

AGENDA ITEM 6

Report to Accountability Board	Forward Plan reference number: FP/AB/032
Date of Accountability Board Meeting: 8 th April 2016 Date of report: 30 March 2016	
Title of report: Capital Programme Management Update	
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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 2015/16 the Local Growth Deal Capital Programme;
- To present the proposed future year allocations for the programme; and
- Update Accountability Board on the delivery risk currently sitting on the programme.

2. Recommendations

2.1. The Board is asked to:

- **Note** the provisional Quarter 4 position of the Local Growth Deal Capital Programme (see Appendix 1 for dashboard position);
- **Note** the changes to projects as detailed in Appendix 2 for managing the forecast variances as set out in the latest position;
- **Note** the unmitigated underspend in relation to the Skills element of the Local Growth Deal Capital Programme;
- **Agree** the proposed future years indicative allocations (see Appendix 4);
- **Note** the update on LGF Round 3 and the inclusion of recommendations on the allocation the headroom on the programme to become part of that process; and
- **Note** the deliverability assessment that has been undertaken on future years of the programme (see Appendix 5 and Appendix 6).

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: Table showing movement in variances from last reported position (February 2015)
- Appendix 3: Detail of all Local Growth Fund schemes including explanations on variances

- Appendix 4: Schedule showing proposed profile for 2016/17 to be agreed and indicative profiles for future years to note
- Appendix 5: Deliverability assessment process
- Appendix 6: Deliverability assessment

4. SELEP Capital Programme

- 4.1. At the November 2015 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.
- 4.2. At the February 2016 Accountability Board the Board provided approval for additional underspends materialising in Q4 to be treated as slippage through Option 4.

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.

4.3. Through Steer Davies Gleave (acting in this case as Interim Capital Programme Manager), meetings have been held with scheme promoters. At each meeting, scheme by scheme consideration was undertaken, with the risk of spend slippage identified and possible mitigations discussed. The 2016/17 and future year programme was also discussed.

4.4. The Programme Consideration Session then took place on 7th March to:

- Highlight schemes where there is a potential variation between forecast spend and allocations of 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 agree proposed mitigations (through Option 4) 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, and the planned quarterly spend profile for 16/17 and annual spend profiles thereafter;
- 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; and
- Develop recommendations for the Accountability Board based on the above.

4.5. The summary position for the Programme can be seen in Table 2 Quarter 4 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).

Table 2: Quarter 4 2015/16 Forecast Position – Summary

Local Growth Schemes Quarter 4 2015/16 Forecast Position - Summary			
	Original Allocation	Forecast Spend	Forecast Variance
	2015/16	2015/16	2015/16
	£	£	£
Round 1 Schemes - 2015/16 Start			
Skills Capital Programme	11,000,000	9,923,360	(1,076,640)
Non Transport Schemes	2,050,000	530,000	(1,520,000)
Transport Schemes	56,400,000	35,741,500	(20,658,500)
Position as at end of Quarter 4	69,450,000	46,194,860	(23,255,140)
Future year projects with spend to be brought forward	-	10,381,000	10,381,000
Revised position as at end of Quarter 4	69,450,000	56,575,860	(12,874,140)

- 4.6. The net current position before mitigations is an underspend of £23.82 million, equivalent to 34% of the grant allocation for the year. This includes an underspend of £1.6 million on the Skills Capital Programme. 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 3. Nine projects with future year starts have been identified as being able to bring forward spend of £10.38m 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.
- 4.7. The underspent grant from the Skills Capital Programme element of the LGF will be carried forward and utilised in 2016/17. Government are aware of the underspend and the difference in approach for Skills.
- 4.8. The underlying position for the Programme, excluding the Skills variance, is £11.8m underspent. Local partners have requested 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.
- 4.9. The Accountability Board is asked to note the individual changes from February as detailed in Appendix 2, and to note the £11.8m additional spend on 2016/17 or later starts, again with a reduction in spend in future years (Option 4).

5. SE LEP Skills Capital Programme

- 5.1. The final spend for the Skills Capital Programme for 2015/16 is £9.9 million resulting in an underspend of £1.1 million. This is equivalent to 10% of the original allocation.

