strategy documents**

Strategy document	Key points in relation to sites and premises
Powering the Welsh Economy, Cardiff Capital Region <sup>11</sup> (CCR, 2015)	Supports the “ <i>delivery of a balanced portfolio of premises that supports our existing businesses and inward investors, including the development of key strategic sites and premises focused on areas of greatest impact for our Region and the Welsh economy</i> ”
North Wales Growth Deal Bid <sup>12</sup> (NWEAB, 2017)	Partners involved in the preparation of this bid report that property shortages across north Wales have led to concerns that businesses are being held back from growing and creating more jobs. The bid calls on Welsh Government to support the creation of an Arm’s Length Property Development entity, to accelerate development of strategic sites and premises.
Swansea Bay City Region Economic Regeneration Strategy, 2013-2030 <sup>13</sup> (SBCR, 2013)	The strategy recognises challenges in relation to “ <i>Land, Property &amp; Infrastructure, despite the significant investment that has gone into the physical fabric of the City Region over the past decade, major challenges remain, and our infrastructure is not currently meeting the needs of modern businesses, and community</i> ”. It also prioritises “ <i>exploring novel funding mechanisms to unlock stalled strategic developments in partnership with private developers and institutional investors</i> ”.

<sup>11</sup> Cardiff Capital Region (2015): [Powering the Welsh Economy](#)

<sup>12</sup> North Wales Economic Ambition Board (2017): [A Growth Deal for North Wales, Smart, Resilient and Connected](#)

<sup>13</sup> Swansea Bay City Region (2013): [Swansea Bay City Region Economic Regeneration Strategy, 2013-2020](#)

## Operation Rationale and Evidence of Need

3.28 The business plans for both PIF<sup>14</sup> (Welsh Government, 2018a) and PBDG<sup>15</sup> (Welsh Government, 2018b) show that both operations were intended to respond to two types of need:

- **A labour market need:** both operations are ultimately intended to create new employment opportunities in parts of WWV with high unemployment and economic inactivity.
- **A property market need:** both operations are responding to the limited availability of high-quality employment space in WWV, which is acting as a barrier to business growth and investment. PIF responds to this directly by incentivising speculative development of new employment space. PBDG responds indirectly by providing businesses who wish to grow with the means to expand their existing premises instead of relocating, thus helping to retain these businesses in Wales.

3.29 In both cases there is good evidence of this need.

3.30

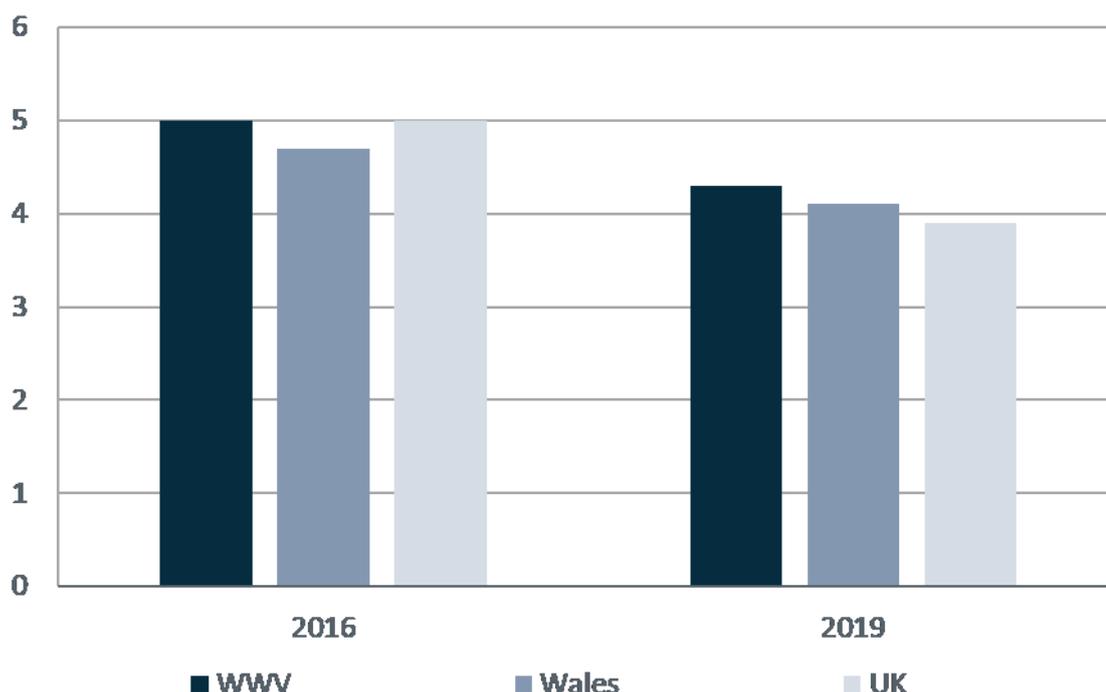
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<sup>14</sup> Welsh Government (2018a): Property Infrastructure Fund Business Plan, ERDF West Wales and the Valleys Priority 4

<sup>15</sup> Welsh Government (2018b): Property for Business Development Grants Business Plan, ERDF West Wales and the Valleys Priority 4

3.32 Figure 3.3 shows the unemployment rate of people aged 16+ in WWV was higher than Wales and in line with the UK average in 2016 (when the operation was designed). Since then there has been a fall in unemployment in all areas but the unemployment rate in WWV is above the rate in Wales and UK. The economic inactivity rate among 16 to 64 year olds is also higher in WWV (24.8%) than either the Wales or UK averages (23.2% and 21.3% respectively), indicating a clear labour market need in WWV.

**Figure 3.3: Unemployment rate of people aged 16 and above (per cent), 2016-2019**



Source: ONS, 2016 and 2019; Annual Population Survey (NOMIS). Figure draws on data from October 2015 to September 2016 and October 2018 to September 2019

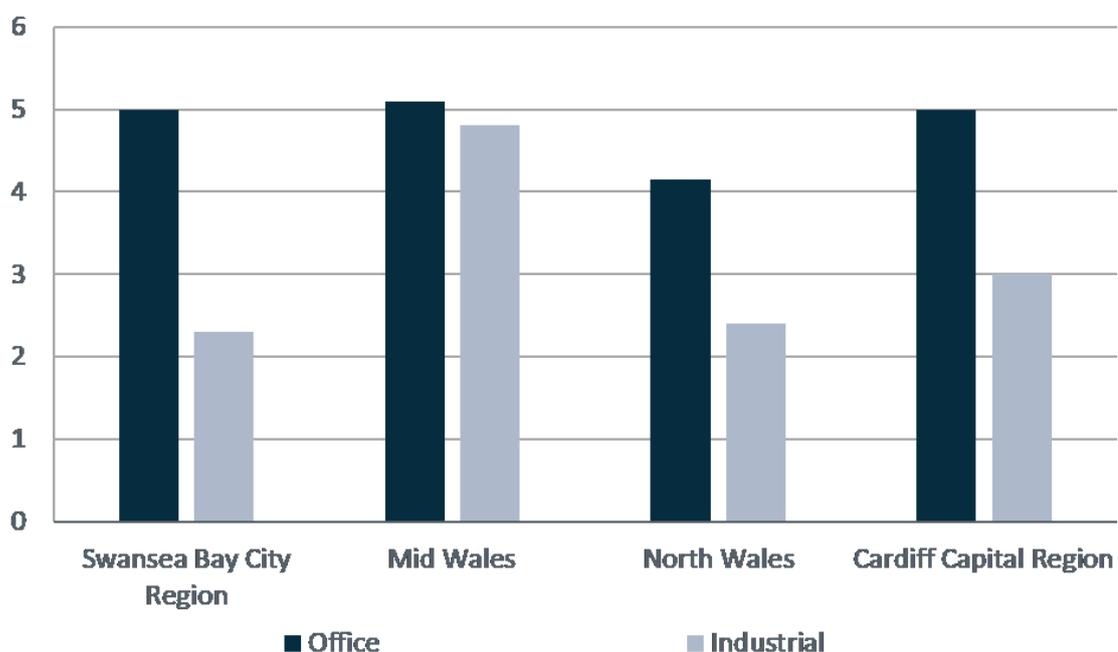
- 3.33 The property market need was evidenced in a report by Jones Lang LaSalle (JLL, 2014<sup>16</sup>) which highlighted an undersupply of good quality business premises: *“there is a lack of new and modern floorspace across most sectors of the office and industrial market and unless this is addressed it will become a structural weakness of the Wales property offer. Our analysis shows a relatively low supply of modern stock in most categories analysed”*.
- 3.34 The report also highlighted how most demand for premises is immediate, meaning there is a need for speculative development of premises (as opposed to pre-lets) which can satisfy this demand. It states that speculative development of new premises can *“provide Wales with a competitive advantage over other locations in the UK. We will not necessarily retain the interest of new enquiries if we promote ‘build to suit’ options, which may have a lead in time of up to two years to delivery”*.

<sup>16</sup> Jones Lang LaSalle (2014): Gap Analysis, Achieving a balanced property portfolio for the delivery of economic objectives in Wales

3.35 Analysis of CoStar shows that the limited availability of space continues to be a challenge in all regions of Wales.

3.36 Figure 3.4 shows less than 6% of office and industrial space is vacant in each of the regions of Wales. CoStar also shows a large proportion of the space which is available is second hand or poor-quality stock which does not meet many occupiers' requirements. This imposes significant constraints on each region's ability to attract investment and support the growth of indigenous businesses, a point which was confirmed by all of the regional engagement teams (RETs) that were consulted.

**Figure 3.4: Vacancy rates of office and industrial space in Welsh regions (per cent), 2019**



Source: CoStar

3.37 It can therefore be concluded that the PIF and PBDG operations are responding to clear evidence of need. Although the unemployment rate has fallen since the operation was designed, unemployment and inactivity rates in WWV are still above the Wales and UK average, indicating a need for job creation schemes. There is also good evidence of the need to address the undersupply of good quality business premises in WWV and improve the choice available to businesses and investors.

### *Need for Public Intervention*

- 3.38 Having established a need for investment in new business premises, the evaluation also needs to assess whether there is a case for public intervention. According to HM Treasury Green Book Guidance<sup>17</sup> (HM Treasury, 2018), the rationales for public intervention can fall in to one of two categories:
- Market failure: where the operation of the market results in a sub-optimal or inefficient outcome. As an outcome, the intervention should generate more efficient, productive and competitive economic activities.
  - Social equity: where there is a need to intervene in order to extend the distribution of wealth or opportunity. As an outcome, the intervention should serve to create better opportunities for disadvantaged people or places.
- 3.39 Both PIF and PBDG are designed to address viability gaps which arise because the cost of commercial property development is greater than the end property values on the site. This is due to persistently low rents for commercial property in many parts of WWV (reflected in the JLL report and more recent data from CoStar), which in some cases is exacerbated by high abnormal costs to prepare sites. This is a longstanding and persistent challenge for many parts of Wales.
- 3.40 Again, there is clear evidence for this challenge which is longstanding and widespread across WWV. The JLL Gap Analysis found evidence of viability gaps in many parts of Wales and recommended “*an active programme of encouraging new floorspace to be built through Property Development Grant (PDG) to the private sector and also direct build where market conditions and viability issues mean that it is not possible to provide gap funding for private sector developers*”. A report by Regeneris Consulting<sup>18</sup> (2016) which reviewed the potential to use financial instruments to bring forward commercial development in WWV also found that there are large viability gaps across Wales and that development could not be delivered without grant funding.
- 3.41 While the viability gap clearly acts as a disincentive for the speculative development of employment space, this may also influence businesses’ decisions about whether to invest in the expansion of their premises. This is because many businesses will consider the market value of its assets when making investment

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<sup>17</sup> HM Treasury (2018): [Green Book](#)

<sup>18</sup> Regeneris Consulting (2016): Ex-Ante Block 1: Market Assessment

decisions, and whether a better return could be achieved by relocating. A viability gap will also make it more difficult for businesses to secure finance from a bank to fund the expansion of premises since they also base their lending decisions on the market value of the asset. Although this issue is not covered in the JLL report, a number of the Stage 1 applications for PBDG cite one of these factors as the reason for applying for a grant.

- 3.42 These market conditions therefore provide a strong rationale for both PIF and PBDG. It should be noted however that the presence of a viability gap is not sufficient on its own to provide evidence of market failure. The market may be acting rationally when development returns do not justify investment in certain types of property in certain locations.
- 3.43 Market failure can arise where investment decisions do not take into account the wider welfare benefits that could be generated by a development (positive externalities), or where there are costs associated with the remediation of land from its former uses (negative externalities). There may be instances where these apply in Wales. However, in most cases the challenges described above are likely to reflect demand being too low at the rental levels required for development to be viable, and are therefore a result of structural weaknesses in the economy.
- 3.44 While the evaluation has not found evidence of market failure, there are still strong grounds to conclude that public intervention is justified on the basis of social equity. This is because, in the absence of intervention, the supply of new premises would be severely constrained. This would put Wales at a disadvantage to other areas with higher property values and place restrictions on the ability of Welsh businesses to grow.

### **Operation Aims and Objectives**

- 3.45 The business plans for both PIF and PBDG do not explicitly identify objectives, although both documents state that they will aim to:
- reduce the number of workless households
  - increase the number of individuals who voluntarily choose to enter the labour market
  - increase awareness of opportunities in the local labour market and the associated skills required.

- 3.46 These are broadly consistent with the OP, which aims to bring about a reduction in the claimant count. However it could be argued that these are not the most relevant aims for an operation of this nature. Both operations are intended to create employment opportunities (a demand-side effect) which could help to reduce the number of workless households. However the second and third aims arguably relate to supply-side effects, which will only be indirectly affected by PIF and PBDG (e.g. people's decisions on whether to re-enter the labour market). The focus on labour market aims also overlooks some of the economic impacts that the operations seek to deliver (e.g. increased inward investment, supporting business growth).
- 3.47 Both business plans also identify a series of "longer term benefits" associated with each operation, which provide a guide to what they were trying to achieve. For PIF these are to:
- reduce the number of undeveloped sites
  - increase the number of speculative developments being undertaken
  - increase the incidences of refurbishment of existing stock
  - increase the provision of suitable business premises
  - provide greater employment and training opportunities for the local population.
- 3.48 The business plan for PBDG also states that the operation will support actions which aim to:
- assist SME businesses in the development of their property estate that better suits business needs and operational requirements
  - assist SME businesses to provide new or refurbished floor space that is able to accommodate additional jobs or can provide a more efficient use of space for the business
  - enable businesses to expand their operations leading to better opportunities for job retention and job creation
  - enable business to provide more sustainable accommodation that will reduce energy use and provide better working conditions for employees.

