

## COAST TO CAPITAL LOCAL GROWTH FUND OUTLINE BUSINESS CASE

<b>Project Title:</b>	<b>C2C Wood Processing Grant Programme 2017-18</b>
<b>Lead delivery organisation:</b>	<b>Surrey County Council</b>
<b>Lead contact name:</b>	<b>David Greenwood</b>  <b>david.greenwood@surreycc.gov.uk</b>
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This document provides a template for an Outline Business Case (OBC) in support of Coast to Capital's investment in a project to be funded through the Local Growth Fund.

The main purpose of the OBC is to put forward the case for change and the preferred way forward identified in an internal Strategic Outline Case (SOC); which establishes the option which optimises value for money; outlines the deal and assesses affordability; and demonstrates that the proposed scheme is deliverable.

In practice, you will find this entails updating the strategic case; undertaking investment appraisal within the economic case; and completing the commercial, financial and management cases, with supporting benefits and risk registers.

Please note that this template is for guidance purposes only and should be completed in accordance with any guidance issued by Coast to Capital and the guidelines laid down in HM Treasury's Green Book which can be found at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220541/green\\_book\\_complete.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf)

The OBC should cover the 5 cases – the Strategic case, the Economic case, the Commercial case, the Financial case and the Management case.

The amount of work and detail put in to a Business Case should be proportionate to the scale of the project or programme, and the expenditure involved.

### Coast to Capital Disclaimer

There shall be no expectation of grant payment unless and until a funding agreement is signed by both parties. All the Applicant's costs and charges incurred as a result of making this outline application shall be for the Applicant's account and cannot be claimed as part of the project except where feasibility funding has been prior awarded.

## 1. Executive Summary

### 1.1) Overview of the project including what opportunity or barrier the investment will unlock:

This business case sets out the justification for a Coast to Capital Wood Processing Grant Programme for 2017-18 which would extend the current programme for a further year to meet additional demand for support from wood producers and processors in the C2C area. The programme would continue to operate in the same manner and provide a grant fund to stimulate investment in woodfuel and timber processing. The Programme which operated in 2015/16 and 2016/17 has demonstrated the value and benefits of this type of investment. It has also highlighted the need for continued investment in 2017/18.

The grant provides investment in infrastructure to enable relevant businesses to develop, stimulates the use of locally grown wood and creates long term jobs in the rural sector. Extending the programme for a further year will continue to support the creation of a network of hubs to receive timber from local woods, enabling it to be stored, seasoned and processed before being re-distributed to a range of markets.

This project will support the forestry supply chain. It is estimated that 25 new jobs will be created across the supply chains where this project injects capital for critical infrastructure and processing facilities. It will directly and indirectly support forestry contractors, hauliers, secondary processors and retail outlets. Up to 4 businesses will be directly supported, and over 3,486MWh of energy produced and 1070 tonnes of carbon emissions avoided per year.

The programme also enhances the effect of other investment. It complements EAFRD grant funding being offered via DEFRA to forest based businesses and funding for installation of biomass boilers via the Renewable Heat Incentive (RHI). It is the only potential source of support for joining up the two offers so that there will genuinely be a strategic development of the forest supply chain from end to end.

The project realises the Coast to Capital SEP commitment to support a wood enterprise project in collaboration with the Forestry Commission. It also directly contributes to the SEP's key strategic priorities of supporting business investment, building competitive advantage and encouraging employers to invest in talent.

The delivery option of supporting a range of processing initiatives across the area was chosen over other options involving investment in one large project or focussing on un-connected ad hoc supply chain initiatives. This approach is a more strategic response, with lower risks and an ability to deliver across a range of geographic and sectoral opportunities.

Significant private sector match funding and public sector in-kind support will be drawn into the project. In addition to the £250,000 of Coast to Capital Local Growth Funding committed to the proposal, over £375,000 of private sector funds will be invested alongside £10,000 of public sector in-kind support in business support and programme management.

Enterprise M3 will be providing a similar woodfuel project in 2017/18 in the adjoining EM3 area. This will permit a woodfuel/timber for construction business network to be established across Sussex, Surrey and Hampshire, strengthening existing supply chains that already work across both LEP areas and substantially increase the critical mass of new investment.

The programme will continue to be managed by Surrey County Council, overseen by a Programme Board of key stakeholders, and supported by the Forestry Commission. Proposals

will be invited via Expression of Interest and Full Applications stages, during which businesses will be supported to develop high quality projects. Opportunities for collaboration will also be sought and supply chain initiatives encouraged.

The project outcomes will be as follows: -

Outcomes		
Item	Measure	No.
New Jobs created/Jobs sustained	Jobs	25
Businesses Assisted	Businesses	4
Woodland into management	Hectares	1,562 – 2,500
Wood utilised	Cubic Metres	7813
Energy	MWh	3,486p.a.
Carbon Savings	Tonnes carbon emissions	1070p.a.

Approval is requested for the allocation of £250,000 funding to the proposed Processing Grant Programme and for the proposed programme management arrangements.

**1.2) Please choose the theme in which the LGF funding will invest in directly (please choose only one main theme of relevance)**

- Infrastructure
- Housing and Regeneration
- Skills and workforce
- Business and Enterprise

### 1.3) The fit with the Strategic Economic Plan and Devolution Deals

The project realises the Coast to Capital SEP commitment to support a wood enterprise project in collaboration with the Forestry Commission. It also directly contributes to the SEP's key strategic priorities of supporting business investment, building competitive advantage and encouraging employers to invest in talent.