- 5.2. Harlow College and Hadlow College have brought forward spend to offset the delays in other projects.
- 5.3. The Colchester Institute did not secure planning permissions for their project as it would have disrupted sightlines in a conservation area. They are currently reworking the project and finalising a new set of plans in consultation with the LEP, ECC and the local council. Their new project is larger and wider ranging. The Institute has submitted new plans which have been evaluated by the LEP and the Skills Funding Agency. They deliver slightly increased outcomes and the funding from the LEP will reduce from £4 million to £3.64 million.
- 5.4. The issues with planning permissions for the Braintree STEM project have meant a considerable underspend has been incurred in year of £1.6 million which makes up the major part of the variance.
- 5.5. The underspend will be carried forward to 2016/17. There is £2 million of the Capital Skills Programme Capital Pot to still be allocated and this will be allocated as part of a Round 4 process. Further details in changes to the process and recommendations to that process can be found at Item 4.
- 5.6. Following changes to the Colchester Institute project the allocation has been decreased from £4 million to £3.64 million and the majority of the spend is now expected to be incurred in 2016/17.

6. 2016/17 and Future Years

- 6.1. Discussions have been held with local partners to develop the spend profile for future years based on the LGF allocations and the latest Promoter programmes for each project. This has been used to inform the development of a revised LGF programme, based on the Promoter programmes.
- 6.2. Confirmation has now been received from Government that the grant to be paid will total £82.27 million, in line with our expectations, and will be received some time in April.
- 6.3. The detailed profile for the future years' of the programme can be found at Appendix 4.
- 6.4. Following discussions with local partners, the forecast profiled spend for next year exceeds this level by approximately £2.6m. The level of over-programming is comparatively small (around 3% of the grant allocation) and given that there are likely to be changes in forecast spend profile through to 2016/17, we do not recommend that any re-profiling is necessary or appropriate at this stage. There is sufficient funding for all projects over the life of the programme.
- 6.5. Accountability Board is requested to approve the allocations for 2016/17.

- 6.6. The future year indicative profiles have also been discussed with Promoters. Currently the programme is funded on an annual basis with no multi-year agreement from Government. Therefore, each year will require sign off on an annual basis but Accountability Board is asked to note the profiles for future years.
- 6.7. In addition to the over-programming in next financial year, it is currently thought that there may be approximately £8.3m headroom in the indicative allocations over the full course of the programme. The headroom is not available for allocation until the later years of the programme. Currently the risk of any overspends sits with the promoting authorities. Accountability Board may choose to hold the headroom to allow for increases in prices, especially those projects that are planned in later years. Given the announcement on LGF 3 it is now proposed that recommendations on how the headroom is allocated is considered as part of that process.

7. Local Growth Fund Round 3

- 7.1. At the annual LEP Network Conference Greg Clark announced that £1.8 billion next round of Local Growth Fund bidding was open. At time of writing, further details on the process for bidding haven't been released but it is understood that submissions will be made before the summer break and announcements made in the autumn. The Secretariat is working closely with officers from across the local authorities to ensure all submissions from the South East LEP are of the highest order.

8. Deliverability and Risk Assessment

- 8.1. At the February Accountability Board it was requested that further information was provided to the Board on the deliverability and risk of all schemes in the LGF programme. The approach to assessing deliverability risk is set out in Appendix 5.
- 8.2. The risk assessment is intended to help SELEP and Federal Areas to understand the realism of the programme and key programme risks, and to manage the programme accordingly. The purpose is not to affect the priority or status of any particular scheme (many of the schemes that are higher risk may also be higher priority in their ability to deliver key policy outcomes). Rather, the exercise is intended to provide an overview, at programme level, of the scale of nature of potential deliverability risks, and hence the consequent risk around the ability of SELEP (and Partners) to spend LGF funding to the planned profile.
- 8.3. The risk assessment will be updated quarterly and will form part of ongoing discussions with Promoters and be integrated into the SELEP programme management work.

8.4. An initial assessment of overall deliverability risk has been undertaken by the SELEP programme management team. This assesses the deliverability risk associated with each scheme, and considers:

- *Specific project risks* - these relate to Public and Stakeholder Acceptability, Feasibility, Planning Risk, Cost Risk / Affordability / Funding, Value for Money, Complexity / Dependence, Flexibility of Scheme. A 'RAG' assessment has been made against each of these deliverability criteria.
- *Risk outcomes* - The impact of individual risks on overall deliverability risk in terms of key outcomes - these are also RAG rated:
 - Programme risk - what is the a risk / likelihood that the scheme will be delivered later than planned?
 - Showstopper risk - what is the risk / likelihood that the scheme could be either cancelled or delayed beyond the LGF programme period - i.e. drop out of the programme?