- 3.49 All of these objectives are relevant to the challenges which each operation is seeking to address, however the business plans would have benefitted from being more specific about the measurable change that PIF and PBDG would bring about and by when<sup>19</sup>. It is also felt that the objectives could have been more specific about the types of projects which should be delivered through each operation. In particular, there should be a reference to delivering projects which are regional priorities or which can deliver strategic benefits for Wales. This is reflected in the criteria which were used to assess applications but not in the objectives for the operations. The objectives for PIF should have also made clear that the operation will increase the supply of premises in those locations where there is clear evidence of market demand and a need for new premises.
- 3.50 Overall it is felt that the objectives in the business plans for each operation are poorly articulated and provide insufficient detail. This should be borne in mind when the evaluation assesses whether the funded projects will contribute to the aims and objectives of the operations in Chapter 4.

### **Operation Inputs**

- 3.51 WEFO made £7m of ERDF funding available for each of the operations, which was awarded to projects based on a competitive bidding process (see Chapter 4). Match funding was provided by the successful grant recipients, with the amount of match determined by the scale of the viability gap and the maximum intervention rate of 45%. Although both operations initially agreed an overall intervention rate of 35% with WEFO, it was necessary to increase this in the case of PIF because a number of the funded projects were in more deprived areas with lower property values and therefore had a larger viability gap.
- 3.52 All of the costs and estimated property values were independently appraised by property surveyors, and therefore can be considered to be a robust estimate of the inputs required to deliver each operation. Should costs rise through the life of the operation, it will be the responsibility of grant recipients to cover these costs.

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<sup>19</sup> although this can be inferred from the rest of each document

**Table 3.3: Original funding profile for PIF and PBDG**

	ERDF (£m)	Match funding (£m)	Total investment (£m)	Intervention rate
PIF	7.0	10.2	17.2	40.7%
PBDG	7.0	14.6	21.6	32.5%

Source: Business plans for PIF and PBDG

- 3.53 Since the business plans were prepared, a number of applications were withdrawn from the PBDG operation. This was due to a number of reasons beyond Welsh Government's control including businesses going into receivership, uncertainty caused by Brexit and applicants lacking the capacity to progress their application.
- 3.54 A number of reserve projects were then invited to progress their applications and Welsh Government also sought additional projects when the reserve list had been used up. Many of these new projects also subsequently withdrew. This meant there was likely to be an underspend for the PBDG operation. As a result it was decided to reallocate the underspend to PIF which would fund a number of the projects on the PIF reserve list.
- 3.55 At the time of undertaking the research (late 2019), the underspend for PBDG was approximately £2.6m, which would give a total ERDF allocation of £9.6m for PIF and £4.4m for PBDG. In addition, it is understood Welsh Government has made additional core funding available to support the delivery of reserve PIF projects. However, it should be noted the exact scale of the re-allocation has not been formally agreed with WEFO at this stage so these numbers are subject to change.

### **Operation activities**

- 3.56 Both operations involve the award of grants to fund commercial property development based on the size of the viability gap (the difference between project costs and the value of the completed development). In brief, the process has involved the following steps:
- **Stage one assessment:** the availability of grant funding through both operations was marketed by Welsh Government and interested parties were invited to submit an Expression of Interest (EoI). This required applicants to provide details on their project including its strategic fit, the outputs it would deliver (e.g. number of jobs, amount of floorspace), project costs and the size of the viability gap. These applications were assessed using a scoring framework with the highest scoring projects being progressed to Stage Two.

Chapter 4 provides a critical review of this process and the projects which were taken forward.

- **Stage two assessment:** the projects which progressed to Stage Two are assigned to a case officer who carries out due diligence of each of the projects. This includes an independent valuation, an independent cost consultants report on procurement and costs, development appraisal (to verify the viability gap) and financial report. The applicant also needs to procure a contractor through a competitive process during this stage. The case officer needs to follow a rigorous procedure and assemble a checklist of information before approval is sought. This includes consideration of land ownership and leasing issues, planning consents, financial checks and whether procurement processes have been carried out properly. Once the case officer is satisfied, they ask for approval to offer the applicant an award letter. This request is scrutinised by the senior team with responsibility for the operation (Property Infrastructure for PIF and Business Solutions for PBDG). Once this appraisal is completed the project is peer reviewed by the formal Property Leadership Team (PLT) with a recommendation for ministerial approval<sup>20</sup>. Once approved the contract letter is sent to the applicant.
- **Delivery:** once the award letter has been received, the grant recipient can commence the development works. The case officer continues to oversee the project during this stage to monitor its progress.

3.57 This is a tried and tested process for these types of operations, which have been delivered by Welsh Government through several programmes. The success of these activities in terms of delivering anticipated outcomes ultimately depends on which projects are awarded grants. This is assessed in more detail in the following chapter.

### **Cross Cutting Themes**

3.58 The potential to contribute to CCTs was considered in the design of both PIF and PBDG. Most of the measures set out in the business plans are already embedded

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<sup>20</sup> For PBDG, the projects are also referred to Invest Panel to also note the recommendation and raise any issues. For projects with a grant of over £1m it is also referred to external peer review group WIDAB. It is only once these peer reviews have taken place that the project is referred for Ministerial Approval.

in Welsh Government processes (e.g. procurement processes and best practice guidance tools). Key measures included the following:

- **Sustainable development:** following guidance set out in Creating Sustainable Places Together<sup>21</sup> (SUSPLACE, 2019). The delivery strategy for each project which received a grant was also expected to include a waste minimisation, materials and resource efficiency strategy. Both operations also require that new build projects meet Welsh Government Sustainable Buildings Policy. This sets required BREEAM thresholds depending on the type and size of the building, the level of the grant and whether the site is owned by Welsh Government. Exemption from this policy is only agreed in exceptional circumstances and requires prior approval, and to be signed off by the WEFO CEO.
- **Equal opportunities:** ensuring adherence to the Equality Act 2010 and Welsh Government Building Regulations, compliance with Welsh Language Standards, and ensuring contractors can demonstrate that they have the requisite policies on equal opportunities in place.
- **Tackling poverty:** following Welsh Government processes for procurement, which require contractors to demonstrate their proposals for providing wider community benefits which can help to tackle poverty.

3.59 The requirements that projects were expected to meet in relation to CCTs were set out in the guidance documents for Stage One applications, and this formed part of the scoring framework for assessing projects. However the extent to which these measures have been enforced and monitored appears to be inconsistent. While some consultees were able to provide a detailed explanation of the measures being taken by projects and how these are being monitored, feedback from others indicated that this had not been considered in much detail beyond the key requirements for getting the contract letter issued (e.g. the BREEAM requirements).

3.60 WEFO officers who lead on CCTs reported they had limited involvement in the design phase of PIF and PBDG and therefore had few opportunities to influence each operation's contribution to CCTs. While it is accepted that the small size of

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<sup>21</sup> SUSPLACE (2019): [Creating Sustainable Places Together. A quick start guide for policy-makers and practitioners to place-based working and co-production](#)

most of the projects limits the scope of measures which can reasonably be delivered, earlier involvement of CCT officers could have helped to identify measures which are proportionate to the scale of projects. Earlier engagement also could have also helped to establish a consistent approach for ensuring CCT measures are being implemented, which all case officers could use once projects are being delivered.

## **Outputs**

### *PIF*

- 3.61 PIF has only one ERDF output indicator which is 'premises created or refurbished'. The original target was to create or refurbish 16,000 sq m of business premises. This target was calculated based on the predicted outputs for those projects which progressed to Stage Two. The targets were therefore based on sound evidence.
- 3.62 Although there has been some reallocation of resources between PIF and PBDG as a result of the withdrawal of a number of PBDG projects, it is understood that revised targets for floorspace have not been agreed with WEFO.

### *PBDG*

- 3.63 Three ERDF output indicators need to be reported for PBDG. The original targets (as reported in the business plan) were as follows:
- Jobs accommodated: 663
  - SMEs accommodated: 5 to 10
  - Premises created or refurbished: 23,225 sq m
- 3.64 These targets were calculated in a different way to PIF. The targets for PIF were based on the expected outputs of those projects which were expected to progress at the time the final business plan was prepared (November 2018). For PBDG the targets were calculated prior to the selection of projects and were based on estimates of what could be delivered with the funding available. This was calculated by applying the following assumptions:
- A grant of £7m could be expected to result in a total investment of £20m (based on a 35% intervention rate)

- On the basis of an average of £80 per sq ft cost of new build/refurbished floor space, this gives a total floorspace target of 250,000 sq ft or 23,225 sq m.
- The number of jobs accommodated was based on average employment densities for industrial space (1 job per 35 sq m of floor space) giving a total of 663 jobs accommodated.
- For a fund of £7m it was considered reasonable that there would be circa 15 projects of which 5 to 10 would be SMEs. Although this would depend on the nature of the schemes and applicants.

3.65 All of these assumptions are reasonable and robust. They therefore represent a sound basis for estimating output targets at the start of the business planning process (i.e. prior to the selection of projects). However, unlike PIF, these targets were not revisited once projects had been selected. By the time the final version of the business plan had been prepared and submitted to WEFO (in July 2019), 13 projects had been invited to progress, which would cumulatively deliver 49,269 sq m of floorspace (double the target) and accommodate 607 jobs. The large difference between these floor space figures and the output targets is due to the fact that a number of the funded projects are refurbishing a large area of floorspace which has lower costs per sq m.

3.66 The number of jobs accommodated by the 13 projects in the business plan was slightly lower than the output target. This is because a large amount of the refurbished floorspace is already used to accommodate jobs and only the net additional jobs have been counted towards the outputs.

3.67 Therefore, while the original assumptions on which the PBDG targets are based were reasonable at the time, there is a case that these should have been revisited on the basis of the selected projects when the final business plan was submitted to WEFO. This would have been consistent with the approach taken for PIF and meant that the targets are based on real world projects rather than assumptions.

3.68 It is acknowledged that PBDG has been subject to continuous change, with a large number of projects withdrawing from the process. Setting targets on the basis of live applications would therefore risk becoming out of date quickly. However this is considered to be a more robust approach and would mean that the approach to estimating output targets for the two operations is consistent.

## Results

- 3.69 The ERDF Result Indicator for SO4.4 (to which PIF and PBDG contribute) is for a reduction in the claimant count rate in Travel to Work Areas (TWAs) by an average of 8% for the programme as a whole. The business plans stated that targets would be agreed for each operation following its approval.
- 3.70 The selection of result indicators was set out in the OP. However, in the opinion of the evaluators, there are a number of reasons why this is not an appropriate or sufficient result indicator for PIF or PBDG. Firstly, it focuses only on improving access to employment. This is part of the rationale for the intervention, but the operations also aim to deliver economic benefits (increased inward investment, business growth etc.) which are not captured by a reduction in the claimant count. Secondly, as noted in the business plans, it is highly unlikely that a contribution to the results indicator will be realised during the life of the programme. Thirdly, it would be difficult to attribute a reduction in the claimant count to PIF or PBDG because of the large number of other factors which affect it. These include:
- Demographic factors: the probability that a person will claim benefits varies with age and household composition. Furthermore, areas with ageing populations can see unemployment fall as a result of increased replacement demand as workers leave the workforce through retirement. This can have a large effect on the claimant count.
  - Economic factors: these include national economic trends which have a large influence on the claimant count and local factors such as major investments or local economic shocks.
  - Policy factors: because the claimant count is an administrative dataset on benefits it is strongly influenced by UK unemployment policy reforms. This means changes in claimant numbers can sometimes be explained by changes to the benefits system (eg the move over to Universal Credit) or the state playing a more active role in encouraging and supporting people to find work (eg through mandatory work obligations). This also makes it difficult to measure changes to the claimant count on a consistent basis over time. Local labour market interventions such as those funded through European Social Fund (ESF) can also affect the claimant count.

- 3.71 Given that the operations are likely to lead to a fairly modest increase in job numbers (after displacement and other factors have been taken into account), the effect on the claimant count may be relatively small and would be difficult to disentangle from these other factors.
- 3.72 The final evaluation will still measure changes in access to employment as a result of the two operations. For instance, this could be measured through an occupier survey which assesses the extent to which local residents have accessed the available jobs and how many of these were unemployed. This could generate some insights on the extent to which changes in the claimant count can be attributed to the interventions, however this would be difficult to do in a robust way.

### **Summary and conclusions**

- 3.73 This chapter has assessed the strategic fit of PIF and PBDG and analysed the logic models which underpin the interventions. The conclusions are as follows:
- Both operations show a strong fit with Welsh Government strategies and policies. In particular, the Economic Action Plan explicitly identifies the need for public intervention in areas where there is property market failure, which is the rationale for PIF and PBDG.
  - A number of strategies underline the importance of employment creation as a tool for tackling poverty and labour market disadvantage in deprived areas. PIF and PBDG responded to this by making the claimant count in TTWAs one of its key criteria when deciding which projects would be awarded funding.
  - Both PIF and PBDG are responding to clear evidence of need in the labour and property market. The operations will help to address the need for job creation in WWV and to address the undersupply of business premises, which is acting as a barrier to growth and investment.
  - There is a strong case for public intervention to address viability challenges, which are widespread and longstanding in WWV. However, these challenges are not necessarily an indication of market failure, but a reflection of structural weaknesses in the economy of WWV. Public intervention is still justified on grounds of social equity.

- The business plans have not clearly articulated the aims and objectives of each operation. The business plans do set out a series of longer-term benefits, which can be taken as an indication of the change that the operations were seeking to bring about. However, these are high-level and do not set measurable targets, which will make it difficult to assess the success of each operation.
- CCTs have been considered in the design of each operation, with most of the contributions already embedded in Welsh Government processes and requirements. However, it appears that insufficient attention has been given to how contributions to CCTs will be implemented and monitored once the projects are in the delivery stage.
- All of the assumptions used to determine costs look to be robust and have been independently verified.
- The output targets for both operations were based on clear and robust evidence. However, in the view of the evaluators, the output targets for PBDG should have been revisited once there was more evidence of what projects were likely to deliver. This would have been consistent with the approach taken for PIF and meant that the targets are based on real world projects rather than assumptions.

## 4. Project Selection

### Key findings

- The projects receiving funding through PIF/PBDG were selected following an open call for expressions of interest (Eols), which resulted in 21 Eols being submitted for PIF and 39 for PBDG.
- A wide range of marketing activities were carried out which appear to have been successful at raising awareness of both funds.
- Although RETs were invited to identify priority projects at the start of the process, this was challenging for a number of them as they had only recently been established. Since then the RETs have had limited involvement in either operation. Future operations should ensure there is scope for greater input from regional stakeholders into the assessment process.
- Eols were assessed using a scoring framework. The criteria used in this framework provided a good balance between encouraging job creation, meeting strategic priorities and addressing labour market disadvantage, and therefore are consistent with the requirements of the OP.
- The selection of PIF projects which are being funded are considered to be suitable and will contribute to the improved economic performance of their local area. This is on the grounds that all projects are supported by regional stakeholders and responding to clear evidence of property market and labour market need.
- The selection of the PBDG projects which are currently progressing were supported by regional engagement teams and will support local and regional growth agendas. It is also evident that the current projects will help retain and create quality jobs in high value sectors, further supporting local, regional and national economic growth aspirations. The projects will also help improve the economic performance of the local areas they are operating in. Based on these factors, it is considered the sites selected for progression are suitable.

