

AGENDA ITEM 7

Report to Accountability Board	Forward Plan reference number: n/a
Date of Accountability Board Meeting: 12 th February 2016	
Date of report: 3 rd February 2016	
Title of report: Capital Programme Management of the Local Growth Fund	
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1. Purpose of report

1.1. The purpose of this paper is to:

- Update Accountability Board on the latest position for the Local Growth Deal Capital Programme and
- Present recommendations for the management of the in-year variances to the planned programme.

2. Recommendations

2.1. The Board is asked to:

- **Note** the Quarter 3 position of the Local Growth Deal Capital Programme (see Appendix 1 for dashboard position);
- **Approve** the changes to projects as detailed in Appendix 2 for managing the forecast variances as set out in the latest position;
- **Approve** the application of 'Option 4' to any further slippage that may present between now and the end of the financial year;
- **Note** the potentially unmitigated underspend in relation to the Skills element of the Local Growth Deal Capital Programme; and
- **Note** the work that is currently being undertaken on future years of the programme.

3. Supporting Detail:

In support of this paper, appendices contain:

- Appendix 1: Programme summary dashboard, including headline summary of 2015/16 forecast underspend and risk;
- Appendix 2: Detailed list of changes to be approved project by project;
- Appendix 3: Detailed table showing variances project by project;
- Appendix 4: Detail of all Local Growth Fund schemes including explanations on variances ; and

- Appendix 5: Detailed table showing variances for the Local Growth Fund Skills Projects

4. SE LEP capital programme

- 4.1. At November Accountability Board it was agreed that the options shown below in **Table 1 2015/16 LGF Underspend Mitigation Options** would be used to manage variances on the Local Growth Deal Capital Programme.

Table 1: 2015/16 LGF Underspend Mitigation Options

Option	Description	Implications for SELEP
Option 1 - Bringing forward LGF spend on schemes in the 15/16 capital programme	<ul style="list-style-type: none"> • Bring forward spend where delivery can be advanced and additional spend incurred in 15/16 • Re-profiling of spend between funding sources and years for LGF projects in 15/16 programme. Total project cost and LGF cost unchanged and • LGF funding brought forward to spend in 15/16 	<ul style="list-style-type: none"> • Bringing forward spend is appropriate programme management measure at LA / FA level. • For re-profiling there would need to be a process / assurance in place to ensure that equivalent non-LGF money deferred is recycled into LGF programme. • Low risk option as ITE approval exists, and schemes generally are in delivery phase.
Option 2 – Bringing forward of 16/17 LGF schemes to spend in 15/16	<ul style="list-style-type: none"> • Advancing delivery of projects due to start in 16/17 to 15/ 16. 	<ul style="list-style-type: none"> • Fits with principle of devolution to Federal Areas • New schemes would be subject to ITE / approvals (as exception). No release of LGF funding prior to ITE assessment. • Limited scope for Promoters to do this at this point in the programme. • Medium risk, as required to go through ITE approval and spend in remainder of 15/16.

Option	Description	Implications for SELEP
Option 3 - Transfer of LGF spend on schemes between Partner authorities.	<ul style="list-style-type: none"> LGF spend directed to Local Authorities with schemes that could spend over and above the 15/16 allocation. Could either be within FAs or across FAs. 	<ul style="list-style-type: none"> Option would demonstrate collaborative working across LEP. Option would include a mechanism for 'payback' in future years so the pot for each FA / LA unchanged. Low risk option as ITE approval exists, and schemes generally are in delivery phase.
Option 4 – Re-profiling of spend between LGF projects and Capital Programme projects	<ul style="list-style-type: none"> LGF funding would be spent on non-LGF capital programme projects. The Promoter would recycle its deferred funding back to the LGF pot, such that total LGF allocation unchanged (over the programme) 	<ul style="list-style-type: none"> Need process / assurance in place to ensure that equivalent non-LGF money deferred is recycled into LGF programme. Low risk, as Capital Programme not subject to ITE process, and schemes generally in delivery phase.

4.2. Through Steer Davis Gleave (acting in this case as Capital Programme Manager), scheme promoter meetings have been held in Kent, Essex, East Sussex and Medway with close contact with Southend and Thurrock (recognising limited 2015/16 scheme spend). At each meeting, scheme by scheme consideration was undertaken with the risk of under spend identified and possible mitigations discussed. Other sundry issues were also identified.

