

Subsidy control assessment form

Name of funding body: Warrington Borough Council (“the council”)

Date of decision: November 2023

Transparency Information

Name of recipient of funding: Wire Regeneration Limited (“Wire”)

Date of grant of subsidy: 7 December 2021

Value of subsidy (or budget allocated for the subsidy): £2,872,200.00

Policy objective of subsidy: Subsidies granted pursuant to Article 3.4 Trade And Cooperation Agreement Between The European Union And The European Atomic Energy Community, and The United Kingdom Of Great Britain And Northern Ireland (“TCA”)

Legal basis for award: Localism Act 2011

Duration of subsidy and any time limits attached to the award: One-off subsidy

TCA Principles

- 1. The subsidy pursues a specific public policy objective to remedy an identified market failure or to address an equity rationale such as social difficulties or distributional concerns (“the objective”).**

Warrington has recently been, for the most part, a modern and fast-growing economy. In the period 2010-2020 the Warrington economy added new businesses at a significantly faster rate than the average for England. In this period, whilst England increased its business count by 33.0% the Warrington economy increased by 54.8%.

A similar situation is recorded for employment. Comparable employment data is only available over a shorter period but in the period 2015-2019 total employment in Warrington increased at more than double the rate of England as a whole. In Warrington employment increased by 13% whilst employment increased by 5% in England.

Despite this apparent success, the productivity of the economy has been in decline. In the period 2011-16 the productivity of Warrington declined by 1.7%. Productivity in Warrington is lower than the C&W average and fell below the UK level in 2009 and the North West in 2014.¹

One of the main reasons for the decline in productivity has been the sectoral shift in the Warrington economy. Warrington has recorded strong growth in employment in sectors such as employment services (3,000 additional jobs -12.4% GVA 2011-16); and warehousing and support activities for transportation (1,000 additional jobs -22.3% GVA).²

¹ LIS Evidence base Employment growth from ONS BRES data; productivity LIS

² Employment growth from ONS BRES data; productivity LIS

The overall productivity data sets out the risk that Warrington is being transformed into a low wage and low productivity economy which is the opposite of the ambition for the town to maintain its position as a leading economy in the region.

The situation is further evidenced by Warrington's performance in the tech sector. When the tech sector is examined, this growing, high skill, high productivity and high wage sector has been growing more slowly in Warrington than elsewhere. The rate of tech business start-up in Warrington was marginally surpassed by the rate across England as a whole. Whilst the sector has increased the number of businesses within the Borough, the business count increased by 56.0% in England whilst Warrington added 53.2%.

The difference in the rate of business start-ups in the sector between Warrington and England may not be particularly wide – but the issue is highlighted when Warrington is compared to neighbouring Salford and Manchester. In the same period, the increase in the number of tech businesses in Salford was 92% and in Manchester the number doubled (increased by 100%). There is a risk that the cities of Manchester and Liverpool increase productivity and wages and the Warrington economy is left behind, adding employment that does not generate increasing levels of wealth or providing higher level employment for its workforce.

The long-term success in the expansion of the Warrington economy is therefore not being replicated in (arguably) the sector that is most dramatically changing industry sectors across the UK and is creating employment opportunities at a rapid rate. Expansion has been across the logistics and distribution sector (employment services employment is often based on the provision of agency staff for this sector) and the employment growth has been masking productivity decline.

Market failure – critical mass

It is recognised that the tech sector is particularly influenced by economies of agglomeration, or the critical mass of businesses. This critical mass allows businesses to share ideas, use staff resource from one another as sub-contractors and collaborate on new business. This in turn, creates knowledge, skills and a reputation as a hotspot for creative and digital businesses. Various studies have supported this with Nesta (2015) noting that creative industries succeed when they form tight clusters and that a combination of resources are essential to help creative workers to interact with one another on a face-to-face basis.

To date, whilst Warrington is a high performing economy, the Borough has a lower than average proportion of employment in tech (compared to England as a whole) recording a LQ of 0.7. Growth has been achieved in locations such as Omega and this has propelled the LQ for postal and courier activities to 2.6 and the highest LQ in Warrington (influenced by HQ of United Utilities is in Remediation activities and other waste management services in which employment in Warrington is measured at 4x the national average).

It is not considered to be the lack of interest in developing tech businesses which is the issue. The situation has been influenced by the lack of a clear focal point for the development of digital businesses. Warrington, as a new town, has hitherto developed out of town business parks and distribution space rather than locations where businesses naturally coalesce. When new suitable space is developed there is a take-up by the digital sector as evidenced by 'The Base' where businesses such as Sumo Digital, Avanite, Ixus, Swan Solutions, Snap Design and Helpy are all examples of digital businesses co-locating even when this was not the primary focus of the building.

There is a clear case for the development of a focal point for digital businesses and their development within the Borough.