4.1 This section assesses the selection of projects which have been (or are in line to be) awarded funding through PIF and PBDG and the process for identifying and selecting these sites. Specifically, it aims to assess whether:

- Welsh Government sufficiently raised awareness of the funds among developers and the business community;
- regional stakeholders were involved in the process of identifying and prioritising sites;
- the criteria used to select sites were justified and consistent with the priorities and objectives of Welsh Government strategies; and
- the sites selected will address local economic and property market challenges and contribute to the objectives of PIF and PBDG.

### **Marketing and awareness raising**

4.2 Given the competitive process for awarding funds, it was important that Welsh Government undertook awareness raising in order to maximise the number of applications for funding. A number of different publicity and marketing channels were used. These included:

- Press releases and articles on the Welsh Government website. This included a press-release at the launch of the fund and another publicising the last call for applications.
- Articles in the Western Mail and Insider Media
- Emails to all commercial property agents, developers and other property contacts in the Welsh Government's property database (relevant to PIF).
- Emails to all contacts in the Welsh Government's Business Directory and a feature in Business Cymru's newsletter concerning business advice, funding and financial support (relevant to PBDG).
- Dissemination to regional networks via the Regional Engagement Teams (RETs).
- Conversations with local authorities, RETs and Business Account Managers within Welsh Government (relevant to PBDG)

- Advertising through local authorities, sectors bodies and Chambers of Commerce.

4.3 It is understood that Welsh Government received c. 200 requests for the scheme guidance and application forms (for both operations) . The scope of the marketing activities is reasonable given the limited budget available.

#### **Engagement with regional stakeholders**

4.4 Welsh Government engaged each of the regional engagement teams (RETs) in late 2016 and early 2017. It was initially intended that each RET would identify a list of projects in their region which could meet the criteria for PIF and PBDG, and to rank those projects in order of priority. Welsh Government would then consider this feedback when choosing which projects to invite to complete a Stage 1 application.

4.5 Consultees from the RETs reported that this created a number of challenges:

- **Lack of knowledge about investment ready projects:** the RETs had only recently been established when asked to engage with the PIF and PBDG projects. This meant that they had limited intelligence on the private sector led projects that could require PIF or PBDG.
- **The RETs could be open to challenge:** linked to the above, some RETs felt that it would be inappropriate for the RET to identify a list of priorities based on limited knowledge of the projects in their region. This would deny the opportunity to other projects that were not on their radar and open the region up to challenge.
- **Limited details available on the support available:** RETs reported difficulty in identifying projects which were suitable for PBDG because these had to come from individual businesses. Although RET officers were aware of businesses with expansion plans, they could not put these forward because the call was not open and they were not allowed to share the application documents with businesses to establish whether they might be interested.

4.6 A number of the RETs recommended that Welsh Government should instead pursue an open call, which they would help to publicise through their own networks. This resulted in Welsh Government issuing an open call for applications.

- 4.7 The involvement of RETs in the selection and prioritisation of projects after this point appears to have been limited. All of the RETs reported that they expressed a desire to continue to be involved in the selection process, with some offering to provide a commentary on the strategic fit of the applications which were submitted. However they reported they received very limited further contact from Welsh Government about the project. Most were unaware of the scoring framework or which projects in their region had been awarded funding. The only further communication from Welsh Government was in 2018 when they were contacted to assist with a further call for projects as there was a potential underspend.
- 4.8 Nevertheless, overall the RETs believed the projects which had been awarded funding were strategically important for their region and would help to address recognised development challenges.
- 4.9 In summary, while the RETs were involved in the early stages of the project, they have had limited input into the selection or regional proofing of projects. Although the RETs were satisfied with the projects which have been funded, the feedback suggests there may have been some scope for RETs to have a greater role in prioritising projects. It also suggests that communications from Welsh Government after the initial engagement could have been stronger by keeping RETs updated on the applications they had received in their region and the projects which were being invited to progress.

### **Stage One Assessment**

- 4.10 Following the call for projects, Welsh Government received 60 expressions of interest (Eols), 21 of which were for PIF and 39 for PBDG. Following an initial sift of applications to identify those ineligible due to viability gap, location or use, a total of 45 applications were found to be eligible<sup>22</sup>, seeking over £40m of grant assistance.
- 4.11 Although Welsh Government was pleased with the number of PBDG applications consultees reported that they were disappointed with the quantity of PIF applications and overall quality of Eols, with a large proportion providing limited detail and failing to articulate the benefits of the projects. Welsh Government also expressed some frustration that very few of the projects that were identified by the RETs submitted Eols.

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<sup>22</sup> 20 of these were PIF projects and 25 were PBDG

- 4.12 The low number of PIF Eols was attributed to the number of factors, but particularly the high level of business uncertainty caused by the result of the EU referendum when the call was issued in early 2017. Some consultees also believed the strict limit on the intervention rate due to state aid was too low to overcome viability challenges in some parts of the country (such as Anglesey and Ceredigion) and this deterred some projects from submitting applications.
- 4.13 The eligible Eols were then scored using a framework which assessed projects against the following criteria:
- Jobs accommodated against required level of grant: this awarded points based on a statistical calculation
  - Floor space provided against required level of grant: based on a statistical calculation
  - Strategic fit with fund objectives: this was a subjective category in which the panel awarded points based on whether the project was in a priority location (e.g. an Enterprise Zone, a City Region or Local Growth Zone), whether it had good access to a local employment centre and whether it appeared on a RET priority list.
  - Impact upon claimant count: this was a subjective category in which the panel awarded points based on the total claimant count in the Travel to Work area (TTWA) in which the project was located. This was used as a proxy for assessing the accessibility of new jobs for unemployed people.
  - Additionality/community benefits: a subjective category in which the panel awarded points based on the credibility of evidence that the project would deliver additional value to the local economy and would contribute to community benefits such as training and supply chain initiatives.
  - Cross Cutting Themes: a subjective category based on the credibility and comprehensiveness of evidence relating to CCTs.
  - Project deliverability: projects were ranked and scored according to their state of readiness and the level of development work still needed.
- 4.14 Overall it is felt that the scoring criteria provided a good balance between encouraging job creation, meeting strategic priorities and addressing labour market disadvantage. They are therefore consistent with the priorities and objectives of

Welsh Government strategies, including the 2014-20 Operational Programme.

However, the following observations should be noted:

- The criteria used to assess strategic fit are narrow and focused mainly on whether the projects are located in a priority growth location. Cumulatively these priority growth areas (EZs, LGZs and city regions) cover a large proportion of Wales's economy, meaning it is a very broad basis on which to assess the strategic fit of projects. The location of projects is also arguably less relevant in the case of PBDG projects which are for business expansion. It could be argued that these should be assessed on the basis to which they contribute to other growth objectives (e.g. the growth of strategically important sectors) rather than on the basis of their location.
- The criteria did not assess the extent to which projects are consistent with market demand and responding to evidence of need in the local commercial property market. While it would have been difficult and resource intensive to carry out property market assessments for all areas, this is something which could have been assessed at a fairly high level through analysis of vacancy rates and consultation with regional stakeholders.
- There is some uncertainty as to whether the impact on the claimant count was actually assessed. The data made available to evaluators does include a score for this criteria, however one consultee observed that the data on the claimant count in different TTWAs arrived too late to be included in the Stage 1 assessment.

4.15 The Stage One assessment identified 11 PIF and 17 PBDG projects to be provisionally allocated funding and invited to progress to Stage Two. This was based on the highest scoring projects which could be funded, given a pot of £7m in ERDF funding for each operation. Those eligible projects which were not successful were placed on a reserve list.

4.16 Following this, five of the applicants for PIF and nine of the applicants for PBDG decided to withdraw their application. This was reported to be for a variety of reasons, including uncertainty due to Brexit as well as business specific factors<sup>23</sup>.

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<sup>23</sup> This was based on the feedback of consultees from Welsh Government. It has not been possible to consult those applicants that withdrew their application to understand the specific reasons.

The five withdrawn applications for PIF were replaced by a single project which was the highest scoring reserve project<sup>24</sup>. Since then, one further project has been withdrawn.

- 4.17 The nine withdrawn PBDG applications were replaced by one project that had been placed on the reserve list following the initial review of applications.

### Stage Two PIF Projects

- 4.18 Table 4.1 shows the six PIF projects which initially progressed to Stage Two and are still live. It includes four industrial projects, one office project and one mixed use development delivering both office and industrial units. Two of the industrial projects will deliver units for the production or preparation of food.
- 4.19 With the exception of the food facilities, all of the projects will deliver small office and industrial units targeted at small and start-up businesses. The focus of most of the projects is therefore likely to be providing space for local businesses to grow rather than attracting inward investment.

**Table 4.1: PIF projects which are currently proceeding**

App number	Location	Local Authority	Cost (£m)	Grant (£m)	Description
PBDG03	Llangefni	Isle of Anglesey	2.30	0.81	6 industrial units, 200 to 900 sq m
PIF17	Kimmel Bay	Conwy	0.64	0.19	2 industrial units @ 340 sq m
PIF16	Baglan Energy Park	Neath Port Talbot	0.77	0.35	Light industrial and office units, 100 to 325 sq m
PIF09	Port Talbot	Neath Port Talbot	4.67	2.10	4,820 sq m office building divided in to 120 and 230 sq m units
PIF12	Haverfordwest	Pembrokeshire	1.02	0.41	1,025 sq m food grade industrial units
PIF11	Haverfordwest	Pembrokeshire	7.26	2.91	4,725 sq m vegetable preparation facility
Total			16.66	6.77	

Source: Welsh Government

- 4.20 Following the withdrawal of several PBDG projects the decision was taken to reallocate some funding from PBDG to PIF, which would enable Welsh Government to fund a number of the PIF projects on the reserve list. As of April 2020, it is understood that three reserve projects are still live and going through the

<sup>24</sup> The reserve project was a much larger project than the five which it replaced.

Stage Two approval process (see Table 4.2), although there is greater uncertainty about whether these projects will be delivered in the time available (see Chapter 6).

- 4.21 Two of these projects will deliver small office units suitable for start-up and small businesses. The one remaining project is for a 77,000 sq ft industrial unit in the M4 corridor.
- 4.22 Taken together with the projects in Table 4.1, the list shows a reasonable geographical distribution of projects, although a large number are in the Swansea Bay City Region. There are no projects from the Cardiff Capital Region (CCR), although it is noted that a large number of the projects which initially progressed to Stage Two but were subsequently withdrawn were in CCR. There are also no projects from Mid Wales, however this is likely to reflect the fact that only a small part of this region falls within the WWV intervention area (Ceredigion).

**Table 4.2: Reserve PIF projects which are expected to progress**

App number	Location	Local Authority	Cost (£m)	Grant (£m)	Description
PIF05	Harbourside Business Park	Neath Port Talbot	2.03	0.92	985 sq m office building divided in to four small units
PIF06	Pencoed (J35 of the M4)	Rhondda Cynon Taf	6.10	1.90	7,158 sq m industrial unit
PIF14	Swansea West Business Park	Swansea	0.60	0.20	500 sq m office building, sub-divided
Total			8.73	3.02	

Source: Welsh Government

### **Suitability of PIF Project Sites**

- 4.23 One of the requirements for the interim evaluation is to assess the suitability of the advance build development project sites in contributing to the aims and objectives of the business plan. As noted in the previous chapter, the business plan did not explicitly identify aims and objectives. Although it did identify a series of “longer term benefits” that the project would deliver, these were all set out at a high level and do not provide a basis on which to assess the suitability of the project sites.
- 4.24 Therefore the suitability of PIF project sites have been assessed based on the following criteria which, in the views of the evaluators, are the key factors which will determine their economic contribution:

- **Whether sites are identified as regional priorities.** This is on the grounds that regional stakeholders are best placed to identify the key interventions needed for their area.
- **Whether there is evidence that project sites are addressing a gap in the property market.** Projects should be responding to clear evidence of market demand and an undersupply of certain types of business premises. This will minimise displacement and increase the additionality of economic benefits.
- **Whether projects will help to address labour market disadvantage.** Improving access to employment is a key rationale for the intervention. Therefore projects should be in areas where there is evidence of labour market challenges (e.g. a high unemployment or inactivity rate).

#### *Regional priorities*

4.25 As described above, all of the RETs were supportive of the projects which had been selected and agreed that they would make a contribution to regional priorities. Several of the sites are also identified in local or regional policies and strategy documents as priority sites. This includes the site in Llangefni in Anglesey, the sites in Haverfordwest (Pembrokeshire), Harbourside Business Park and Baglan Energy Park (both in Neath Port Talbot). Overall this suggests the selected sites will make a contribution to addressing regional priorities.

#### *Property Market Context for PIF projects*

4.26 Cooke and Arkwright have carried out independent market assessments for each of the areas where the PIF projects are located (see Annex A)<sup>25</sup>. The purpose of these assessments was to test whether the PIF projects are consistent with evidence of market demand, and will help to address a recognised undersupply of space in the market.

4.27 The key conclusions from these market assessments and feedback from commercial agents are as follows:

- **Good evidence of the need for small office units in Port Talbot:** three of the office projects are in Port Talbot (accounting for £3.37m of ERDF

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<sup>25</sup> Full market assessments have not been provided for the areas in which the reserve projects are located because of the greater uncertainty about whether these schemes will progress. However the evaluation has sought the views of local commercial agents about the relevance of these schemes to market need.

investment). The market analysis shows recent demand for good quality office stock in the town has been strong, particularly for smaller units below 5,000 sq ft. Speculative developments which have been brought forward in recent years have been fully let within 12 months. This includes developments at Harbourside Business Park which is the location of one of the PIF projects. The assessment did note, however, that there is c. 20,000 sq ft of modern office stock already available in the local area. Therefore, while the evidence for demand from smaller occupiers is robust the size of the developments mean it may take some time for the buildings to be fully occupied.