4.3. The Programme Consideration Session then took place on 12th January to:

- Highlight schemes where there is a potential variations of forecast spend to allocations 2015/16 LGF grant;
- Answer questions on particular schemes and the level of certainty in the short-term programme and hence ability to spend in 2015/16;
- Discuss and, where possible, agree proposed mitigations to ensure that the current year LGF allocation can be spent
- Discuss the LGF schemes that each Promoter is looking to bring forward for spend in 2016/17
- Consider any implications of 2015/16 re-profiling on the 2016/17 programme, recognising the need to report both on the 2015/16 spend and provide confidence in the level of funding allocated and ability to deliver in 2016/17
- Develop recommendations for the Accountability Board based on the above.

- 4.4. The summary position for the Programme can be seen in **Table 2 2015/16 Quarter 3 2015/16 Forecast Position – Summary**. Further detail can be found in the Dashboard at **Appendix 1** (please note the Dashboard does not include Skills Capital monies which is discussed in section 5 of this report) and a detailed variance table can be found at **Appendix 3**.

Table 2: 2015/16 Quarter 3 2015/16 Forecast Position – Summary

Local Growth Schemes			
Quarter 3 2015/16 Forecast Position - Summary			
	Original allocation	Forecast spend	Forecast variance
	2015/16	2015/16	2015/16
	£	£	£
Round 1 Schemes - 2015/16 Starts			
Skills Capital Programme	11,000,000	10,414,313	(585,687)
Non Transport Schemes	2,050,000	1,684,000	(366,000)
Transport Schemes	56,400,000	40,500,000	(15,900,000)
Position as at end of Quarter 3	69,450,000	52,598,313	(16,851,687)
Future year projects with spend to be brought forward	-	10,470,000	10,470,000
Revised position at end of Quarter 3	69,450,000	63,068,313	(6,381,687)

- 4.5. The net current position before mitigations is an underspend of £16.8m (24%). In the majority of cases this is due to slippage in the projects and the spend will be picked up in 2016/17. Details on the individual projects can be found at **Appendix 4**. Nine projects with future year starts have been identified as being able to bring forward spend of £10.5m into this financial year. Spend on these projects will be dependent upon them receiving a recommendation of approval from the Independent Technical Evaluator and gaining approval from Accountability Board.
- 4.6. Whilst the Skills Capital Programme funding has been received as part of the general Local Growth Fund grant award, the approach as agreed by the SFA has been different from the other Local Growth Deal projects. Details of the Skills Programme can be found in section 5 of this report. Discussions have begun with Government around the treatment of the year-end variance on the Skills Programme.
- 4.7. The underlying position for the Programme, excluding the Skills variance, is £5.8m underspent. Local partners are requesting to carry forward this amount using Option 4 whereby LGF monies are swapped out into local capital programmes in this financial year and local partners fund the spend in next year.
- 4.8. **Accountability Board are asked to approve the individual changes as detailed in Appendix 2. In total the following mitigations are requested to be approved:**
- **£2.3m additional spend on 2015/16 starts – spend to be reduced in future years**
 - **£10.4m additional spend on 2016/17 or later starts, again with a reduction in spend in future years**

- **£5.8m of spend that will slip to future years using swaps out to local capital programmes in current year to facilitate the slippage**

In approving these recommendations, the revised forecast position will result in the full application of the grant in 2015/16, with the exception of the underspend of £585,687 that relates to the Skills Capital Programme; this underspend is committed for application in 2016/17.

- 4.9. There is only one project where there is a declared underspend as opposed to slippage across financial years. The Queensway Gateway Road project is £9m underspent as per the November report to Accountability Board, and the underspend is being used to fund the North Bexhill Access Road.
- 4.10. The latest position is based upon forecasts at the end of Quarter 3 (31st December). There is a risk that further slippage will occur for the final quarter of the year. As laid out in the November update to Board, it is DCLG's expectation that all LGF monies granted for 2015/16 will be spent in 2015/16. At this late stage in the year it is unlikely that any further projects or spend could be brought forward and scheme promoters confirm that should further underspend or slippage occur that Option 4 would present the only opportunity to spend those funds in year.
- 4.11. The option to swap out to local capital programmes (i.e. Option 4) impacts on the borrowing requirements of the local partner authorities. For the partner authorities to adjust their borrowing accordingly, it will be necessary for swaps to be made before 31st March 2016 and prior to the next Accountability Board meeting.
Therefore, it is requested that Board provides prior approval for all additional underspends arising to be treated as slippage through Option 4 and an updated position will be provided to Accountability Board at its April meeting.
- 4.12. The Accountable Body is currently in the process of revising the Service Level Agreements (SLAs) to ensure that the transfer of LGF spend on schemes between Partner authorities (option 3) and Re-profiling of spend between LGF projects and Capital Programme projects (option 4) is allowable. The revised documents will be forwarded to the S151 Officers for their agreement following the Accountability Board meeting.