The Coast to Capital Strategic Economic Plan (SEP) specifically highlights that 20% of its population and 22% of its businesses are located in rural areas.

*“The rural areas contribute significantly to our economic success – and not just in terms of land based industries and tourism. A number of significant businesses are based in rural areas, across a wide range of sectors – including manufacturing – and there are very many home based businesses.”*

**Coast to Capital Strategic Economic Plan March 2014 – Chapter 9: Rural Growth**

Specific SEP initiatives for rural areas include:

- Establishing rural business networks
- **Supporting rural enterprise including a new wood fuel initiative**
- Addressing transport in rural areas
- Ensuring broadband reaches all parts of rural areas
- Support for rural tourism

The SEP calls for: ‘A Woodland Enterprise programme that works from small scale

woodfuel/woodshop ventures through to major investment (sawmilling/primary product processing). By favouring collaborative ventures the supply chain will be shortened removing waste, improving profitability and encouraging economies of scale'. It goes on to detail (pages 159-160) the potential outputs from a combined C2C and EM3 investment in the sector:

- Supply of low cost timber frame housing for use in rural areas to better integrate with high value landscapes (500 + units/annum)
- Installation of woodfuel and district heating solutions for new housing and institutional buildings (10 - 50/annum funded with RHI support )
- Installation of woodfuel boilers and district heating systems for “on farm/estate use” (5 – 20 over life of programme)

**1.4) Expected Total Project Cost and source of funding. Please also complete the funding breakdown tab on the supporting spreadsheet.**

	Amount	% of Total Cost
<b>Total Project Cost</b>	<b>£625,000</b>	<b>100%</b>
<b>Applicant own funds</b>		
<b>Other public funds</b>		
<b>Private sector funds</b>	<b>£375,000</b>	<b>60%</b>
<b>Funding requested from Coast to Capital LEP</b>	<b>£250,000</b>	<b>40%</b>

Surrey County Council will also provide £10000 in kind support to manage the delivery of the programme.

**1.5) Expected tangible core outputs/outcomes: Please also complete the outputs tab of the supporting spreadsheet**

Output/outcome	Metric	Number to be delivered
Employment- created and/or safeguarded	No.	<b>25</b>
Businesses assisted- financial and non- financial	No.	<b>4</b>
Skills- new learners and/or apprentices	No.	<b>4</b>
New housing unit completions	Units	<b>0</b>
New floor space constructed/refurbished- learning	Sq mtr	<b>0</b>
New floor space constructed/Refurbished- Commercial	Sq mtr	<b>0</b>
Length of new roads/cycle ways	km	<b>0</b>
Improvement to journey times	Minutes per mile	<b>0</b>
Carbon reduction	Tonnes of CO2	<b>1070pa</b>

**1.6) Main risks and issues the project will need to manage?**

The main risks identified are the failure to identify suitable investments and withdrawal of proposals at pre or post contracting stage due to issues such as planning permission, match funding and security of tenure. A risk management strategy will be in place to minimise these risks, which are relatively low due to the chosen delivery route.

## **DOCUMENT STATUS**

### **REVISION HISTORY**

<b>Revision Date</b>	<b>Version No.</b>	<b>Summary of changes</b>	<b>Author/editor</b>
4/1/17	1	Version 1	David Greenwood

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### **DISTRIBUTION LIST**


## 2. The Strategic Case

### 2.1) Describe the compelling case for change.

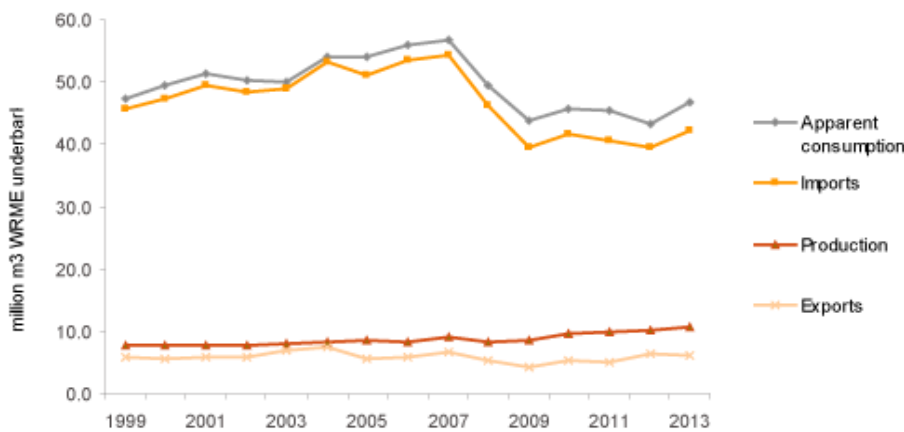
This business case reflects the original case for the programme which has been running for nearly 2 years and proposes that it should be extended so that the full amount originally envisaged is invested by operating a smaller grant programme for 2017/18. As such it will continue to address long term market failure in the local forest supply chain, encouraging innovation and business connectivity so that networks of new and established rural businesses can produce and market renewable energy and low carbon building materials. These outputs will help Coast to Capital reduce its carbon footprint and support its transition towards a low carbon economy.

The proportion of the UK's domestic consumption served by 'home grown' timber has increased in recent years (see Figure 1), from 15.6% in 2004 to 23% in 2013. Sawn softwood timber has shown an ever greater change, from 20% in 2004 to over 40% in 2013. This increase is due in part to the recession, which saw an overall decrease in consumption whilst UK produced goods were able to capture market share due to beneficial exchange rates, but also to investment in the UK timber processing sector and the maturing of much of the forest resource planted in the post-war period.