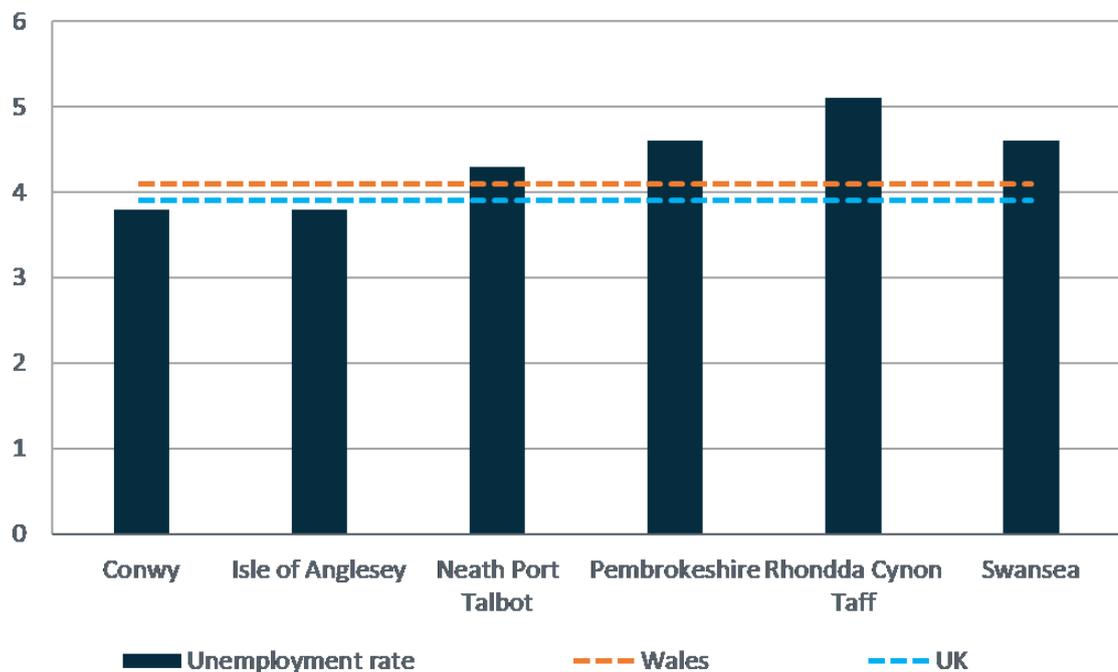
- **Strong evidence of the need for small industrial units in Conwy and Anglesey:** the review of the North West Wales market shows very limited availability of industrial units (CoStar shows a vacancy rate of just 2%), including a particular shortage of small units below 10,000 sq ft which make up the vast majority of demand in this area. The two PIF projects (which account for £1m of ERDF investment) are therefore well aligned with market need.
- **Reasonable evidence of demand for food grade industrial units in Pembrokeshire:** the review identifies an undersupply of premises suitable for the food production sector, which could affect the area's ability to attract inward investment and support the growth of existing businesses. Given the specialised nature of these premises it notes that demand is more limited than some of the other PIF projects, although it is understood that an occupier is already lined up for the 50,000 sq ft unit which addresses some of these concerns.
- **Strong demand for industrial units on M4 corridor:** one of the PIF projects is located at Junction 35 of the M4 (accounting for £1.9m of ERDF investment) and would deliver a 77,000 sq ft industrial unit. Agents anticipated strong interest in this scheme because of its access to the M4. Demand was reported to be strong for all sizes of units and the limited availability of space means any new units delivered to market tend to be taken up quickly.

4.28 In summary, there is good evidence of market demand for all of the PIF projects and that these will help to address the current undersupply of office and industrial space in each of the market areas affected.

*Labour market context*

4.29 **Error! Reference source not found.** shows the unemployment rate in all of the local authority areas in which PIF projects are located. Four of the six local authorities have an unemployment rate above the UK and Wales average. The only exceptions are the districts in North Wales. Data on economic inactivity shows a similar pattern; only Anglesey has a lower inactivity rate than the UK average.

**Figure 4.1: Unemployment rate in areas with PIF projects (per cent), 2019**



Source: Annual Population Survey, model-based estimates of unemployment. Data is for the period October 2018 to September 2019

4.30 Based on the above it is concluded that the selection of PIF project sites were suitable and justified.

**Stage Two PBDG Projects**

4.31 There are currently eight projects being progressed which are detailed in Table 4.3. The projects involve a mixture of uses including; three refurbishments of existing

B2/B8<sup>26</sup> premises, four new builds for owner occupation (including three B1 developments, one B2 / B8 development) and one expansion (B2 / B8).

4.32 The projects are relatively well spread geographically, although there are no PBDG projects in Mid Wales<sup>27</sup>. However, as stated previously, a large proportion of this region lies outside the West Wales and the Valleys intervention area.

4.33 Currently, the value of grant sought is £3.7 million accommodating over 41,000m<sup>2</sup> of floorspace.

**Table 4.3: PBDG Projects which are currently proceeding**

Application No.	Local Authority	Cost (£m)	Grant (£m)	Sector	Description
PBDG39	Neath Port Talbot	1.3	0.43	Creative	1,963 sq. m extension (B2 / B8)
PBDG24	Denbighshire	1.9	0.47	Construction	962 sq. m of office space for owner occupation. (B1)
PBDG29	Gwynedd	0.45	0.16	Med-tech	New 392 sq. m office unit (B1)
PBDG42	Blaenau Gwent	1.37	0.33	Manufacturing	1,190 sq. m lead slag industrial unit (B2 / B8)
PBDG38	Neath Port Talbot	0.54	0.17	Manufacturing	Refurbishment/adaptation of a 2,604 sq m industrial unit. (B2 / B8)
PBDG40	Neath Port Talbot	3.7	0.90	Manufacturing	Refurbishment of 30,000 sq. m industrial unit. (B2 / B8)
PBDG44	Carmarthenshire	5.9	0.99	Manufacturing	New 4,000 sq m building and additional refurb. (B2 / B8)
PBDG45*	Merthyr Tydfil	0.73	0.26	Service sector	325 sq m B1 office

Source: Welsh Government

\*this project has been included since the evaluation research was undertaken and was therefore not discussed in any consultations.

### Suitability of PBDG Projects

4.34 As above, it is felt that the objectives identified in the business plan do not provide a basis on which to assess the suitability of projects sites. Therefore the suitability of PBDG projects have been assessed based on the following criteria:

- Whether sites are identified as regional priorities

<sup>26</sup> B2 premises refer to general industrial use while B\* refers to premises for storage and distribution

<sup>27</sup> It should be noted there was a project in Aberystwyth, which progressed all the way to final approval but the applicant started the project before the offer letter was issued meaning it needed to be disqualified.

- The quality of jobs which are likely to be created and whether these are in sectors which have been identified as strategically important.
- Whether projects will help to address labour market disadvantage.

4.35 Property market need is less relevant for PBDG projects because there is already an identified occupier.

*Regional priorities*

4.36 Similar to the PIF operation, all of the RETs were supportive of the PBDG projects which had been selected and agreed that they would make a contribution to regional priorities. Several of the sites are also located in local growth zones or Enterprise Zones such as Baglan Industrial Estate in Port Talbot, New Vision Business Park in Denbighshire and Rassau Industrial Estate in Blaenau Gwent. Overall this suggests the selected sites will make a contribution to addressing regional priorities.

*Quality of Jobs*

4.37 As shown in Table 4.3, the current projects that are progressing within the PBDG operation are operating in a range of sectors including; manufacturing, med-tech, creative and automotive. At the time that the operation was designed and launched, all of the projects selected for PBDG were within sectors that had been identified as strategically important in the Welsh Government's economic strategy, Economic Renewal: a new direction (Welsh Government, 2010).

*Although these sectors are no longer explicitly identified as priorities in the current Economic Action Plan, it is still recognised that these sectors support high-value, well paid jobs and that their growth is key to supporting increased productivity in Wales<sup>28</sup>. It is therefore crucial these businesses are retained and encouraged to grow in these areas. Based on the sectors the applicants operate in, it is clear that the current projects will contribute to regional and national priorities and support high quality employment.*

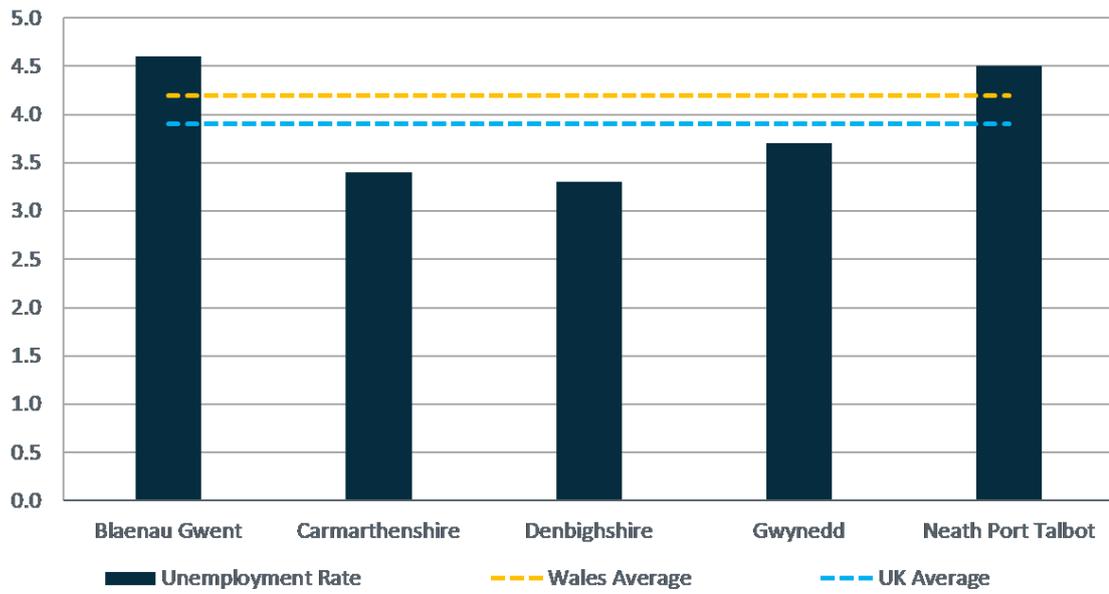
4.38 **Error! Reference source not found.**2 shows the unemployment rate in all of the local authority areas in which PBDG projects are located. Two of the six local

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<sup>28</sup> ONS data on labour productivity by region shows that Wales's manufacturing sector generates over £71,000 in output per job in 2018 compared to an average of £57,000 (ONS, 2020). Data from the Annual Survey of Hours and Earnings (ASHE) shows that the median salary in the manufacturing sector was £29,200 compared to an all-sector average of £22,700 (ONS, 2019).

authorities have an unemployment rate above the UK and Wales average. However, data on economic inactivity shows that all areas, with the exception of Gwynedd have higher levels of inactivity than the Wales average. Overall this suggests the selection of projects was justified based on local labour market conditions.

**Figure 4.2: Unemployment rate in areas with PBDG projects (per cent), 2019**



## Summary and Conclusions

4.39 This chapter has reviewed the process of selecting sites for both operations and evaluated the suitability of the project sites in contributing to the economic performance of Wales and its regions. The key conclusions are as follows:

- Welsh Government carried out a wide range of marketing and communication activities, and a large number of requests for application documents were received. Nevertheless some PIF consultees were disappointed with the number of applications which were actually received.
- While the RETs were involved in the early stages of the project, they have had limited input into the selection or regional proofing of projects. Although the RETs were satisfied with the projects which have been funded, the feedback suggests there may have been some scope to identify projects which made a greater contribution to regional priorities. It also suggests that communications from Welsh Government after the initial engagement could have been stronger.

- Overall the scoring criteria for assessing projects provided a good balance between encouraging job creation, meeting strategic priorities and addressing labour market disadvantage. Although these could have been strengthened by assessing whether the projects are responding to evidence of need in the property market.
- The selection of PIF projects which are being funded are considered to be suitable and will contribute to the improved economic performance of their local area. This is on the grounds that all projects are supported by regional stakeholders and responding to clear evidence of property market and labour market need.
- The selection of the PBDG projects which are currently progressing were supported by regional engagement teams and will support local and regional growth agendas. It is also evident that the current projects will help retain and create quality jobs in high value sectors, further supporting local, regional and national economic growth aspirations. The projects will also help improve the economic performance of the local areas they are operating in. Based on these factors, it is considered the sites selected for progression are suitable.

## 5. Process Review

### Key Findings

- The management processes and structures put in place for PIF and PBDG are working well. Good relationships between case officers and Operation Managers (OMs) ensures there is good oversight of both operations.
- However several case officers for PBDG reported that they did not have the experience and knowledge of property development to carry out the role effectively. While they have received support from colleagues with more experience this has resulted in some delays to the progress of projects.
- It is recommended that future interventions should ensure all case officers have the relevant experience and knowledge to help applicants navigate the process. If this is not possible then there needs to be much clearer guidance and training for case officers.
- Monitoring of the progress of projects is working well during the application process. However consultees reported a lack of clarity over roles and responsibilities once construction has commenced on site and over what indicators should be monitored to assess progress towards CCTs. There is therefore a need for clearer guidance on the role of case officers once projects are in delivery and what information will need to be collected.
- The involvement of the Intermediate Body in the claims process was reported to have caused a number of delays and an additional administrative burden on applicants. However there appears to be limited scope to significantly change its role or reduce the information requirements as this has been introduced as a result of EC requirements.

### Management of PIF and PBDG

- 5.1 The teams managing PIF and PBDG are both based within the Economy, Skills and Natural Resources Directorate of Welsh Government, although PIF is

managed by the Property Infrastructure team and PBDG is managed by the Business Solutions team.

- 5.2 Both PIF and PBDG have a similar management structure. This is divided into two functions:
- Delivery: responsible for delivery of operation activities and outputs
  - Finance: responsible for ensuring all ERDF and Welsh Government financial requirements and financial regulations governing the use of public money are met.
- 5.3 A Finance Lead and Operation Manager (OM) each have overall responsibility for their respective functions and report on progress to the Senior Responsible Officer (SRO) for the operation. The day-to-day oversight of projects is handled by case officers within Welsh Government who report to the OM. The Property Unit Business Manager has also played an active role in both projects and supported case officers. All case officers indicated that this structure works well and that they have a good working relationship with the OM and the property unit business manager with whom they are in contact regularly.

#### **Skills and Experience of Case Officers**

- 5.4 The case officers for PBDG projects are business development managers (BDMs) within the Business and Regions teams, supported by members of the Business Solutions Team (BST), although it is understood that some projects are being managed by property specialists in the Property Infrastructure Team (PIT). The BDMs are familiar with the majority of applicants through their business engagement activity and therefore had established relationships already.
- 5.5 Whilst business development managers have prior knowledge and experience of EU funded programmes, they have not worked with property development grants before. Consultation with a number of BDMs who do not have professional background in property and development suggested that understanding development grants and the concept of viability has been a significant challenge. This has been compounded by the complexities and regulations that come with ERDF funding. Whilst a member from the BST is appointed to a project to provide specific support and guidance, it appears many have still struggled to help projects navigate the approval process.