Market failure – office space development

Despite the success of Warrington as a business location, in common with many other locations across the UK, there is a difficulty in supplying business space suitable for early-stage SMEs. Office space in general is expensive to build and costs often exceed value which creates an issue for the property development sector and generally stops speculative schemes coming forward.

The problem is exacerbated by the average tech sector tenant. The tech sector is typified by start-ups and early-stage SMEs with a high growth trajectory (and a risk of failure). This type of business generally has a limited credit history, and the nature of their rapid development (or failure) lends itself to shorter and flexible lease terms. This tenant profile offers little comfort to potential development scheme lenders and as a result, even where demand can be demonstrated, buildings tend not to come forward as private development schemes.

Public Policy Objective

The analysis has shown a slower take up of digital employment in Warrington than in the adjacent urban centres and wider economy. Whilst the rate of growth in Warrington in these sector is only slightly slower than the UK more generally, this is against a backdrop of Warrington employment growth as a whole typically outstripping the national average. With the trend of growth in the digital sector there is a risk that Warrington will lose out in the growth of a key economic sector.

Despite the relative underperformance of the town, the growth of the digital sector is enshrined in economic policy. The Cheshire & Warrington LEP has established digital connectivity and digital skills as two priorities within its work (establishing a Board for digital connectivity and the Accelerate programme to increase digital skills).

The economic development strategy of Warrington, 'Warrington Means Business' has a strong emphasis on Warrington as a Creative Hub – offering 'a focus for creative companies and creative people'. The need for a centre of the type offered by the Digital Hub was set out as a policy requirement in this document in 2017 which stated, 'We propose to create a Creative Hub – a place where creative professionals can meet, network and interact and can work flexibly and informally. This Hub requires the best in terms of digital connectivity, support and work and meeting space – operated in an informal and creative way.'

The market has not come forward to deliver this type of facility despite it being enshrined in the strategy for the town and as a result the requirement was further developed in the Warrington masterplan (of 6 regeneration areas). The Southern Gateway, of which St. James's hub is a part, identified the area as a location for new commercial developments in the town.

Conclusion

Recent employment growth in Warrington has masked an underlying economic issue relating to productivity. The Warrington economy has been adding employment but at the expense of productivity. Warrington employment growth has been in sectors such as transport and logistics (in locations such as Omega) and this sector has suffered a decline in productivity with the risk that over time Warrington will become a lower skill and lower wage economy.

Elsewhere in the UK economy, the growth in the digital economy is driving higher skills, higher productivity and higher wages. This is particularly evident in the adjacent Manchester and Liverpool economies. Warrington has stated policy objectives to grow the sector but does not have some of the attributes required – notably a focal point which could help kick-start activity in the sector.

References

1 ONS Business Count Data

1 Business Register and Employment Survey

1 A simple 2-digit SIC code definition of tech is used as 58 Publishing activities; 59 Motion picture, video and television programme production, sound recording and music publishing activities; 60 Programming and broadcasting activities; 61 Telecommunications; 62 Computer programming, consultancy and related activities; 63 Information service activities

2. The subsidy is proportionate and limited to what is necessary to achieve the objective.

In order to deliver the Digital Enterprise Hub at St James Business Centre, the project has been fully assessed by the project team consisting of members of Wire Regeneration and external professional team and consultants.

The project was initially assessed by a wider vision document which set the vision and aspirations of the project which was built upon by the team's extensive knowledge in this field.

The Digital Enterprise Hub builds upon the existing refurbishment project that is being progressed with the assistance of ERDF funding of £1.95m to refurbish St James Business Centre which contributes to a project totalling £8.15m of which the remainder is required by match in the form of private match funding £3.33m and the Town Deal funding £2.87m.

In arriving at the overall project amount this has been costed by external Quantity Surveyors in arriving at the total project sum of [£8.15m] which includes an allowance of c£269k for revenue support essential for the project alongside the capital expenditure costs at c£7.88m.

3. The subsidy is designed to bring about a change of economic behaviour of the beneficiary that is conducive to achieving the objective and that would not be achieved in the absence of the subsidy being provided.

The availability of the Town Deal Fund in conjunction with the ERDF funding and available private match funding will enable Wire to progress with a project that would not otherwise be possible and would see a change in tack for Wire and the St James Business Centre.

The existing building does not specialise in specific sectors or provide the required incubator space to realise the potential of skills and talent in the thriving Digital sector.

Consideration of Alternatives

Whilst there is a need to develop a focal point for digital businesses in the town, there is no absolute reason why it must be developed at St. James's Court.

In determining the most appropriate location for the facility, the following attributes were identified as important in supporting a new centre:

- space that allowed circulation, shared working areas and collaboration
- a town centre location with access to town centre facilities
- access to public transport
- close to modern living accommodation suitable for skilled professionals
- quickly available

Warrington has a number of business centres including locations such as Warrington International Business Centre, Wilderspool Park, Birchwood Park, The Base, Portal Business Centres, Regus facilities and UBC Birchwood (and others).