5. SE LEP Skills capital programme

- 5.1. As previously reported to the board, the Skills Capital Programme has been allocated to colleges through a series of bidding processes for Capital Development Funding or Capital Equipment Funding; all bids required an element of match funding by the respective colleges.
- 5.2. The grants have been awarded based on anticipated delivery over a two year period, following receipt of £11m LGF grant in 2015/16 and an anticipated further

£11m in 2016/17.

- 5.3. The grant is retained by the SELEP until they are claimed by the colleges under the terms of their respective grant agreements. Following communications with each of the colleges to confirm their forecast position, appendix 5 sets out, in detail, the position for each college and includes the grant awarded, total claimed to Q3 and forecast total to be claimed in 2015/16; the reported position forecasts a potential underspend of £586,000 in 2015/16 which includes the round three schemes still subject to approval by the Accountability Board.
- 5.4. Any underspend on the Skills Programme at the end of 2015/16 will be held by the SELEP and carried forward into 2016/17 as all allocated funding is committed for delivery against the individual projects.
- 5.5. £1.9m of Capital Funding remains unallocated following the three bidding rounds held by the SELEP through 2015/16; it is anticipated that a fourth bidding round will be held to distributed the outstanding funding as indicated in the Skills Capital Round 3 report (agenda item 3)

6. Future Years

- 6.1. In addition to reviewing the current year position, discussions are still ongoing with local partners to define the profile for future years. As detailed in the Finance Update report (Item [4]) Government has confirmed the indicative levels of funding for the remaining five years of the programme. However, this is only indicative and the grant offer has not been made at time of writing. The Accountable Body expects the grant offer letter to be received in the second half of February.
- 6.2. The indicative funding level for 2016/17 £82.27m. However, following the first round of discussions with local partners, the forecast profiled spend for next year exceeds this level by over £15m. There is sufficient funding for all projects over the life of the programme and this over-programming is only an issue in financial year 2016/17.
- 6.3. Partners have been asked to review the profiles of projects with spend in next year and the future year profiling across the programme will be the main focus of the next Programme Consideration meeting in March.
- 6.4. The profile for 2016/17 and future years will be brought to the next Accountability Board for discussion and approval.
- 6.5. In addition to the over-programming in next financial year, it is currently thought that there may be some headroom in the indicative allocations in the later years of the programme. Options on how this headroom could be allocated will also be brought to the next Accountability Board for discussion and approval.

7. Financial Implications

- 7.1. DCLG (the LGF awarding body) have made clear they expect all funds to be defrayed in 2015/16; the impact of slippage in spend could be that future years funding may be reduced and therefore it is necessary to minimise underspends as far as possible.
- 7.2. There is a clear risk that further underspend and slippage from that reflected in this report will be incurred by the end of the financial year; it is, therefore, imperative that local partners are ready to further re-profile spend between LGF projects and local Capital Programme projects, where necessary, to ensure that funding is not lost to the Local Growth Deal in future.
- 7.3. The exception to the above position is the Skills programme where the unmitigated underspend sits with the SELEP, and is held by the Accountable Body, as the funding is drawn down in arrears by the colleges in line with their grant agreements. Where possible, allocations have been re-profiled across the skills projects to prioritise spend of the Local Growth Fund before other funding sources, to maximise use of the grant; it is anticipated, however, that some of the grant may remain unspent in 2015/16, as delivery profiles require the funding in 2016/17. Conversations with the Government are on-going with regard to the treatment of the year-end variance in the Skills Programme.
- 7.4. The over programming risk in future years should be considered alongside performance of delivery in the current year. In total of the 35 non-skills projects approved for funding in this year, 15 have slippage to the value of £11.7m or 20% of the original starting profile. Whilst there were delays in establishing the programme it is not unreasonable to expect a continuing level of slippage in future years.

8. Legal Implications

- 8.1. None at present.

9. Staffing and other resource implications

- 9.1. None

10. Equality and Diversity implications

- 10.1. None

11. List of Appendices

- 11.1. Appendix 1: LGF Expenditure - Pre Mitigation 2015/16 Position
- 11.2. Appendix 2: Local Growth Schemes – Quarter 3 2015/16

11.3. Appendix 3: Local Growth Schemes – Quarter 3 2015/16 – Forecast Position

11.4. Appendix 4: Financial Monitoring

(available at www.essex.gov.uk if not circulated with this report)

12. List of Background Papers

12.1. None

(Any request for any background papers listed here should be made to the person named at the front of the report who will be able to help with any enquiries)

Role	Date
Accountable Body sign off	
Lorna Norris	3 February 2016
On behalf of Margaret Lee	