- 5.6 Consultees were clear that, ideally, the case officer should be someone with a development background and who can anticipate the challenges that might arise. This means they can give informed advice to the applicants on the key things that they need to look out for. While the advice offered by the BST was reported to be helpful in responding to questions from the applicant, their lack of experience meant that they could not be on the front foot in terms of anticipating issues before they arise.
- 5.7 In contrast the case officers for PIF projects are delivery leads within the PIT, most of whom have a background in surveying. Most, if not all, members within the PIT are familiar with property development grants and have worked on similar schemes in the past. Therefore, all consultees reported that they had the skills and experience to oversee projects and to offer good advice to applicants. The only issues reported by some (but not all) case officers related to them having insufficient capacity to support projects alongside their other commitments (which was also reported to be an issue by PBDG case officers). This seems to have been a particular issue for the more complex projects which required more work by the case officers.
- 5.8 In summary, the lack of experience of the development process appears to have caused some challenges for PBDG and resulted in delays to the approval process. While it is too late to implement changes for this operation, future interventions should ensure that, as far as possible, all case officers have the relevant experience and knowledge to help applicants navigate the process. If this is not possible then opportunities for providing more and better training to case officers should be explored and put in place wherever possible. This should highlight all of the common risks which might arise and provide clear instructions on the advice which should be offered to applicants.

**It should also be acknowledged that PBDG case officers did report they had acquired new skills and experience which would leave them better placed to carry out this role on similar interventions in the future. Role of the Intermediate Body**

- 5.9 The Intermediate Body (IB) was established by WEFO in 2015 following an audit of its activities by the EC. This found that it needed to exercise greater control over the award and payment of EU funding, either directly or through an intermediate

body with delegated responsibilities within Welsh Government which is then audited by WEFO.

5.10 In the case of PBDG and PIF, the role of the IB was to verify all claims made by projects to ensure that the expenditure and activities claimed are legal and regular. This is necessary because EC Regulations require WEFO to undertake checks on all claims for reimbursement before they are submitted to the EC for payment.

5.11 This was the first time that an IB has been involved in the claims process and a number of consultees with experience of previous property grants schemes questioned why this change had been introduced. They highlighted the following issues:

- **Onerous information requirements:** applicants were expected to provide a lot of detailed information to the IB in eight different sections, which imposed an administrative burden for grant recipients and was deemed unnecessary by several consultees. Some consultees reported that the same information had been asked for on multiple occasions.
- **Long-time delays for payments:** related to the above, it was reported that the IB requires up to three months to process payments. Grant recipients reported this was too long for small companies' cash-flow. This resulted in a change to the process whereby the grant would be paid to the beneficiary immediately after the claim is received, having been approved by a QS.
- **Lack of experience of property development:** it was reported by a small number of consultees that some officers within the IB could not provide answers to queries raised by the applicants or case officers. This was particularly the case for the more complex property development projects and caused additional delays.

5.12 Although a number of consultees believed the IB had added an unnecessary additional tier of bureaucracy, consultations with WEFO suggested there is limited scope to remove it or to amend its role in any substantial way. This is because it was ultimately established to meet EC requirements and the information requirements would be the same if WEFO was performing this role instead of the IB. It should also be acknowledged that the IB is a new body, which has had to recruit new staff. It is therefore to be expected that there will be some issues as the

organisation establishes itself and becomes familiar with the relevant systems, processes and requirements.

## **Operation Monitoring**

### *Monitoring progress towards outputs*

- 5.13 The outputs for both PIF and PBDG will only be achieved once the projects in receipt of funding have been delivered and the premises are available for occupation (e.g. floorspace delivered, jobs accommodated etc). Therefore the majority of outputs are only likely to be achieved towards the end of the delivery period and are therefore not good indicators for monitoring the progress of operations.
- 5.14 Instead, monitoring of the progress of projects which are going through the approval process is more informal and relies on the case officer being in regular contact with the applicants to understand the progress they have made towards reaching key milestones (e.g. securing planning permission, procuring a contractor etc). All case officers consulted appeared to have good knowledge of the progress of individual projects and the key factors which might be holding these up. The progress of projects is reported to the OMs through regular meetings with the case officers. This ensures that the OM has good knowledge of the overall progress of each operation and can offer advice to case officers if needed.
- 5.15 Consultees provided mixed feedback about the robustness of systems for monitoring the progress of approved projects which are in delivery. The external QS plays a key role in the monitoring of projects for both operations. However, in the case of PBDG, case officers reported they were unsure of who is responsible for monitoring projects once they are in delivery. There was also reported to be some reluctance by case officers to get involved in monitoring as this falls outside the usual responsibilities of a BDM. This was not the case for approved PIF projects where case officers reported they are in regular contact with the grant recipient and are kept abreast of the progress of each project.
- 5.16 There therefore appears to be a need for clearer guidance to PBDG case officers on their role in monitoring progress of projects once they are in delivery. Since the research was undertaken it is understood that roles and responsibilities for monitoring PBDG have now been made clearer, and that experienced BDMS have been assigned to work on the live projects.

### *Financial Monitoring*

- 5.17 During the lifetime of both operations WEFO introduced new project management software which would require all grant recipients to submit their claims digitally through an online platform. This would provide WEFO and all members of the operation team with up to date financial monitoring data in a digital format. In practice, consultees reported that the software was not suitable to property development projects and a number of technical problems were encountered. This resulted in delays to payments and generated additional administrative work for beneficiaries. It is understood that all applicants have now been given the choice of submitting claims via PPIMs or in a hard format, with most opting to submit hard copies of claims which are processed manually.
- 5.18 Once a claim is received, it is independently verified by a Quantity Surveyor and then reviewed by the Intermediary Board (IB) before being submitted to WEFO for final approval and payment. This is a robust and rigorous process for monitoring claims and financial performance, although several consultees reported it was too rigorous and had caused a number of delays in processing claims (see above).

### *Cross Cutting Themes*

- 5.19 Both business plans identified a number of contributions to CCTs that projects would deliver, and this formed part of the scoring criteria for assessing projects. However there does not appear to be a formalised and consistent process for monitoring these contributions once projects are in delivery. Only a small number of the case officers reported that they are collecting this information and very few said they had received guidance on what indicators they should be monitoring. While some of these indicators should be straight forward to monitor (e.g. the BREEAM rating of the completed building) others will require information to be provided by the applicant or their contractors e.g. waste reduction targets. There therefore needs to be an agreed approach which is communicated to all case officers for the remaining part of the delivery period.

### **Summary and Conclusions**

- The management and delivery structures put in place for PIF and PBDG appear to be working well. Consultees were positive about the role played by the OMs and the Property Unit Business Manager who have maintained good oversight of each operation.

- Case officers for PBDG lacked knowledge and experience of the property development process, which has caused a number of challenges and delays to the approval process. While it is too late to implement changes for this operation, future interventions should ensure that all case officers have the relevant experience and knowledge to help applicants navigate the process. If this is not possible then there needs to be much clearer guidance and training for case officers. This should highlight all of the common risks which might arise and provide clear instructions on the advice which should be offered to applicants.
- Monitoring of the progress of projects is working well during the application process. However there is a lack of clarity over roles and responsibilities once construction has commenced on site and over what indicators should be monitored to assess progress towards CCTs. There is therefore a need for clearer guidance on the role of case officers once projects are in delivery and what information will need to be collected.
- The introduction of new project management software have caused frustrations and resulted in delays in the payment of claims. However these issues now appear to have been resolved, with most applicants choosing to submit hard copies of their claims.
- The introduction of the Intermediate Body was also reported to have caused a number of delays and an additional administrative burden on applicants. However there appears to be limited scope to significantly change its role or reduce the information requirements as this has been introduced as a result of EC requirements.

## **6. Delivery and Progress**

6.1 The purpose of this chapter is to assess whether the operations are on track to meet the commitments in the business plan on time and to budget.

6.2 As of April 2020, the official deadline for the drawdown of funding is December 2021. However this deadline was determined prior to the coronavirus pandemic which is likely to cause significant disruption to a large number of ERDF projects. It is understood that this may result in an extension to the deadline for drawing down funds, however this has not yet been confirmed.

### **Progress of PIF**

6.3 The November 2018 business plan for PIF had a target of delivering 16,000 sq m of new or refurbished floorspace. This was based on the delivery of seven projects which had progressed to Stage Two at the time the business plan was prepared, with a cumulative requirement for £7m of ERDF funding.

6.4 Since then, one of the seven projects has been withdrawn by the applicant and three reserve projects have been invited to submit a Stage Two application. This is possible because of the withdrawal of a number of PBDG projects which meant that operation was not likely to meet all of its financial targets. It is intended that the underspend will be re-allocated to PIF alongside additional core funding, although the exact scale of funding to be reallocated has not formally been agreed with WEFO.

6.5 If the nine live PIF projects are delivered, it is estimated that the operation will deliver 23,700 sq m in new or refurbished floorspace (exceeding its target by 7,700 sq m), with a total ERDF grant requirement for £9.7m.

6.6

6.7 Table 6.1 shows the progress of the live projects, including the anticipated completion date reported by case officers. These were all reported prior to the outbreak of coronavirus, which is likely to have affected the timescales for the delivery of a number of the projects and are therefore subject to significant uncertainty. There is also the possibility that further projects will be withdrawn due to the ongoing economic uncertainty that this has caused.

6.8 The projects have been given a RAG rating based on the likelihood that projects will be delivered by December 2021:

- Green projects are those which are already near completion or where delivery is expected to commence imminently. Cumulatively these projects will deliver around 4,500 sq m of new or refurbished floorspace and account for £1.35m of ERDF investment.
- Amber projects have not yet had the Stage 2 application approved. These projects are in the process of preparing planning applications or going out to tender to secure a contractor. Case officers reported that these projects should all be delivered before the end of 2021 and did not flag up any major risks. However the estimated completion dates were subject to uncertainty and the added delays caused by restrictions related to coronavirus means there is a risk that these projects will not be delivered on time unless an extension is granted. These four projects account for £5.6m of ERDF investment and would deliver 11,000 sq m of new floorspace.
- There is a high risk that the two red projects will not be delivered by December 2021. For one of these projects (PIF05) it is unclear whether this will still proceed as the applicant is struggling to secure match funding and the Stage 2 application was described as being “some way off”. The other project (PIF06) is going ahead, however this is a large project with an estimated completion date of November 2021 (just one month before the deadline). The project still needs to secure planning permission which increases the risks of delays. Given the added delays caused by coronavirus, this project is only likely to be deliverable if there is an extension beyond December 2021.

6.9 If the two red projects were not delivered it would mean PIF delivers 15,557 sq m of floorspace in total, which is 443 sq m below its target of 16,000 sq m.

**Table 6.1: Progress of PIF projects**

Project reference	ERDF grant (£m)	Floorspace (sq m)	Status	Anticipated completion date
PIF16	0.19	1,022	In delivery	Near complete
PIF17	0.35	678	In delivery	Near complete
BPDG03	0.81	2,787	Award letter issued but not yet commenced	Oct-20
PIF09	2.10	4,820	Stage 2 not yet approved	Dec-20 (assuming full St 2 application submitted in June 2020)
PIF14 (reserve)	0.16	500	Stage 2 not yet approved	Dec-20 (assuming full St 2 application submitted in June 2020)
PIF11	2.91	4,725	Stage 2 not yet approved	Sep-21 (subject to planning)
PIF12	0.41	1,025	Stage 2 not yet approved	Sep-21
PIF06 (reserve)	1.90	7,158	Stage 2 not yet approved	Nov-21 (subject to planning)
PIF05 (reserve)	0.92	985	Stage 2 not yet approved	Unknown
Total	9.74	23,700		

Source: Hatch Regeneris based on information provided by Welsh Government

- 6.10 Most of the reasons given for delays to projects appear to be outside Welsh Government's control. The three reserve projects were only alerted that they could advance to Stage Two in late 2019 and have therefore had less time to complete the Stage Two process than the other applicants. The timeframes were therefore always likely to be tight, particularly for PIF06 which is a large project which has yet to submit its planning application.
- 6.11 The delays to the other three original projects which are still at Stage Two are all reported to be due to delays with the applicant, or the planning process taking much longer than anticipated. It appears that Welsh Government officers are doing everything within their control to progress these projects<sup>29</sup>. Consultees reported they are in regular contact with the applicant to push them to provide the required information and provide them with any support required. Case officers have also liaised directly with planning officers to try and progress planning applications as quickly as possible.

<sup>29</sup> This was based on feedback from Welsh Government consultees. It should be noted that it is not been possible to consult a large number of the grant recipients to understand their views on the factors which have held up delivery.

## **Progress of PBDG**

- 6.12 As noted in earlier chapters, a number of applications for PBDG funding have been withdrawn from the process, which means the operation is likely to deliver fewer outputs than was originally anticipated (although it will still exceed the targets set out in the business plan). Consultation with WG delivery team stated there are a number of reasons for this, including:
- A number of businesses went into receivership as the operation has progressed.
  - A number of businesses re-thought their decision following Brexit delays and economic uncertainty therefore, putting their expansion plans on hold.
  - Some businesses struggled to find the time to progress their expansion plans and was not a top priority for businesses, especially those with limited capacity.
- 6.13 There are currently seven projects that are still progressing within the PBDG process (see Table 6.2). One project (PBDG42) has been withdrawn as construction started before the offer letter was issued.
- 6.14 Of the remaining projects, two are committed and on-site and a further three are approved and expected to start construction in the next few months. One project is approved subject to securing planning consent, however consultees were confident that this would be secured. The remaining project has only recently been added (after the evaluation research was undertaken) and is therefore in the process of preparing the Stage 2 application. However this is a small project and therefore should be deliverable by the end of 2021.
- 6.15 If all of the amber and green projects in the table are delivered by the end of the delivery period PBDG will achieve the following outputs:
- 40,246 sq m of floorspace in premises created or refurbished, compared to a target of 23,225 sq m
  - 322 jobs accommodated compared to a target of 663
  - 11 SMEs accommodated compared to a target of 5 to 10

**Table 6.2: Progress of PBDG projects**

Application No.	ERDF Grant (£)	Floor-space (sqm)	Jobs accommodated	SMEs accommodated	Status
PBDG39	0.43	1,963	30	1	Committed / Onsite
PBDG24	0.47	962	76	2	Committed / Onsite
PBDG29	0.16	392	11	3	Committed but start delayed by Covid
PBDG38	0.17	2,604	9	4	Approved, offer letter issued
PBDG40	0.90	30,000	120	0	Approved, offer letter drafted
PBDG44	0.99	4,000	76	1	Approved subject to planning
PBDG45 (New)	0.26	325			Stage 2 application awaited
PBDG42	0.33	1,190			No longer progressing due to pre-start

Source: Hatch Regeneris based on information provided by Welsh Government

6.16 Consultation with the delivery team identified the following internal reasons for delays to the progress of projects:

- The approval process has been protracted with approvals and claims having to be reviewed by the Investment Panel, Intermediary Board and WEFO.