Fluctuating oil prices and the introduction of the Renewable Heat Incentive have also made wood, in the form of firewood and woodfuel (pellets, chips and logs), more competitive. These trends are not universally visible across the UK and in an area where 80% of the growing stock is hardwood (broadleaves) rather than conifer, the share of home grown timber supplied to market is still way below the national average. The fall in the value of the pound recently has affected the competitiveness of imported timber and makes home grown timber more attractive.

As housing starts increase, demand is also increasing in the construction sector, due to timber's competitive advantage with traditional building materials (brick & block), namely speed of construction, ability to pre-fabricate off-site (reducing delays and improving quality) and carbon leanness (embedded carbon and whole-life performance). Timber-frame construction accounts for around 75% of all new homes in Scotland and 35% in England and Wales. Over 75% of self-builders use timber frames.

However, the UK remains a significant net importer of timber and timber products. In 2013, timber and timber products imported to the UK were valued at £6.7 billion, a 5% increase on 2012. Of this, approximately 18% was sawn timber and 6% wood pellets (a form of woodfuel). The remainder was pulp and paper, and wood based panels.



**Figure 1: Apparent Consumption of wood in the UK, 1999 - 2013**

Despite this, a significant proportion of woodlands in the UK remain un (or under) managed. This is due to historically poor timber prices and weak demand and has in turn resulted in limited investment in equipment, infrastructure and skills in both the forestry and timber processing sectors. As prices and demand pick up, businesses are keen to expand but are hampered by their ability to invest, restricted availability of skilled labour and increasing shortages of timber from existing sources.

The Coast to Coast LEP area, despite being one of the most wooded areas in the UK, demonstrates these problems and lost opportunities particularly strongly. The South Downs National Park is the country's most wooded National Park and Surrey is England's most wooded county. A number of traditional sawmills and newly established woodfuel processors exist in the area, yet only a small proportion of the annual timber increment is harvested and the great majority of timber consumed is imported from elsewhere. Local sawmills increasingly rely on ready sawn timber purchased in, even though there is strong demand for local timber in new builds and renovations, and woodfuel processors are seeking supplies from outwith the region due to under-utilisation of sawmill residues and small roundwood from the areas woodlands.

Recent discussions with businesses in the Coast to Capital area and delivery of the programme in 2015-17 have shown an appetite to grow and innovate to take advantage of improved supply chain and market conditions. A workshop with businesses identified desired business outcomes including woodfuel hubs and exemplars of production and utilisation. Subsequent discussions with these businesses and other potential applicants have revealed a range of additional opportunities, including a potential woodfuel hub for the glasshouse industry on the south coast.

The majority of the 61,000ha of woodland in the C2C area is privately owned with just, 4,200ha managed by the Forestry Commission (the 'Public Forest Estate'). According to the Forestry Commission's National Forest Inventory [NFI], surveys, only 34% of broadleaved woodlands and 43% of conifer woodland sites show evidence of thinning (the process of removing trees by which the remaining crop increases in both quality and quantity), a principal indicator of active management.

Due to decades of under-management of Sussex and Surrey woods, they currently hold a residue of overdue timber volume which the NFI 50 year forecast of timber availability estimates at being in the region of 602,000m<sup>3</sup> per annum in 2017 – 21, declining to 229,000m<sup>3</sup> in 2047-51. The volumes are calculated based on a theoretical biological productivity from woods which is quite separate from estimates of practically achievable productivity.

Current estimates suggest a maximum annual timber harvest of less than 150,000m<sup>3</sup> in the area, of which 80% is softwood and the balance hardwood. What this tells us is that whilst softwood production is not significantly below the sustainable harvest, hardwood production is running at less than 1% of the potential, if overdue volumes are included. Thus year on year 99% of the hardwood growing in woodlands in the Coast to Capital area goes unharvested, whilst local woodfuel processors and sawmills import materials in order to satisfy demand, let alone build on it.

The key strategic benefits of a successful Wood Processing Grant Programme will be: -

- to contribute to the achievement of a number of the key strategic priorities for the Coast to Capital Strategic Economic Plan: -
  - **Successful Businesses - support business investment in growth and create the conditions for enterprise to flourish;** by prioritising business start-ups and the diversification of existing businesses which are focussed on growth and innovation the fund will foster enterprise and lead to downstream benefits for forest owners and managers, supply chains businesses and end-users.
  - **Build Competitive Advantage – back investment and development where we can lead nationally and internationally;** the grant will support investment in low carbon and renewable technologies which will lead to new products and services, reduced costs for businesses and more options for home builders and energy users.
  - **Skills and Workforce – encouraging employers to invest more and making the most of our talent;** growth and innovation means investing in staff and employing more of them – investment in timber processing and forestry is not about reducing employee costs but about making use of an under-utilised resource and displacing imports. Adding value to timber requires new and higher skills, including design, IT and management and leadership.

The SEP places a strong emphasis on rural areas contributing to, and benefiting from, economic growth. As it states, approximately 20% of the area's population lives in rural areas and 22% of businesses are located there. Some of the nation's most protected landscapes – the South Downs National Park and two Areas of Outstanding Natural Beauty are to be found in the area.