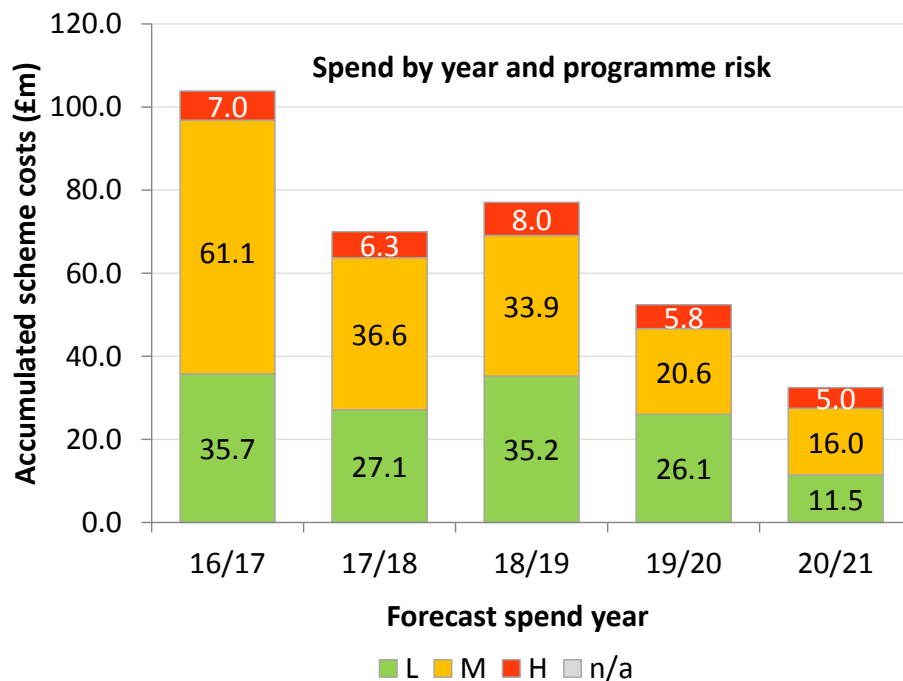
8.5. The results of the Deliverability Risk assessment are presented in Appendix 6.

The headline results of the risk assessment are:

- Of the 50 schemes currently spending, 23 (46%) present a medium programme risk, 25 (50%) present a low programme risk and 2 (4%) are not applicable (schemes are complete).
- Of the 26 schemes in the programme that are yet to spend, 6 (23%) present a high programme risk, 12 (46%) present a medium programme risk and 8 (31%) are a low programme risk.
- The schemes currently deemed high risk are:
 - 16/17 start
 - > **Ashford Spurs** (Kent) – funding gap
 - > **Dover Western Dock Revival** (Kent) – unresolved additionality issue
 - 17/18 start
 - > **Thanet Parkway** (Kent) – funding gap
 - > **Westhanger Lorry Park** (Kent) – scheme under review as DfT is separately looking at larger lorry park options in response to 'Operation Stack'
 - > **Beaulieu Park Railway Station** (Essex) – complex rail project with several stakeholders

Figure 1, below, shows the forecast spend associated with all schemes, split by programme risk level (Low, Medium, High) and year e.g. in 2016/17, £35.7m is forecast to be spent on schemes with a low programme risk.

Figure 1: Forecast scheme spend by programme risk level



9. Financial Implications

9.1. There are some concerns as to the level of the slippage that has been incurred in year. In total, after mitigations, the slippage is equivalent to 18.55 of the original grant agreement. Whilst some projects have been brought forward there is a risk that the level of slippage will continue to accumulate in 2016/17 potentially creating a delivery risk in later years as the levels of activity stack up.

9.2. A lack of proven delivery ability may also adversely affect allocations made under the latest round of Local Growth Fund. It is suggested that detailed report is made to Accountability Board in June updating on the slippage carried forward from 2015/16.

10. Legal Implications

10.1. None at present

11. Staffing and other resource implications

11.1. None

12. Equality and Diversity implications

12.1. None

13. List of Appendices

- Appendix 1: Programme summary dashboard, including headline summary of 2015/16 forecast underspend and risk;
- Appendix 2: Table showing movement in variances from last reported position (February 2015)
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(available at www.essex.gov.uk if not circulated with this report)

14. List of Background Papers

14.1. 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 Suzanne Bennett On behalf of Margaret Lee	31 st March 2016