6.17 Resources within Welsh Government are limited and the PBDG operation has resulted in additional work that officers have absorbed alongside their day job. Therefore, members of the delivery team have often found it difficult to dedicate the time needed. This has been compounded by several case officers not having the relevant knowledge of the property development process (see Chapter 5). However other factors have been outside Welsh Government's control and have been due to delays with the applicants providing information or delays caused by the planning process. In some cases these delays have impacted on cost plans which have in-turn become out of date and have to be reviewed and resubmitted, resulting in further delays. There have also been a large number of applicants who have progressed schemes to an advanced stage and then decided to withdraw. This has caused further stresses on resources.

6.18 As above, it should be noted that it has not been possible to consult a large number of the PBDG applicants. Therefore there may be other factors which have held up progress that the evaluation team is not aware of.

## **Conclusions**

- 6.19 Both operations have had a number of projects withdrawn from the application process which has caused disruption and delays to the achievement of outputs and meant that it was necessary to re-profile both operations.
- 6.20 Based on the current live projects, PIF has a target of delivering 23,700 sq m of new business premises. The operation has so far not achieved any outputs but two projects are likely to be completed very soon and good progress is being made by a further four projects which should be delivered by the end of 2021. However there is a high risk that two of the projects will not be delivered on time unless there is an extension to the delivery period because of the coronavirus pandemic. If these projects were not delivered, the PIF operation would under-deliver on its output target by 8,140 sq m.
- 6.21 Consultees were confident that all of the PBDG projects would be completed by the December 2021 deadline and therefore that all of the revised output targets would be achieved. While there is a risk that the two largest projects will miss this deadline, this is only likely to be the case if there is a significant delay as a result of coronavirus.

## 7. Conclusions

### Strategic fit of PIF & PBDG

- 7.1 Both operations show a strong fit with Welsh Government strategies and policies. In particular the Economic Action Plan explicitly identifies the need for public intervention in areas where there is property market failure, which is the rationale underpinning both PIF and PBDG.
- 7.2 A number of strategies underline the importance of employment creation as a tool for tackling poverty and labour market disadvantage in deprived areas. PIF and PBDG respond to this by providing the infrastructure needed for job creation in deprived areas. This has been achieved by assessing the claimant count in TTWAs as one of its key criteria when deciding which projects would be awarded funding and asking applicants to demonstrate how they will benefit areas with low unemployment. Most of the funded projects are in areas with above average rates of unemployment and inactivity.
- 7.3 Both operations are also consistent with the priorities identified in regional strategies which identify a shortfall of high-quality premises and the need for public intervention.

### Robustness of logic chain

- 7.4 Overall it is concluded that the business plans for PIF and PBDG operations set out a robust logic chain, although there are a couple of areas in which it could have been strengthened. Key points to note are as follows:
- There is good evidence of need for both interventions. This includes the need for job creation, a shortage of employment space across Wales and a lack of development activity by the private sector due to viability challenges. Without public intervention to address these challenges the supply of new premises would be severely constrained. This would put Wales at a disadvantage to other areas with higher property values and place restrictions on the ability of Welsh businesses to grow.
  - The objectives in the business plans for each operation are poorly articulated and are not SMART<sup>30</sup>. In particular there is a lack of detail on the specific

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<sup>30</sup> specific, measurable, achievable, realistic and timebound

challenges that the operations are seeking to address and the types of projects which should be funded (e.g. the undersupply of certain types of premises which are in high demand).

- The calculation of project inputs required to deliver each operation is robust and based on sound evidence.
- The operation activities are based on a tried and tested process for these types of interventions, which have been delivered by Welsh Government through several programmes. The success of these activities in terms of delivering anticipated outcomes ultimately depends on which projects are awarded grants (see below).
- The output targets for both operations were based on clear and robust evidence. However, in the view of the evaluators, the output targets for PBDG should have been revisited once there was more evidence of what projects were likely to deliver. This would have been consistent with the approach taken for PIF and meant that the targets are based on real world projects rather than broad assumptions.
- The result target of delivering an 8% reduction in the claimant count is consistent with WEFO's ambition to ensure that these operations will improve access to employment. However, given the likely scale of net-additional employment and the range of other factors which affect the claimant count, it would be difficult to attribute any change in the claimant count to these operations.

### **Site selection process**

7.5 The process of selecting sites used an established method which has worked effectively on similar interventions in the past (open call for projects followed by a scored assessment process). This appears to have worked well; the scoring criteria achieved a good balance between building on growth opportunities and addressing labour market disadvantage and is therefore consistent with the OP and other Welsh Government strategies. Based on a review of the applications it appears that the best projects were taken forward.

7.6 However the process could have been improved through the following:

- Greater input from regional stakeholders during the assessment process (see recommendations below).
- Greater consideration of property market need in the assessment of PIF projects.
- Use of a wider range of factors than just whether projects are located in an Enterprise Zone, Local Growth Zone or city region to assess strategic fit.

### **Suitability of selected projects**

7.7 The selection of PIF projects which are being funded are considered to be suitable and will contribute to the improved economic performance of their local area. This is on the grounds that all projects are supported by regional stakeholders and responding to clear evidence of property market and labour market need.

7.8 The selection of the PBDG which are currently progressing were supported by regional engagement teams and will support local and regional growth agendas. It is also evident that the current projects will help retain and create quality jobs in high value sectors, further supporting local, regional and national economic growth aspirations. The projects will also help improve the economic performance of the local areas they are operating in. Based on these factors, it is considered the sites selected for progression are suitable.

### **Project management processes**

7.9 The project management structures and processes put in place for both PIF and PBDG are working well and have ensured both operations are being delivered effectively. There are good relationships between case officers (who have responsibility for oversight of applications) and OMs and other members of the PIT which ensures OMs have good oversight of the progress of each operation.

7.10 However, there have been a few challenges highlighted which include:

- Property and development inexperience of case officers for PBDG, which has added to delays and inability to answer applicant queries promptly. This needs to be considered on future interventions (see recommendations below).

- Aspects of the claims process and the levels of scrutiny from the Intermediate Board which has delayed the approval of payment of claims. Although this has caused some frustration, there does not appear to be any scope to significantly amend the role of the IB.
- Technical problems associated with project management software which has also created long delays. Although this appears to have been resolved by allowing grant recipients to use the more traditional method of submitting claims manually.

### **Robustness of monitoring processes**

- 7.11 Systems for monitoring the progress of projects which are still going through the application process are working well, with all case officers reporting to be in regular contact with applicants. The progress of projects is reported to the OMs through regular meetings with the case officers. This ensures that the OM has good knowledge of the overall progress of each operation and can offer advice to case officers if needed.
- 7.12 However, there is a lack of clarity for some PBDG case officers on what monitoring information they should collect once applications are approved and delivery has commenced (see recommendations below). There is also a lack of clarity for both PIF and PBDG case officers on what information relating to CCTs should be monitored (see below).

### **Cross Cutting Themes**

- 7.13 Most of the operations' contributions to CCTs are already embedded in Welsh Government processes (e.g. procurement processes and best practice guidance tools). For example, ensuring compliance with Welsh Language standards and ensuring contractors can demonstrate that they have the requisite policies on equal opportunities in place. There is also a requirement that most new build projects will achieve a rating of BREEAM Very Good, although there are some exceptions to this.
- 7.14 Applicants were asked to demonstrate that they could meet these requirements during the application process, and this formed part of the scoring framework for assessing projects. However, there does not appear to be any formal systems or guidance in place for how these contributions should be enforced or monitored, which is resulting in inconsistent approaches being taken by case officers once

projects are in delivery. This will make it difficult to assess the operations' contributions to CCTs at the final evaluation.

- 7.15 It is also felt that earlier involvement of WEFO's CCT Sustainable Development Adviser could have helped to identify measures relevant to CCTs which are proportionate to the scale of projects being funded, and how these could be monitored.

### **Progress towards output targets**

- 7.16 Both operations have had a number of projects withdrawn from the application process which has caused disruption and delays to the achievement of outputs..
- 7.17 PIF has a target of delivering 16,000 sq m of new business premises. The operation has so far not achieved any outputs but two projects are likely to be completed very soon and good progress is being made by a further four projects which should be delivered by the end of 2021. If all of the live projects were completed by the deadline the operation would deliver 23,700 sq m. However there is a high risk that two of the projects will not be delivered on time unless there is an extension to the delivery period because of the coronavirus pandemic. If these projects were not delivered, the PIF operation would under-deliver on its output target by 443 sq m.
- 7.18 Consultees were confident that all of the seven remaining live PBDG projects would be completed by the December 2021 deadline despite the risk posed by the coronavirus pandemic. If all of the projects are delivered this would mean the operation:
- exceeds its target for created or refurbished premises by 17,021 sq m (40,246 sq m compared to an original target of 23,225 sq m)
  - falls short of its target for jobs accommodated by 341 (322 compared to a target of 663)
  - exceeds its target for SMEs accommodated (11 compared to a target of 5 to 10, as per the business plan).

## **8. Recommendations**

### **Operation delivery**

8.1 Although both operations experienced a number of delays, it now appears that PIF and PBDG are progressing well. A small number of recommendations related to delivery in the remaining part of the intervention period are suggested:

- Ensure that case officers are fully aware of their roles and responsibilities for monitoring progress of projects once delivery has commenced, particularly for the larger projects where there is a risk that construction will not be completed by the December 2021 deadline.
- Provide guidance to all case officers on what information should be collected in relation to contributions to CCTs and how this should be recorded in a consistent format.
- OMs and other senior officers within Welsh Government should provide additional support to the case officers for those projects where there is a high risk that the December 2021 deadline will not be met. This includes liaising with planning officers at the local authority to ensure that the projects are not held up by the planning process.
- Over the coming months, case officers and OMS should take stock of how the coronavirus pandemic is affecting the delivery of PIF and PBDG projects, and apply for a funding extension if it looks likely that the deadline for delivery will be missed.
- Communicate progress more widely outside of the project delivery team with RETs to ensure they have a good understanding on how projects are progressing and what they are expected to deliver over the course of the operation.

### **Future interventions**

8.2 Two recommendations for future interventions are suggested:

- Future interventions should ensure that all case officers have the relevant experience and knowledge of property development to help applicants navigate the process. If it is not possible to recruit appropriately qualified and experienced staff, Welsh Government will need to accept a higher level

of risk. This could be mitigated to some extent by providing clearer guidance and training for case officers. This should highlight all of the common risks which might arise and provide clear instructions on the advice which should be offered to applicants.

- Future operations should include Regional Engagement Teams at two stages:
  - at the start of the project, where RETs should be asked to identify the priority projects for their region, and
  - during the assessment process, when they should be asked to comment on the applications which have been submitted with this feedback included in the scoring framework.

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## **Annex A Property Market Assessments**

## **Office Market Report for Port Talbot**

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### *Description of the PIF projects*

- 1.1 This review considers the office market, and the suitability of the proposed office developments in Port Talbot, in the context of current market demand and supply in the region.
- 1.2 The relevant PIF projects are as follows:
  - proposed office development at Baglan Energy Park comprising c.43,239 sq. ft. of office space, sub dividable into units of 1,200- 2,500 sq. ft. with potential for mezzanine areas.
  - A 12,400 sq ft office building at Harbourside Business Park, divided in to four small units

### *Description of local market geography*

- 1.3 Located in South Wales, Port Talbot is situated 8 miles east of Swansea, 35 miles west of Cardiff and 175 miles west of London. The town is positioned to the immediate south of the M4 Motorway and is served by junctions 38, 39 and 41, together with the Great Western Mainline.
- 1.4 The South Wales office market is dominated by its regional centres, with Cardiff, Swansea and Newport traditionally accounting for the majority of office take up. Cardiff has become increasingly dominant as the capital city and major commercial hub for the region, coupled with the significant development that has taken place both in the city centre and out of town in recent years.
- 1.5 Activity in Swansea, Newport and more regional towns such as Bridgend have increasingly seen activity shift to their out of town business parks which are typically of a size to satisfy smaller local requirements.
- 1.6 Port Talbot is dominated by manufacturing and industry, which employs in excess of 30% of the workforce in Neath Port Talbot County Borough Council, and office activity has traditionally spun off from the manufacturing core.
- 1.7 Port Talbot town centre does not have an established office environment. Isolated pockets of availability are interspersed throughout the centre but this is generally of poor quality.
- 1.8 Major commercial office activity is instead focused around the following 'out of town' developments which were completed within the last 10 years:
  - Baglan Energy Park- which includes the Grade A Brunel Park office development on Brunel Way anchored around the Waterside Medical Centre; Baglan Bay Innovation Centre, which provides office space for SMEs; and One Talbot Gateway, with occupiers including Welsh Water and Bro Morgannwg Health Board.
  - Harbourside/ Port Talbot Docks- including the Grade A Llewellyn House development at Harbourside, anchored around the Port Talbot Justice Centre, with occupiers including TWI and Tata Steel.
- 1.9 Infrastructure and accessibility to these commercial districts has been improved, most notably with the development of the Harbour Way periphery distributor road which gives direct links to Harbourside from the M4, and GE Energy's £300m power

station at Baglan Energy Park, and it is anticipated that there will be significant further development at these areas over the coming years.