The SEP sums up the situation as '*the rural economy is growing, is sectorally diverse and is increasingly knowledge-based. There is scope for further development through supporting business growth through, for example, rural manufacturing woodland enterprise and the visitor economy without damaging precious natural assets. Rural businesses require additional support and supply chain development to realise this potential as they can miss out on the benefits that urban businesses enjoy such as the presence of networks and clusters, proximity to customers, markets and transport hubs.*'

- The SEP commitments to address these issues include support for woodfuel and use of forestry products in collaboration with the Forestry Commission. This business case brings to life that commitment and links it to other commitments in the Rural Growth agenda, including support for rural businesses (by creating and/or improving networks, clusters and business premises), by providing the market for products from land based businesses supported through LEADER and other EU Rural Development funding, by creating opportunities for tourism business to achieve greater local distinctiveness by the use of locally produced building materials, furniture and craft products.

The programme supports other strategic priorities across the region:



- to deliver against a number of the key strategic priorities for West Sussex (Supporting Economic Growth in West Sussex 2012-20) including *Understand and respond to the needs of established businesses and support people to start and grow successful enterprises; Adapt and respond to new funding conditions and opportunities to ensure that West Sussex secures investment to support its economic development priorities; Support the creation of a range of jobs that enable people to participate in the labour market in a way that best reflects their needs at different life stages; Support local people to acquire the skills that the economy needs*
- to work with and realise a number of the priorities of the West Sussex Rural Partnership strategy and action plan which has fed into the C2C Strategic Economic Plan. The key priorities of the strategy include ensuring business support and training initiatives can be accessed by rural businesses, which this project will achieve by working with applicants and where appropriate signposting them to other business support initiatives and agencies as part of their overall investment plans.
- to contribute to activity by Surrey County Council and Surrey districts and boroughs to retain and strengthen existing businesses, support enterprise and innovation..
- to contribute to the realisation of the objectives in the Surrey Rural Statement, in particular the objective to support and promote the use of locally sourced wood as a sustainable fuel and building material. The programme will also compliment the work of Surrey Countryside and Rural Enterprise Forum (SCREF).
- to contribute to the realisation of a number of the commitments in the Government Forestry and Woodlands Policy Statement relating to driving economic growth, including:
  - :
  - *Work with landowners and others to increase the amount of actively-managed woodland and review progress in five years,*
  - *Work with the sector to explore the scope for exploiting economic opportunities, such as woodfuel markets and rural tourism,*
  - *Encourage, where appropriate, local government and Local Enterprise Partnerships to take advantage of the opportunities provided by Government policies to realise the potential of local woodland assets.*
- to support Grown in Britain (<http://www.growninbritain.org/>), the industry led, government backed action plan, which arose out of the report from the Independent Panel on Forestry and the Governments response to it, which identified Grown in Britain (GiB) as a delivery agent for a number of its commitments. One of Grown in Britain's core aims is to reduce the reliance on imported timber, which this project will do. GiB also runs a branded licensing scheme, which applicants will be encouraged to consider as part of their submissions.

## **2.2) Investment Objectives- detail the specific objectives to achieve the anticipated outcomes.**

The Objectives of the Wood Processing Grant Programme will be: -

1. to provide new private sector jobs in forestry and timber processing industries
2. to increase capacity in local home grown timber processing industries in the Coast to Capital area
3. to support more effective arrangements between businesses to strengthen the forestry and timber processing supply chain
4. to generate energy from locally sourced timber

5. to bring local woodlands into management, and enhance their natural capital value
6. to introduce new goods, processes or services or other innovation

The project will establish a network of woodfuel and timber processing hubs across the Coast to Capital LEP area. It will inject critical capital investment in essential infrastructure on which the future development of wood-based industries can build. Specifically it will support the construction of external and covered processing and seasoning space, and the purchase of machinery and equipment. This investment will establish a network of hubs to provide point of sale for woodfuel, construction timber, fencing products or any combination of these sourced from local woodlands.

The investments will be brought forward and selected by a competitive grant programme which can be bid into by forestry and timber processing companies based in the C2C area for projects which produce a demonstrable contribution to the objectives outlined in the SEP and this business case.

The model for the fund will be the 2015-16 and 2016-17 Coast to Capital Wood Processing Grant Programme. That programme will be used to inform the development of this programme.

The programme will operate in a two stage process with an initial Expression of Interest stage leading to a Full Application Stage for projects deemed to meet the selected criteria and be eligible. The allocation of funds will be overseen by a group including of representatives of C2C LEP, the Forestry Commission and Surrey County Council. Successful applicants will be required to complete their projects by March 2018

Many of the timber processing and supply chain businesses involved in this project will also draw on, or operate in, a wider market and resource area and thus it is highly beneficial that Enterprise M3 LEP operate a similar project. Having a greater number of businesses involved, stimulating woodland management across much of the South East and supplying into a larger and more diverse market will generate not only additional outputs, but make those outlined in this business case more robust and sustainable. In addition, there will be benefits in extending the networking amongst businesses across a wider area, facilitating greater opportunities for digital marketing and linking up with energy users and construction companies that operate across the C2C and EM3 areas.

Separate but parallel contract and project management arrangements are envisaged for the C2C and EM3 projects, where the overall programme is co-ordinated by Surrey County Council so that complimentary opportunities can be identified and acted upon.

This project will be delivered in association with a package of other support, including ERDF and ESF initiatives, plus the DEFRA managed EAFRD programme (including LEADER). This will see investments in woodland infrastructure (roading, timber stacking areas, storage), forest machinery (harvesting and extraction equipment), in-wood processing (chippers, firewood processors etc), supply chain skills and added value downstream processing. The markets and networks created with Coast to Capital grant will be essential to draw the timber out of the woods and provide the material for added value processing.