None of these centres provide all of the attributes that would be provided by the new development within St. James's Court.

The Project

This project would bring about behavioural change for Wire, providing the physical space and incubator support for likeminded digital companies to thrive in an environment that is not currently available in Warrington or could be made available in the short-medium term.

The development timeline of the project is an important consideration. The original ERDF funding was sought for a refurbishment project for St. James Business Centre and a state aid compliant funding route was discussed with MHCLG that allowed the ERDF element (1.95m) to be included in the 'refurbishment project' of £5.26m. This includes the £3.33m of private match funding which is the maximum that can be brought forward by Wire Regeneration.

The Towns Fund application (involving funding of £2.87m) allows the refurbished building to be re-purposed into the Digital Enterprise Hub that can shift the digital economy offer of the Warrington economy.

As the refurbishment of the facility involves the allocation of £3.33m of additional funding from Wire Regeneration, the additional funding to ensure that the building operates as a Digital Enterprise Hub has been sought from the Towns Fund as there is no additional resource available within the business. Without the Towns Fund contribution St. James Business Centre would remain a standard business centre for a range of SMEs with no digital focus and would lack some of the features considered necessary to attract digital businesses.

4. The subsidy should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.

The total project including both capital and revenue support totals £8.15m of which £1.95m is being provided by the ERDF with Private match providing £3.33m. The remaining £2.88m of the project, without the Towns Deal Fund would therefore be required to be provided by Wire Regeneration as further match funding if the Towns Deal Fund was not available.

The current resources of Wire Regeneration could not possibly fund this further match funding as it stands with Wire Regenerations balance sheet currently forecasting a cash position of c£500k and following discussion with external funders, bank finance in the current market and with the strength of Wire Regeneration, this is not possible.

It is therefore essential for the project that the Towns Deal Fund is available in order to deliver the Digital Enterprise Hub.

5. The subsidy is an appropriate policy instrument to achieve a public policy objective and that objective cannot be achieved through other less distortive means.

The subsidy is an instrument that meets the policy for Warrington Borough Council's 'Warrington Means Business' and fills a gap in the market to help unlock the potential of the digital sector that currently does not have a place to thrive in Warrington in which the Digital Enterprise Hub would do so.

Warrington Borough Council has a policy of investing in the local economy to provide sustainable and inclusive jobs and economic growth. Through a relatively modest capital investment some 3 years ago, Warrington Borough Council sought to develop a small digital community in an existing

arts centre in the town centre. This proved to be successful and enabled a number of businesses to move on to more permanent premises. The private sector was unable to make this capital investment, albeit relatively modest, to develop this digital community and so the public sector intervention was proven to have been the only way to have developed such a facility. This policy objective of public sector intervention by the local authority to create a business growth environment in the digital sector has been proven to be successful on a small scale. By taking the Town Fund investment, matching it with ERDF and targeting the intervention within an existing, fully established business environment, the local authority are confident that growth in the digital sector will result.

6. The subsidies' positive contributions to achieving the objective outweigh any negative effects, in particular the material effect on trade or investment between the Parties.

The development of the Digital Hub is intended to address unmet need for a location that addresses the requirements of digital businesses in Warrington. The sector is the fastest growing in the UK economy and there is a market failure in the provision of small flexible space for SME occupiers.

Once the Digital Hub is developed occupiers will pay market rent. The only negative impact that a subsidy will therefore have is in enabling the refurbishment of the facility and the potential displacement of tenants from other locations.

The Digital Hub development will be aimed at local SMEs and provide provision of space in a growing sector. As a location between two cities with a growing reputation for their digital offer (Manchester and Liverpool) it is unlikely that the development of space in Warrington will displace tenants from rival locations and growth in the sector should ensure that where space can come forward it will be occupied.

The development is considered sufficiently modest to make no difference outside of the immediately surrounding locations.

Impact of Displacement

The total gross employment impacts of the digital hub (including business support) are estimated to be 562 jobs but these outputs are converted into net impacts after an adjustment for deadweight, leakage and displacement. An adjustment is then made for a multiplier effect of the impact. Overall the facility is expected to generate a BCR of 4.9 after optimism bias. This reflects a Net Present Value of net economic benefits of £29.7m.

The impact of displacement has been estimated at 25% which is a low impact on the basis that the sector is growing more generally and the Digital Hub is a modest development from a regional perspective. A displacement of this level would account for 24 jobs in the first year of the centre and 48 years in the following 2 years of operation. The approach is consistent with the wider calculation of benefits. This would account for a loss of £7.6m to the economy which is more than offset by the economic benefits (the overall estimated benefit of £29.7m is after this loss has been netted off).

Article 3.5 (Prohibited subsidies and subsidies subject to conditions) has been considered and confirmed not to apply.