### *Availability of space*

- 1.10 The current availability of good quality office stock on offer across Port Talbot is generally low, with tenants often having to settle for space of an inferior quality.
- 1.11 The availability of office space in Port Talbot and the surrounding areas, is detailed below:

<b>ADDRESS</b>	<b>SIZE (sq. ft.)</b>	<b>RENT (per sq. ft.)</b>	<b>COMMENTS</b>
Port Talbot Business Unit, Addison Road, Port Talbot	190-1,020 sq. ft.	£6.75	Hybrid office/ industrial construction with basic office specification. Small office spaces available on monthly terms.
Water Street Business Centre, Port Talbot	527-1,356	£260 per month	Older office stock with basic office specification. Small office spaces available on monthly terms.
Suite 1 Cymric House, Bethany Square, Port Talbot	4,612 sq. ft.	£8.13	Purpose built office unit. Reasonably modern specification- suspended ceilings etc.- though dated in appearance.
Llewellyn House, Harbourside, Port Talbot (former Thyssen Krupp)	Up to 6,317 sq. ft.	£11	Purpose built grade A office space, constructed in 2014. Fitted out with a/c, suspended ceilings, LED lights etc
Office Suite, Llewellyn Quay, Port Talbot	2,054	£5	Older office stock with basic office specification.
Office Suite, Llewellyn Quay, Port Talbot	1,345	£7.44	Older office stock with basic office specification.
Suite 26 Baglan Bay Innovation Centre, Brunel Way, Port Talbot	936	£10	Modern office specification. Multi occupied building owned by NPTC, with the focus on providing accommodation to SMEs
Suite 28 Baglan Bay Innovation Centre, Brunel Way, Port Talbot	651	£10	Modern office specification. Multi occupied building owned by NPTC, with the focus on providing accommodation to SMEs

- 1.12 This overview indicates that the availability offices in Port Talbot is split between poor or older quality Grade B stock, with rents ranging from £5- £8.50 per sq. ft., and better quality office stock out of the town centre, with rents in the region of £10- £11 per sq. ft.
- 1.13 There is evidence of older and former institutional office stock in the town which has been repositioned into small office suites, to target at SMEs on the basis of all-inclusive terms. These are poor quality and arguably not reflective of demand.
- 1.14 Premium quality space is in noticeably short supply, though we understand that there is the prospect of further development at Harbourside. The landlord has an ability to develop c.10,000 sq. ft. of Grade A space, though this will likely be subject to a suitable pre-let.
- 1.15 The closest likely competitor, in terms of the proposed development, is probably Baglan Bay Innovation Centre, a multi occupied office building, owned by NPTC, that provides accommodation for a range of SMEs in a contemporary 'campus' style office environment. You will note in the table above, that office supply at the building is limited to 2 small suites of less than 1,000 sq. Ft.
- 1.16 In addition to supply in Port Talbot, it is likely that any potential occupiers will also consider Swansea, the closest regional hub.
- 1.17 The focus of the Swansea office market is Swansea Enterprise Park, which provides a mix of 1<sup>st</sup> and 2<sup>nd</sup> generation business parks of varying specifications.
- 1.18 The older office stock comprises developments from the 1980s/ 1990s, that come with a variety of specifications, with deals on unrefurbished space starting at c.£6 per sq. ft., rising to £10 per sq. ft. on refurbished stock. There is some 70,000 sq. ft. available, though this does include several larger suites of 10,000 sq. ft. and above which have been on the market for some time and challenged by lack of demand by large occupiers for out of town development.
- 1.19 The more recent generation of office stock is focused around Matrix Business Park and Phoenix Business Park, and is probably closer in specification to what this proposed development is looking to achieve but unable to split down to smaller suites.
- 1.20 There is some 15,000 sq. ft. available at Matrix Business Park, with suites ranging from 4,000- 11,000 sq. ft., and quoting rents likely to be in the region of £14- £15 per sq. ft.
- 1.21 Phoenix Business Park comprises smaller developments, with individual suites of c.1,000 being marketed on flexible terms at £17- £18 per sq. ft., inclusive of rent, rates, services and utilities.

#### *Nature of market demand*

- 1.22 Demand for good quality office stock in recent years has been strong, as lettings at the speculative Grade A developments at both Llewellyn House, Harbourside and Brunel Park, Brunel Way have demonstrated.

1.23 From the period 2014- 2017, some 50,000 sq. ft. of office space was let to the following occupiers:

OCCUPIER	SIZE (sq. ft.)	COMMENTS
Tata Steel	15,686	Llewellyn House- Pre Let
TWI	12,372	Llewellyn House- Pre Let
Thyssen Krupp	8,456	Llewellyn House. 10 year lease from Q1 2015 Rent £10.50 per sq. ft.
Ministry of Furniture	3,000	Brunel Park. Purchased the property. Q1 2016. Office furniture providers.
Plaid Cymru	1,500	Brunel Park. 5 year lease from Q3 2016. Rent £10 per sq. ft. Office for local AM
Allied Healthcare	1,500	Brunel Park. 5 year lease from Q2 2016. Rent £10 per sq. ft. Offices for community healthcare provider
S&C Electrics	4,015	Brunel Park. 5 year lease from Q3 2016. Rent £10 per sq. ft. Offices for global provider of equipment and services for electric power systems
British Red Cross	1,350	Brunel Park. 5 year lease from Q1 2017. Rent £10 per sq. ft. Offices for UK charity
Acorn	1,350	Brunel Park. 5 year lease from Q1 2017. Rent £10 per sq. ft. Offices for national recruitment company

- 1.24 Both developments were fully let within 12 months of practical completion, although Tata and TWI were both pre-lets. Occupiers were a mix of large national companies, some inevitably linked to the steel works, with smaller lettings also achieved to national occupiers.
- 1.25 Thyssen Krupp surrendered the lease on their office in early 2019, due to their withdrawal from the region. Since this time, 25% of their space has subsequently been re-let, including 2,100 sq. ft. to Seren Support Services, a South Wales company providing in-home health care, at £11 per sq. ft.
- 1.26 The speed with which the developments have been let suggests a latent demand for good quality space in the locality from local and national businesses, though this is tempered by the fact that some 6,500 sq. ft. is still available at the former Thyssen Krupp unit after some 18 months on the market.

*Conclusions about the suitability of the funded projects*

- 1.27 The proposed office developments are c.43,000 sq. ft. and 12,400 sq. ft. net. On the basis of a 10%- 15% void for common areas, this will probably equate to c. 37,000 sq. ft. and 11,000 sq. ft. IPMS3.
- 1.28 On the basis of lettings of up to 2,500 sq. ft., the proposed development at Baglan Energy Park will require a minimum of 15 occupiers to fill, though given the size of lettings we have seen recently, lettings of c. 1,500 sq. ft. are more likely, requiring 25 occupiers to fill the building. The proposed development at Harbourside Business Park will require 4 occupiers, each taking around 2,750 sq. ft on average.
- 1.29 The evidence above suggests that there is robust demand for suites in this size range., though it is difficult to gauge the depth of this demand. However, this needs to be considered against the offices available in Port Talbot and Swansea, with some 20,000 sq. ft. of modern office space available in these areas.
- 1.30 Whilst the evidence for demand for smaller occupiers is robust the size of the development for the area, and on the target audience of small lettings may mean that it may take some time for the buildings to be fully occupied.

## **Industrial Market Report for Port Talbot**

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### *Description of the PIF projects*

- 1.31 This overview considers the industrial market, and the suitability of the proposed industrial development in Port Talbot, in the context of current market demand and supply in the region.
- 1.32 The proposed development is located at Baglan Energy Park and comprises a number of mixed use industrial/ office units ranging from 1,250- 3,500 sq. ft.

### *Description of local market geography*

- 1.33 Located in South Wales, Port Talbot is situated 8 miles east of Swansea, 35 miles west of Cardiff and 175 miles west of London. The town is positioned to the immediate south of the M4 Motorway and is served by junctions 38, 39 and 41, together with the Great Western Mainline.
- 1.34 Port Talbot is home to Tata Steel, the largest of all three major steel plants in the UK, with c. 4,000 employees. Inevitably, the manufacturing sector in Port Talbot is dominant, employing in excess of 30% of the workforce in Neath Port Talbot County Borough Council, which is significantly higher than both the UK and Wales averages.
- 1.35 This critical mass of industrial and manufacturing activity in Port Talbot is centred around the following locations:
  - Baglan Energy Park
  - Baglan Industrial Estate
  - Seaway Parade Industrial Estate
  - Llewellyn Quay, Harbourside.
- 1.36 The estates are home to a mix of major national occupiers such as SARPAK RB, Montagne Jeunesse, ECOLAB and Netalogue, Intertissue, Hi Lex Cable, Cultech Limited, and local occupiers such as Tatami Fightwear, Nolan Road Markings, Glamorgan Glazing and Avon Sheeting.
- 1.37 Other major outlying industrial estates located between Port Talbot and Bridgend include the following:
  - Kenfig Industrial Estate- historically been able to accommodate large requirements, and is home to major occupiers such as Amazon and John Pye Auctions.
  - Village Farm Industrial Estate- home to a number of more local occupiers such as Nottage Timber Merchants and Dunraven Windows.
- 1.38 These estates have strong levels of occupancy, but the units are of mixed quality, with some isolated pockets of new development outweighed by older and more dated stock.
- 1.39 The local market is strong, with the range of national tenants in the vicinity testimony to this, but the general theme in the industrial sector in Wales is that there is a shortage of larger and good quality industrial accommodation, resulting from a significant lack of investment, and this is reflected in the local market.
- 1.40 There has been some limited speculative industrial development in the area over recent years, particularly the units at Mardon Park at Baglan Energy Park. The units,

each up to 3,000 sq. ft. in size, are hybrid units comprising warehouse and good quality office space.

- 1.41 They have been well received, with a mix of both tenant occupiers and owner occupiers, and there are currently only 2 units left available on the estate. It is assumed that the proposed PIF development will be similar in size and specification to Mardon Park.
- 1.42 It is anticipated that there will be significant further development at Baglan Energy Park over the coming years, with 180 acres of commercial land available for public and private sector development. Innovative infrastructure improvements such as GE Energy's £300m power station, and the Harbour Way periphery distributor road have been undertaken to draw in occupiers and developers.

*Availability of space*

- 1.43 Industrial supply in Port Talbot is reflective of the wider market in South Wales, where demand in the sector is generally strong, but progress and growth in development is restricted by the lack of availability, in particular in high quality and larger industrial stock.
- 1.44 This is illustrated by a sample of industrial properties available in the area are detailed below:

ADDRESS	SIZE (sq. ft.)	RENT (per sq. ft.)	COMMENTS
6 Mardon Park, Baglan Energy Park, Port Talbot	3,081	£5.68	New industrial stock, hybrid warehouse units with some office space
10 Mardon Park, Baglan Energy Park, Port Talbot	2,711	£6.82	New industrial stock, hybrid warehouse units with some office space
18/19 Seaway Parade, Port Talbot	9,882	£4.95	Warehouse unit with good quality offices that has previously undergone significant refurbishment. Currently under offer at the full quoting rent
Unit H Llewellyn Quay, Port Talbot	3,305	£3.00	Older industrial stock. Detached unit with some office fit out.
Unit 5 Llewellyn's Quay, Port Talbot	7,966	£3.77	Older industrial stock, detached and self contained unit with yard. Located in prominent position
Unit 13 Llewellyn's Quay, Port Talbot	23,294	£3.22	Older industrial stock, detached and self contained unit with yard. Gantry crane installed in the property

21 Endeavour Close, Port Talbot	1,694	£5.50	Older industrial stock, small units located on a multi let estate
22 Endeavour Close, Port Talbot	1,743	£5.50	Older industrial stock, small units located on a multi let estate

- 1.45 Outside of more recent developments such as Mardon Park, the quality of available industrial stock on offer in Port Talbot is generally mixed, with tenants often faced with options of a lower specification than they require.
- 1.46 There is also a notable lack of larger industrial space in the area, with only 2 units of c.10,000 sq. ft. and above (one of which is due to be let imminently).
- 1.47 On the basis of the current availability, quoting rents for the region are banded as a follows:
- Units up to 5,000 sq. ft. units- £5.50- £7.00 per sq. ft.
  - Units of 5,000- 20,000 sq. ft.- £3- £4.95 per sq. ft.
  - Units of 20,000 sq. ft. ad above- £3.00- £3.50 per sq. ft.
- 1.48 Strong quoting rents at locations such as Mardon Park are a factor of their better quality, specification, and limited supply, and the high levels of occupancy on the estate suggests that occupants are not deterred by this.

*Nature of market demand*

- 1.49 Focusing on demand in the Port Talbot market, we have recently marketed a c.10,000 sq. ft. industrial unit in Port Talbot. It was of good specification, having previously been significantly refurbished by an owner occupier, and we received a number of serious enquiries, as follows:

INTERESTED PARTY	SIZE (sq. ft.)	COMMENTS
Tatami Fightwear	c.10,000	Supplier and distributor of martial arts fightwear. Currently located in several small units at Endeavour Close, Port Talbot. Looking to bring storage and distribution facility to one location.
Ministry of Furniture	c.10,000	Office furniture provider. Offices/ showroom located on Brunel Way, Port Talbot. Looking for storage distribution facilities
Nolan Road Marking	Up to 10,000	Civils and road marking. Based on Seaway Parade IE, Port Talbot. Looking for new premises to house their operations- primarily store materials and vehicles. Preference is to purchase

Eaga Energy	5,000-10,000	Currently based in Chepstow. Green energy provider- advisors and installers. Looking for industrial premises to store insulation which their contractors will then install in houses.
Welsh Gymnastics	From 5,000 sq. ft. upwards	Gymnastics club. Looking for premises to base their operations. Open to options along the M4 corridor from Cardiff up to Port Talbot

- 1.50 The property is currently under offer, and the level of interest received suggests that there is demand for good quality industrial space, which may otherwise be in short supply.

*Conclusions about the suitability of the funded projects*

- 1.51 The proposed development is a mix of 1,250 sq. ft. hybrid office/ warehouse units and a single 3,500 sq. ft. unit of the same specification.
- 1.52 The evidence above suggests that there is a demand for industrial space of this quality in Port Talbot, particularly when considering the success of developments such as Marden Park, similar in concept and specification, which has low void rates at present.
- 1.53 This is set against the low quality industrial supply currently available in the area, with nothing of significance to compete with this proposed development at the smaller end of the market.
- 1.54 We would anticipate strong levels of interest in this development, primarily from owner occupiers who would likely consider purchasing a unit for their business.

## **Industrial Market Report for Pembrokeshire**

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### *Description of the PIF projects*

- 1.55 This overview considers the industrial market, and the suitability of the proposed industrial developments in Pembrokeshire, in the context of current market demand and supply in the region.
- 1.56 The proposed developments comprises proposed industrial developments in Haverfordwest, specifically:
- 11,000 sq. ft. unit to food grade specification
  - 5,000 sq. ft. vegetable preparation unit to food grade specification.