Anticipated outcomes are:

<b>Outcomes</b>		
<b>Item</b>	<b>Measure</b>	<b>No.</b>
New Jobs created/Jobs sustained	Jobs	25

Businesses Assisted	Businesses	4
Woodland into management	Hectares	1,562 – 2,500
Wood utilised	Cubic Metres	7813
Energy	MWh	3,486p.a.
Carbon Savings	Tonnes carbon emissions	1070p.a.

In addition, a number of training and skills opportunities will arise from the project. These will occur throughout the supply chain and be supported by business support and funding streams including the ESF and EAFRD (for forestry businesses).

Training needs will arise within applicant businesses relating to new processes and procedures, at a technical and business management level, the latter in particular around digital marketing, customer care and innovation. Other needs could include woodfuel quality standards, machine operator and wood working skills. Applicants will be required to identify new training and skills requirements as part of the application and outline how these needs will be met. They will be assisted in this by business support advisors engaged by the Forestry Commission. Businesses will also be encouraged to work with their relevant Business Navigator Growth Hub to identify generic business support that they would benefit from.

There will also be an impact on skills needs for supply chain businesses and applicants will be required to liaise with suppliers to anticipate and satisfy these. Again support will be provided via the Forestry Commission.

### **2.3) Stakeholder Engagement carried out.**

Recent discussions with businesses in the Coast to Capital area have shown an appetite to grow and innovate to take advantage of improved supply chain and market conditions, but support is needed to help facilitate this. A workshop with businesses identified desired business outcomes including woodfuel hubs, exemplars of production and utilisation, and advanced digital marketing initiatives. Subsequent discussions with these businesses and other potential applicants have revealed a range of additional opportunities, including a woodfuel hub for the glasshouse industry on the south coast.

### **2.4) List the key stakeholders and their interest areas.**

The Key Stakeholders in the Woodfuel Initiative will be: –

- The businesses and organisations which submit successful projects and are awarded funds. Their role will be to bring the project to successful fruition, including full design and construction/procurement, obtaining planning permission and other regulatory approval where required, providing the necessary match funding, employing staff and all other day to day operational management. They will be responsible for achieving the proposed outputs and for reporting to the lead delivery partner progress and outputs in line with the requirements of the fund.
- Surrey County Council who will be the lead delivery partner for the package of approved projects. Their role will be to manage the application process, reach agreement with individual applicants, manage the allocation of funds, record the match funding and monitoring spend and achievements in line with agreed milestones. They will be responsible for reporting progress and outputs to C2C and taking action to resolve any under-achievement or slippage.

- West Sussex County Council who will be represented on the Programme Board and input to the management of the programme to ensure its key economic and strategic development priorities are considered in the appraisal and assessment of applications.
- Rural West Sussex Partnership who will represent the interests of its constituent partners and 'rural proof' proposals and applications as well as contributing technical and strategic knowledge.
- The Forestry Commission (FC) will be a key partner in ensuring that good quality projects are brought forward and that they relate to the needs and opportunities of the forestry and timber processing sector of the area. They will communicate the availability of the Timber Challenge Fund with potential participants, support applicants in preparing Expressions of Interest and Full Applications, and participate in the decision making process on the award of funds. The latter two roles will be separated in order to reduce conflicts of interest. Once beneficiaries have been selected, the Forestry Commission will support project management.
- Grown in Britain – the industry body promoting timber grown in Britain
- Country Land and Business Association (CLA) – representing landowners and rural businesses

## **2.5) What are the strategic issues, risks and constraints that may impact successful delivery of the project?**

The significant identified constraints are as follows: -

- Time – time is limited if good quality proposals are to be brought forward. This has been countered by working with the existing FC Business Support scheme (this scheme was instigated in July 2014 to facilitate applications to LEADER and/or the EAFRD Rural Development Programme Countryside Productivity Scheme) through which a number of potential proposals have come forward. The scheme will be extended to support these businesses in developing their proposals and in preparing EOIs and Full Applications.
- Appropriate Skills and Knowledge – as identified in 2.1, the forestry and timber processing sector has limited record of investment and project management in recent years, and indeed one of the benefits of this proposal is to build such capacity in the sector. This will be achieved by identifying key individuals in the sector who do have such skills and sharing these with potential collaborators, plus the provision of the business support scheme as described above.
- Match Funding – for some businesses providing the match funding may be an issue as they are relatively under-capitalised and/or asset poor. This will be countered by identifying, at an early stage, businesses where this is likely to be an irreconcilable constraint, and working with others to ensure all potential sources of match funding have been explored.
- Planning Permission – in some cases planning permission will be required for the proposed projects. As with match funding, identifying these schemes and assessing the potential risks involved will be undertaken at an early stage.
- Business confidence in future investment following the decision to exit the EU. Although there may be a decline in confidence in future investment this programme has potential to expand the use of locally sourced timber and reduce the reliance on imported timber.

## **2.6) Project Dependencies**

This project is part of a package of support to re-establish functioning woodfuel/timber supply

chains. DEFRA funding via the Countryside scheme and Countryside Productivity scheme will be focused on addressing market failure in the management of woods and harvesting of timber and LEADER will support small to medium sized businesses driven by local interests. This LEP growth fund support is a critical part of the overall mix as it offers capital investment for critical infrastructure that links woodland output to markets and in particular new markets generated by the Renewable Heat Incentive (RHI). Reductions in the level of RHI funding have started to impact the level of uptake, so this project will help build on previous investments and help ensure continued interest.

The growth deal funding offered through this project is the only government support available for major added value processing in the forest sector beyond the forest gate. Without an increased market stimulus other grants remain too small an incentive to generate the level of response required to set up new, modernised and high performing woodfuel/timber supply chains.

## 2.7) Project disruption

The identified key issues for implementation are considered to be as follows: -

- Securing of match funding – at EOI and Full Application Stage, applicants will be asked about match funding and the status of proposed funds. They will be asked to provide evidence of funding and any conditions attached to it
- Planning Permission – as above, applicants will be asked about the need for and existence of, where necessary, planning permission for the proposed developments at EOI and Full Application Stage. Evidence of permission or the basis of it not being required will be requested.
- Security of tenure – where the applicant is a tenant of a property, security of tenure for the duration of the projects lifetime will be required

## 3. The Economic Case

3.1) Please describe the options that have been considered in selecting the project proposal, completing both box 1 and 2.

### Box 1:

Option Name:	Description:	Total cost:	Amount requested:	Core outputs (see 1.5)
<b>Do nothing, minimum or status quo</b>	This would have no short term cost or risk to funders. It would achieve none of the strategic objectives and risk longer term indirect costs in terms of rural economic development, the development of locally appropriate housing stock or low carbon energy usage.	£0	£0	n/a
<b>Proposed option</b>	Deliver a Wood Processing Grant	£625,000 (private)	£250,000	25 jobs

	<p>Programme. This option is considered to be highly desirable to stakeholders as it has the potential to achieve a broad spread of investments types, spreading the benefits in geographic, resource and market terms. It is lower risk, in that either the full or partial failure of one or two investments would not compromise other projects or impact negatively on the supply chain. It has the potential to support collaboration and increase capacity across the sector, spreading the benefits in terms of skills and knowledge, expertise and innovation.</p>	<p>match at 60%, Growth Deal match at 40%)</p>		<p>4 businesses assisted</p> <p>4 new apprentices</p> <p>1070 tonnes carbon reduction</p>
<p><b>Alternative options:</b></p>	<p>Focus on other funding streams such as LEADER, Countryside Productivity Scheme etc. Such funds are limited in terms of eligibility (generally are available to landowners and supply chain businesses only) and scope</p> <p>Seek a single large investment. Forestry and timber processing companies in the South East are relatively small and have limited scope for investments of the size required. Investing in a single project would be relatively high risk, tend to favour one or a few market segments and distort competition. There would be State Aid implications.</p>			

**Box 2:**

<b>Option Name:</b>	<b>Advantages:</b>	<b>Disadvantages:</b>
<b>Do nothing, minimum or status quo</b>	This would have no short term cost or risk to funders.	It would achieve none of the strategic objectives and risk longer term indirect costs in terms of rural economic development, the development of locally appropriate housing stock or low carbon energy usage.
<b>Proposed option</b>	<p>Potential to achieve a broad spread of investments types, spreading the benefits in geographic, resource and market terms.</p> <p>Lower risk, in that either the full or partial failure of one or two investments would not compromise other projects.</p> <p>Potential to support collaboration and increase capacity across the sector</p>	None
<b>Alternative options:</b>	<p>The LEADER programmes are already delivering.</p> <p>A single large investment would reduce the administration costs.</p>	<p>LEADER funding tends to be limited to £50000 grant.</p> <p>State Aid implications</p>

**3.2) The preferred option**

Continue a Wood Processing Grant Programme for 2017-18. This option is considered to be highly desirable to stakeholders as it has the potential to achieve a broad spread of investments types, spreading the benefits in geographic, resource and market terms. It is lower risk, in that either the full or partial failure of one or two investments would not compromise other projects or impact negatively on the supply chain. It has the potential to support collaboration and increase capacity across the sector, spreading the benefits in terms of skills and knowledge, expertise and innovation.

**3.3) Issues with preferred option.**

The experience with the programme in 2015/16 and 2016/17 demonstrates that the preferred

option is deliverable.

### 3.4) What are the top 5 risks of this option?

The Risk Management Strategy will aim to Identify, Assess, Plan and Implement risks and responses in such a way as to minimise the impact of any identified risk on the programme as a whole or individual projects. In particular: -

- Surrey County Council as Programme Manager will prepare a risk register (with regard to project management) at the outset of the project. It will include a process for regularly updating and reviewing the assessment of risks based on new decisions or actions taken
- each applicant will be required to prepare a risk assessment at Full Application stage, which will be considered as part of the project appraisal
- Risk Management will be a standing item on the agenda of Programme Board meetings, and members will be advised of relevant risks during application decision making
- all risks will be recorded and reported in line with the agreed strategy

### Risk

Risk	Impact	Likelihood	Mitigation	Costs
Failure to identify sufficient suitable investments	Moderate	Low	Prevention – undertake liaison and promotion with potential applicants plus additional facilitation to ensure quality proposals are brought forward. Encourage networking amongst applicants to encourage collaborative multiple projects. Coping – if preferred projects fail prior to contracting then lower ranked projects could be reassessed and approved if appropriate. Investigate scaling up of remaining projects.	Primarily involves use of existing project partner staff and resources (<£10,000)  As above, additional direct costs may be incurred if preferred projects fail at an advanced stage (e.g. after legal costs) (<£20,000)
Approved project fails to proceed after contracting e.g. due to failure to obtain planning permission	Moderate	Low	Prevention – ensure thorough appraisal and due diligence of projects prior to contracting. Monitor projects at all stages of implementation. It is recognised that failure to obtain planning permission is one the greatest risks involved in this option and thus particular attention will be paid to this element during project appraisal, with close contact established and maintained with the relevant planning authority and an assessment of the risks involved. LEP endorsement of proposed projects will be sought. Coping – ensure grant payment is only made upon overall completion to minimise impact.	As above  n/a
Approved project fails post completion	Low	Low	Prevention – as above, ensure thorough appraisal and due diligence. Liaise with projects after completion to monitor progress and provide support if/as required Coping – if problems are identified additional support could be brought in to reduce impacts and likelihood of complete failure. Ensure a charge is placed on any recoverable assets.	As above  Full cost of individual grant depending on nature of failure and security of assets.