### *Description of local market geography*

- 1.57 West Wales has a strong food production, preparation and distribution sector, built around the agricultural market, which along with the ports and refineries, dominates the local economy.
- 1.58 The most accessible commercial districts in West Wales, beyond Swansea, are Cross Hands and Carmarthen, both in Carmarthenshire, which are located within very close proximity of the M4.
- 1.59 Cross Hands in particular is a major food production and distribution hub, comprising Cross Hands Business Park and Heol Ty Newydd Food Park, where occupiers including Castell Howell Foods, Dunbia, Gower View Foods, Mario's Ice Cream and Wincanton.
- 1.60 Moving beyond this area, and into Pembrokeshire, commercial zones are smaller, more isolated, and spread over a wide area. They are based around the ports and refineries, as well as the major population districts of Milford Haven, Haverfordwest, Pembroke/ Pembroke Dock and Fishguard.
- 1.61 The Haven Waterway Enterprise Zone is located in Pembrokeshire, and comprises the following areas:
- Goodwick- The ferry port at Fishguard, owned by Stena
  - Haven Waterway- based around Milford Haven harbour and oil terminals
  - Haverfordwest Airport/ Withybush Business Park- home to a number of food businesses and with links on the A40 to Fishguard
  - Trecwn- a site close to Fishguard with new large units and development opportunities
- 1.62 Withybush Business Park in Haverfordwest is a major centre for food production and distribution, with occupiers including:
- Totally Welsh
  - Puffin Produce/ Cold Store/ Blas y Tir
  - Wickedly Welsh Chocolate Company
  - The Food Market
  - Pembrokeshire Foods Ltd
- 1.63 Other food manufacturers in Pembrokeshire include the following:
- Celtic Wines- Pembroke Dock
  - Celtic Food Services- Pembroke Dock
  - Tan y Castell Bakery- Narbeth

- Welsh Seafoods- Milford Haven
- Total Produce- Fishguard

### *Availability of space*

1.64 A summary of the current industrial availability in Pembrokeshire is detailed below:

<b>ADDRESS</b>	<b>SIZE (sq. ft.)</b>	<b>RENT (per sq. ft.)</b>	<b>COMMENTS</b>
Former Royal Mail Delivery Depot, Warren Street, Tenby	11,675	£3.35	Former depot located in Tenby town centre, including a covered loading yard to the rear. Some office space. HGV access is tight
44c Honeyborough Business Centre, Milford Haven	2,051	£6.82	Part of a terrace of small units, close to the port. Basic specification with some office provision
Unit 4, St David's Enterprise Centre, Brawdy Business Park, Newgale	From 200-5,000	Non quoting	Largest industrial unit on the site, which is currently being split into smaller units
Unit 1 Feidr Castell Business Park, Fishguard (Pembrokeshire Council)	5,692	£2.37	Detached modern unit comprising production area, covered loading bay and open plan offices
Unit 1 Thornton Business Park, Milford Haven (Pembrokeshire Council)	509	£6.30	Small unit with RSD access and WC/ wash hand basin facilities
Unit 17 Waterston Industrial Estate, Milford Haven (Pembrokeshire Council)	1,000	£7.10	Small unit with RSD access and WC/ wash hand basin facilities and enclosed yard
Unit 9 Brunel Quay, Neyland, Milford Haven (Pembrokeshire Council)	1,495	£6.62	Small unit with RSD access and WC/ wash hand basin facilities
Unit E North Estate, Withybush Business Park, Haverfordwest (Pembrokeshire Council)	1,120	£6.60	Small unit with RSD access and small secure yard

- 1.65 The majority of available industrial space is owned by Pembrokeshire Council, and on the basis of the current availability, quoting rents for the region are £6- £7 per sq. ft. for units up to 5,000 sq. ft., and £2.50- £3.50 per sq. ft. for units of 5,000- 20,000 sq. ft.
- 1.66 There is a single option larger than 10,000 sq. ft., which would be unsuitable for many general industrial occupiers.
- 1.67 This illustrates a clear lack of credible options for occupiers looking for new industrial premises in Pembrokeshire, with limited options scattered over a wide area.
- 1.68 None of the available stock listed above is likely to meet the food grade specification of the proposed developments in Haverfordwest, certainly not in terms of the sizes being proposed.

*Nature of market demand*

- 1.69 Since 2017, there have been a number of significant sized industrial requirements in South Wales, specifically looking for food grade industrial premises.
- 1.70 Details are as follows:

INTERESTED PARTY	SIZE (sq. ft.)	COMMENTS
Client of Welsh Government	60,000-80,000	August 2019. Looking for 2 separate sites for hi-tech food production. Will consider bespoke build. Prefer M4 corridor but secondary site could be more remote with good transport links
Client of Welsh Government	75,000-100,000	July 2019. Requirement for food quality preparation facilities. Will consider locations throughout Wales
Clients of JLL	20,000-50,000	Jan 2018. Requirement for food grade facilities at locations throughout Wales. South West Wales preference is Cross Hands/ Ammanford
Private Individual	50,000-100,000	Cold store and food packaging- new business. Preference is for Merthyr, but will consider anywhere within 1 hour's drive. Preference is to purchase.

- 1.71 Larger requirements of this nature tend to be agent lead, or via Welsh Government inward investment teams, suggesting that they are larger national companies. Given a lack of options in the South Wales market, they will not necessarily be geographically specific, but will be specific in terms of the quality of space required, and will seriously consider the potential for D&B options to fulfil their requirements.
- 1.72 However, experience suggests that large requirements do not usually look too far beyond access to major industrial and population centres Good transport infrastructure, such as close proximity to the M4 corridor, is usually a key consideration, which is why locations such as Cross Hands are so popular.

- 1.73 Recent reported industrial activity within Pembrokeshire has generally been limited, comprising a handful of small lettings of sub 5,000 sq. ft. units to small companies and private individuals, though this is more reflective of the lack of availability.
- 1.74 The only significant reported transactions of note in the area since 2018 were at the former Dairy Crest site in Whitland, for lettings of 15,000- 20,000 sq. ft. to IRG and Argip, with rents ranging from £2.50- £3.50 per sq. ft. Anecdotal evidence for IRG suggest that this was a strategic move into the West Wales market.
- 1.75 Whilst activity has been limited in Pembrokeshire, there has been significant recent activity further afield in West Wales, specifically at Parc Melin, Glan yr Afon Industrial Estate in Aberystwyth, a similarly isolated market with very little available by way of vacant industrial stock.
- 1.76 Parc Melin is a new development, undertaken by a private local developer with Welsh Government support, providing a range of industrial and trade counter units from 1,200 sq. ft. and upwards.
- 1.77 Demand has been strong for the units, with the first 2 phases completely sold or let to a mix of national occupiers moving into the area, including Toolstation, Eurocell, Crown Paints, and local businesses such as By Alana (food manufacturer) and a cross fit gym.
- 1.78 A headline rent has been maintained at £8.50 per sq. ft. across the development, compared to headline figures of £5- £6.50 elsewhere on Glan yr Afon Industrial Estate.
- 1.79 The high levels of demand experienced, at a strong headline rent, gives positive signs for potential take up of new developments in other relatively isolated areas of Wales where supply is constrained.

*Conclusions about the suitability of the funded projects*

- 1.80 A strong food production and distribution market is important to the economic sustainability of the West Wales region, and the evident clustering of food production and distribution facilities highlights its ability to attract and retain operators within this sector.
- 1.81 However, lack of any industrial availability specific to this sector will impede the ability for new market entrants to be captured by the region.
- 1.82 Furthermore, existing businesses and their supply chains have very little ability to expand to relocate to improve their business operations, unless they look at a design and build option, which can be challenging due to time lag.
- 1.83 From what we have seen, there is market demand specific to this sector, albeit somewhat limited. Based on recent demand, development scale would favour larger operations of over 50,000 sq. Ft., however, this scale of speculative build would be challenging to support within the wider market context.
- 1.84 We would expect there to be demand for the proposed developments in question, either through expansion of existing operators in the locality, or with new operators entering the market.

## **Industrial Market Commentary for North West Wales**

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### *Description of the PIF projects*

- 1.85 This overview considers the industrial market, and the suitability of the proposed industrial developments in North Wales, in the context of current market demand and supply in the region.
- 1.86 The proposed developments comprise the following:
- Llangefni, Anglesey- New 30,000 sq. ft. development comprising 6 units ranging from c.2,000 sq. ft. to 10,000 sq. ft.
  - Kinmel Bay, Conwy- High quality semi-detached two storey industrial units 3,651 sq. ft. each

### *Description of local market geography*

- 1.87 The North Wales market is concentrated along the A55 corridor, with some of the main industrial sites in this region including:
- Kinmel Park Industrial Estate, Bodelwyddan
  - Deeside/Hawarden/Wrexham/Tir Llywd
  - Llangefni, Llandygai and Mona Industrial Estates, Bangor and Anglesey
  - Tir Llywd, Rhyl
- 1.88 The general theme in the industrial sector in Wales is that there is a shortage of larger and good quality industrial accommodation, resulting from a significant lack of investment, and this is reflected in the North Wales market.
- 1.89 The recently formed North Wales Growth Deal is the potential catalyst that will support in opening the region and unlocking sites for economic growth. Money is to be invested into projects including energy, manufacturing, digital connectivity, and strategic transport.
- 1.90 There are prominent occupiers in the North East including Airbus and Tata Steel, and this regional sector drives the headline rents, with those at Deeside quoting £6.50 per sq. ft for new build high quality units, with a slight premium on smaller starter units in the region of 1,000-1,500 sq. ft. and trade counters quoting rental figures in the region of £6.50 - £7.50 per sq. ft.
- 1.91 This rental figure is driven by the proximity to Liverpool and Manchester and the ability to connect quickly with the wider road network.
- 1.92 There are proposed developments at Wrexham Industrial Estate ranging from small starter units to larger 25,000 to 40,000 sq. ft sites as well as development plots at Hawarden and Deeside. Land values here exceed £100,000 per acre.
- 1.93 Currently there is very little availability along the A55 between Deeside and Anglesey.
- 1.94 As you travel further west the rental tone falls with rents in the region of £3-£5 dependent on the quality of unit and location. Moving further from the border there are fewer new developments, limited to some at Mona Industrial Estate on Anglesey.
- 1.95 There are several smaller regional locations throughout North Wales including Griffin Enterprise Park, Porthmadog where again we have experienced there is strong demand for small starter units with rents in the region of £3.50- £4.00 per sq. ft.

### *Availability of space*

- 1.96 Industrial supply in North Wales is concentrated around the North East, with the main centres comprising the Welsh borders, Wrexham and Deeside with significant options in this area.
- 1.97 Supply of units is more limited to the North West and is focused along the A55 corridor from Conwy to Caernarfon, and including Anglesey.
- 1.98 This is illustrated by a sample of industrial properties available in the area are detailed below:

<b>ADDRESS</b>	<b>SIZE (sq. ft.)</b>	<b>RENT (per sq. ft.)</b>	<b>COMMENTS</b>
Unit 4 Morawelon Industrial Estate, Holyhead	5,139	£2.43	Older industrial unit comprising warehouse and offices. Includes a yard/ loading area
Unit 8 Bryn Cefni Industrial Estate, Llangefni	21,911	£5.00	Modern industrial building with high quality offices on self-contained and secure site
Unit 36 Gaerwen Industrial Estate, Gaerwen, Anglesey	5,338	£5.25	Modern trade counter/ warehouse unit, part of a terrace.
Unit W1, Peblig Industrial Estate, Caernarfon	8,657	POA	Older industrial unit comprising 'north light' construction. Part of a terrace.
Unit 22 Cibyn Industrial Estate, Caernarfon	1,065	£5.16	Older industrial unit with minimal office/ WC provision
Unit 1B Cibyn Industrial Estate, Caernarfon	11,329	£3.50	Older mid terrace industrial unit with minimal office/ WC provision
Former Book People Premises, Parc Menai, Bangor	128,190	POA	Large modern distribution warehouse with dock level loaders, car parking, offices with 12m eaves height. Being let/ sold on behalf of administrators
Unit 27 Llandygai Industrial Estate, Bangor	3,533	£4.95	Older industrial unit on secure self-contained site
Unit 4 Coed y Parc, Bethesda	2,930	£4.10	Older industrial unit with small 2 storey office provision

Unit 2, Vale Road, Llandudno Junction, Conwy	3,795	POA	Modern trade counter/ warehouse unit, part of a larger block
Unit 2 Builders Street, Llandudno	5,950	£6.50	Older industrial property, recently refurbished

- 1.99 We note that there is a proposal to develop 10 trade counter units of c.2,000 sq. ft. at Llangefni Trade Park, though this appears to be at a feasibility stage only. In addition to this, there is also a proposed refurbishment of 32,000 sq. ft. at Gateway Park, Bangor, to provide units from 2,500 sq. ft.
- 1.100 The quality of currently available industrial stock on offer in the area is generally mixed, leaving occupiers with very few options in terms of modern industrial units.
- 1.101 There is also a notable lack of larger industrial space in the area, with only 3 units of c.10,000 sq. ft. and above (one of which is 128,000 sq. ft., beyond the scope of most occupiers).

*Nature of market demand*

- 1.102 Focusing on demand in the North Wales market, we are currently quoting £5 per sq. ft on Unit 8 Bryn Cefni Industrial Estate, a 22,000 sq. ft. high quality unit which provides good road connectivity. We have had strong levels of interest to date.
- 1.103 An overview of some of the live requirements in the area are as follows:

<b>INTERESTED PARTY</b>	<b>SIZE (sq. ft.)</b>	<b>COMMENTS</b>
Stena Line	20,000-30,000	Seeking B8 storage use. Terms out on B8 Bryn Cefni IE but on hold during Covid19 outbreak
Screwfix	c.3,000	Seeking sites across Wales, and have specifically targeted Llangefni IE
Profab Services	10,000-20,000	Fabricator looking for new premises. Have expressed an interest in Unit 8 Bryn Cefni IE
Bodacc	3,200	Locally based industrial high level rope access company.
All Wales Ltd	1,600	Seeking expansion space at their current site
Direct Bees	3,000	Bee keeping company looking for storage space for equipment

- 1.104 Our discussions with Stena Line anecdotally highlighted the limited availability of good quality larger units across North Wales, and they expressed their frustration at a lack of options outside Deeside. Equally this has been reflected in demand at St Asaph Business Park where industrial/trade counter use is limited.
- 1.105 This generally reflects the views of occupiers in the North West region, with limited options of any significant quality, and Deeside/ Wrexham not a serious option due to the travel times between locations.
- 1.106 We are marketing a number of development sites in the region, and have had strong levels of demand for them, but for most companies the timescales required for a design and build solution to their relocation and expansion needs can make this route unviable.

*Conclusions about the suitability of the funded projects*

- 1.107 The proposed development is a mix of 2,000- 10,000 sq. ft. warehouse units in Llangefni, and 2 storey semi-detached industrial units of c.3,651 sq. ft. each in Kinmel Bay (presumably these will be hybrid office/ warehouse units).
- 1.108 We assume that these will be constructed to a high specification.
- 1.109 The evidence above suggests that, whilst the North West Wales market is in an isolated location, there is a robust demand from local occupiers, including SMEs, and larger national companies, which is set against the low quality industrial supply currently available in the area, with nothing of significance to compete with this proposed development at the smaller end of the market.
- 1.110 Units of this size and quality would likely therefore appeal to potential occupiers.
- 1.111 Given the lack of good quality options in the area, we would anticipate strong levels of interest in this development, from a mix of SMEs, existing local businesses looking to expand, and national companies seeking a foothold in the area.

## Annex B – List of Consultees

<b>Organisation</b>	<b>Number of interviewees</b>
Welsh Government	21
WEFO	2
Regional Engagement Team representatives	8
Applicants for PIF and PBDG funding	1
Representatives of commercial property agents	3