Please complete the boxes below, answering only those relevant for the theme of your project, referring to the guidance available. **Please also complete the outputs tab of the supporting excel spreadsheet.**

**3.5) Economic impact**

The economic impact includes the creation of 25 jobs and economic growth within the applicant businesses. The project will support 4 businesses. It will improve efficiency in the wood processing supply chain.

**3.6) Environmental Impact**

The programme will support bringing between 1,562 – 2,500 hectares of woodland back into management. It will result in an estimated carbon saving of 1070 tonnes per annum.

**3.7) Social Impact**

n/a

**3.8) The number of people and businesses positively impacted by the intervention?**

The intervention will directly result in the creation of 25 jobs and potentially 4 apprentices. It will also sustain jobs in the business and supply chain. It is estimated that 4 businesses will benefit directly from the grant, and there will also be multiplier benefits to others in the supply chain.

**3.9) Follow on Investment**

n/a

**3.10) Skills projects only- Impact on Skills Provision**

n/a

**3.11) Business and Enterprise projects only- Impact on business growth**

The impact of the investment on business growth will include the creation of 25 new jobs. Jobs will be created directly in the applicant business, upstream and downstream.

The programme will enable businesses to invest to help develop the local supply chain.

**3.12) Infrastructure and Regeneration and Housing projects only- Physical and aesthetical impact- Does the project make a positive and lasting contribution to the physical, human and cultural environment?**

n/a

**3.13) If your project results in service and other improvements then please provide baseline data below.**

n/a

Metric	Baseline	What the intervention will achieve
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	Figure	Year	Figure	By when

## 4. The Commercial Case

### 4.1) Please provide details of your envisaged procurement route.

Procurement will be undertaken in line with principles enshrined in Surrey County Council's Procurement Strategy (2012 – 2017).

The Coast to Capital Wood Processing Grant Programme will be run as an open procurement process and the partners will undertake to: -

- develop a detailed timeline and process plan for approval by C2C prior to implementation
- widely advertise and promote the availability of the fund and work with other stakeholders and trade bodies to highlight the opportunity to potential applicants
- allow sufficient time at each stage of the process (promotion, EOI, Full Application) to enable all potential applicants to consider, develop and appraise proposals
- ensure that State Aid is taken into account at all stages of the process, and support potential applicants to provide the appropriate information in order to ensure fully compliant undertakings are made, in line with either the General Block Exemption Regulation (GBER) or de minimis procedures.

### 4.2) Involvement of private development partners.

Private sector grant applicants will contribute 60% match funding. These will be Small and Medium Enterprises (SMEs).

### 4.3) Procurement plan and timescales.

Surrey County Council will oversee contract management for the programme.

Following full application appraisal and due diligence (where required), successful applicants will be provided with an offer letter which will outline the agreed outputs, timescales, amount of grant aid and match funding required. Upon agreement to this, a contract will be provided which will state the general conditions of contract and project specific conditions. Once signed, the applicant will be informed that they can commence work.

The contract will include conditions relating to monitoring by Surrey County Council and the applicant responsibility to take part in this process. The degree and frequency of monitoring will depend on the individual project scale and complexity, and may at its simplest consist of two stages at project commencement and at the end of contract. More complex projects will be subject to interim monitoring points at specified points.

It is anticipated that Expressions of Interest will be invited in the spring of 2017 with project completion by March 2018.

#### 4.4) How will the project contribute towards social value?

N/A

#### 4.5) State Aid Compliance.

The project will ensure State Aid compliance by requiring grant applicants to declare State Aid that they have received in the last three years as part of the application process. Contract letters to grant recipients will require them to complete a State Aid declaration.

## 5. The Financial Case

5.1) what is the estimated total project cost and the amount of LGF being applied for? **Please complete the funding breakdown tab in the supporting excel spreadsheet.**

Year	Total project cost	LGF
16/17		
17/18	£625,000	£250,000
18/19		
19/20		
20/21		
<b>Total</b>		

#### 5.2) Please set out the project expenditure items

Please state the date of this estimate-5/1/17

Projects costs (delete as appropriate)	Total cost (£)	LGF (£)	Match funding (£)
Land Acquisition	0	0	0
Planning and Feasibility studies	0	0	0
Surveys	0	0	0
Construction, inc- materials, equipment and labour	0	0	0
Fit out (inc. equipment and furnishings not included in construction)	0	0	0
Project management	£10,000 in kind contribution from Surrey County Council.		
Consultancy	0	0	0
Other (please specify)	625,000	250,000	375,000
Capital Grants at 40% to forestry applicants			
Contingency*	0	0	0
<b>Total Net Cost</b>	<b>625,000</b>	<b>250,000</b>	<b>375,000</b>
VAT	0	0	0
<b>Total Gross Cost</b>	<b>625,000</b>	<b>250,000</b>	<b>375,000</b>

### 5.3) Net Present Value cash flow analysis.

N/A

Options	NPV
Do nothing, minimum or status quo	
Proposed option	
Alternative option	

Please detail your project assumptions and discount rate used-

### 5.4) Value for money.

Value for money will be a key criteria in the success of businesses applying under the programme. This will include an assessment of the cost of grant for each job created and sustained. The nature of the investment and the need for funding will also be considered by the panel as part of the assessment to ensure value for money.

### 5.5) VAT status

The VAT status of applicant companies will be considered and where VAT registered claims will be Net of VAT.

### 5.6) Financial Sustainability

The financial sustainability of the programme will be assured through an assessment of the applicant businesses as part of the application process. This will include consideration of the last 3 years financial performance, the impact of the proposed investment on the business and the status of match funding.

## 6. The Management Case

6.1) In which financial year do you expect your project to commence? 2017/18

6.2) In which financial year do you expect your project to complete? 2017/18

### 6.3) Please set out the key milestones related to the project.

Milestone	Start date	Completion date
Call opens for Expressions of Interest	February 2017	April 2017
Successful Applicants Invited to Full Application	March 2017	May 2017
Grant Panel	April 2017	June 2017
Applicant Delivery of Projects	May 2017	March 2018
Final Claim for Grant Spend	October 2017	March 2018

### 6.4) Project management arrangements

Surrey County Council will manage the programme on behalf of the LEP. It will be the Lead Delivery:

- prepare and issue application forms and guidance
- invite Expressions of Interest (EOI)
- assess and appraise EOIs

- subsequently invite Full Applications (FA) from preferred EOIs
- assess and appraise FAs
- undertake necessary due diligence on projects
- issue approval letters and undertake contracting process
- receive claims and make payments of grant
- prepare and submit reports and claims to Coast to Capital LEP
- confirm that work complies with the conditions of grant and is completed in a competent and timely manner
- handle non-performance
- ensure that opportunities are taken to optimise and promote project benefits across the Coast to Capital LEP area
- project activity is integrated with other Local Authority/LEP programmes
- manage overall project performance

The Forestry Commission will provide technical support to the Programme Board. The Forestry Commission will also support the LEP and West Sussex County Council through:

- advice on the appraisal of grant applications,
- support for setting the conditions of grant
- managing relationships with grant beneficiaries to support project implementation, encourage collaborative working and build links to other business development support as appropriate.

#### **6.5) Key project roles and responsibilities.**

The Project Board will oversee the development and implementation of the Wood Processing Grant Programme. It will be chaired by a senior representative of Surrey County Council (SCC) and include the following representation:

- SCC – appraisal of projects, support for proposed projects within Surrey, reporting and co-ordination of local authority supply chain initiatives, contracting, financial due diligence, payment of claims and invoicing, claims and reporting to C2C
- West Sussex County Council - appraisal of projects, support for proposed projects within West Sussex
- Coast to Capital LEP – input to appraisal and procedural matters, payment of claims from Surrey County Council, reporting to BIS
- Rural West Sussex Partnership – input to appraisal, liaison with partner organisations
- Forestry Commission – appraisal of projects, preparation of reports
- Grown in Britain – appraisal of projects, advice on the sector
- CLA – appraisal of projects, advice on the land and business sector

#### **6.6) Governance, oversight and accountability**

The Delivery Body will be Surrey County Council. The Project Board will be the decision making body. The governance, oversight and accountability arrangements will be the same as the 2015-

17 programme.

Surrey County Council will prepare Quarterly Reports for submission to Coast to Capital, which will provide the following information: -

- development and implementation of programme management procedures
- Programme Board activities and decisions
- Expressions of Interest received/appraised/approved
- Full Applications received/appraised/approved
- budget commitment
- claims
- practical progress with individual projects
- outputs

#### **6.7) Communications and stakeholder management**

The Programme Board will oversee communications and be the primary means for stakeholder management. Implementation will be undertaken by Surrey County Council and the Forestry Commission.

Surrey County Council will: -

- provide a secretariat for the Programme Board and co-ordinate liaison between the partners
- be the primary means of communication with West Sussex County Council (as Accountable Body) and Coast to Capital for the purposes of reporting and claims
- agree individual project promotion with businesses and key partners

The Forestry Commission will: -

- provide liaison with trade and industry organisations
- support Surrey County Council with reporting functions
- assist businesses with promotion within the supply chain and market

#### **6.8) Benefits management**

The quarterly reporting by grant recipients will enable Surrey County Council to capture the benefits of the programme. These will be reported to Coast to Capital as part of the quarterly monitoring process.

#### **6.9) Project evaluation**

Evaluation will be conducted as per the requirements of Coast to Capital. The contracts with grant recipients will include a requirement to co-operate with the evaluation and monitoring process throughout the project lifecycle.

## Recommendation/ Declaration

**Recommendation-** please state clearly the recommended action this business case supports.

The recommendation is that Coast to Capital provide funding of £250,000 in 2017/18 to operate a Wood Processing Grant Programme. Match funding at 60% would be secured from the private sector via a competitive grant application process.

**Declaration:** I certify that the information provided in this Outline Business Case is complete and correct at the time of submission.

**Signature:**



**Print Name:**

Kevin Lloyd

**Title:**

Head of Economic Growth, Surrey County Council

**Date:**

6/1/17

**Before submitting your Business Case ensure you have all the required supporting documentation:**

- One electronic copy of the business case template, signed and dated
- Excel Spreadsheet
- Any other Supporting documents and evidence required