AGENDA ITEM 6

Report to Accountability Board	**Forward Plan reference number:** N/A
Date of Accountability Board Meeting: 10th June 2016 **Date of report:** 31st May 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 the Accountability Board on the final end of year position for the 2015/16 Local Growth Deal Capital Programme;
- Update the Accountability Board on the current position for the 2016/17 Local Growth Deal Capital Programme;
- Present the proposed future year spend for the programme; and
- Update the Accountability Board on the risk assessment of schemes in the programme, implications for LGF spend in 2016/17 and deliverability of the 5-year LGF programme.

2. Recommendations

2.1. The Board is asked to:

- **Note** the final 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 proposed future years indicative allocations (see Appendix 4);
- **Note** the deliverability assessment that has been undertaken on future years of the programme (see Appendix 5);
- **Note** the changes made under the 10% tolerance approach that do not require Accountability Board sign off (see Appendix 6); and
- **Note** the proposed approach to deliverability and risk assessment moving forward (see Appendix 7),
- **Note** the skills capital programme update (Appendix 8)

3. Supporting Detail

In support of this paper, appendices contain:

- Appendix 1: Programme summary dashboard, including headline summary of 2015/16 final underspend and risk;
- Appendix 2: Table showing movement in variances from last reported position (April 2016)
- Appendix 3: Detail of current position for all Local Growth Fund schemes
- Appendix 4: Schedule showing updated profile for 2016/17 following final application of option 4 swaps and indicative profiles for future years to note
- Appendix 5: Deliverability assessment
- Appendix 6: Changes made under the 10% tolerance level
- Appendix 7: Deliverability and Risk Assessment approach
- Appendix 8: Skills Capital Programme update

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 of 2015/ 16 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	• 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	• 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	• Advancing delivery of projects due to start in 16/17 to 15/ 16.	• 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.	• 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.	• 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	• 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)	• 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 meetings covered the final 2015/16 position, the proposed 2016/17 programme and the future year programme.

4.4. A Programme Consideration Session was held on 8th April to:

- Confirm the final spend of 2015/16 LGF grant on schemes in flight in that year;
- 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;
- Answer questions on particular schemes and the level of certainty in the short-term programme and hence ability to spend in 2016/17;
- Discuss the LGF schemes that each Promoter is looking to spend on in 2016/17, the planned quarterly spend profile for 16/17 and the annual spend profiles thereafter; and develop recommendations for the Accountability Board based on the above.

4.5. The final summary position for the 15/16 Programme can be seen in Table 2 below. Further detail can be found in the Dashboard at Appendix 1 (please note the Dashboard does not include Skills Capital monies).

Table 2: 2015/16 Final Position – Summary

Local Growth Schemes 2015/16 Final Position - Summary	Original Allocation 2015/16 £	Actual Spend 2015/16 £	Variance 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	518,494	(1,531,506)
Transport Schemes	56,400,000	35,224,520	(21,175,480)
Position as at start of Quarter 1 16/17	69,450,000	45,666,374	(23,783,626)
Future year projects with spend to be brought forward	-	10,044,848	10,044,848
Revised position as at start of Quarter 1 16/17	69,450,000	55,711,222	(13,738,778)

4.6. The net final position for 2015/16 is an underspend of £23.78 million, equivalent to 33% of the grant allocation for the year. This includes an underspend of £1.1 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 in Appendix 3. Nine projects with future year starts brought forward spend of £10.04m into the 15/16 financial year. These projects each received a recommendation of approval from the Independent Technical Evaluator and subsequently gained approval from Accountability Board.

4.7. The underlying position for the Programme, excluding the Skills variance, is an underspend of £12.66m. Local partners have carried forward this amount using Option 4 whereby LGF monies are swapped out into local capital programmes in a given financial year and local partners fund the spend in next year. **This figure is £0.865m higher than presented in April** and is primarily due to further slippage on Kent schemes, in particular the M20 Junction 4 Overbridge and the Maidstone Gyratory Bypass. The underspend on the Skills Capital Programme element of LGF remains unchanged since April.

4.8. The Accountability Board is asked to note the individual changes from April as detailed in Appendix 2, and to note the £12.66m additional spend on 2016/17 or later starts, again with a reduction in spend in future years (Option 4).

5. 2016/17 and Future Years

5.1. 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 Promoters' programmes.

5.2. In 2016/17, Promoters expect to spend £84.74m of LGF funds. This number exceeds the annual allocation (£82.27m) by approximately £2.47m, as shown in

Table 3 below and at a scheme level in Appendices 3. Total expenditure on LGF projects is £98.48m, which includes 'recycled' spend that was swapped out of LGF into capital programme in 2015/16 (Option 4).

5.3. Approximately a third of LGF spend in 2016/17 (35%) will be undertaken by Kent. Forecast spend by Essex in 2016/17 is lower than previous indications as the authority has deferred spend on several projects until later years.

Table 3: 2016/17 Forecast Spend (£m)

Promoter/Scheme	Total Planned Spend in 2016/17 (as at Q1)	Of Which, Option 4 Recycle / Skills Carry Forward	LGF 2016/17 Spend	Confirmed 2016/17 LGF Allocation	Over / underspend
East Sussex	16.88	1.59	15.30		
Essex	9.70	6.36	3.34		
Kent	34.00	4.14	29.86		
Medway	5.77	0.00	5.77		
Southend	5.10	0.57	4.53		
Thurrock	12.95	0.00	12.95		
Skills	*12.08*	*1.08*	*11.00*		
Housing Regeneration	*2.00*		*2.00*		
Sub-Total	**98.48**	**13.74**	**84.74**	**82.27**	**2.47**
Centrally Held and Retained	5.20	0.00	*5.20*	*5.20*	
Total	**103.68**	**13.74**	**89.94**	**87.47**	**2.47**

5.4. The level of over-programming in 2016/17 is comparatively small (3.0% of the grant allocation) and given that there are likely to be changes in forecast spend profile during 2016/17, we do not recommend that any re-profiling is necessary or appropriate at this stage. Indeed, the risk assessment (covered under section 7) suggests that there is a degree of risk in the ability of Promoters to spend the LGF allocation. There is sufficient funding for all projects over the life of the programme.

5.5. The detailed profile for the future years of the programme can be found in Appendix 4.

5.6. 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.

5.7. 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. Deliverability and Risk Assessment

7.1. 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.

7.2. 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 a programme level, of the scale and 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. It is not intended to replace the internal risk assessments completed by Promoters for the purposes of their own programme management.

7.3. The risk assessment is updated quarterly, forms part of ongoing discussions with Promoters and is integrated into the SELEP programme management work.

7.4. Ongoing assessment of overall deliverability risk is being undertaken by the SELEP programme management team. This judges 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 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?

7.5. In respect of programme risk, a material consideration for the Board is whether the 2016/17 LGF allocation is likely to be spent in the current financial year. Our assessment therefore looks at the individual project risks, and the profiling of expenditure within 2016/17 (specifically to identify whether spend is back-loaded in Q3 and Q4), to inform the programme risk.

7.6. The most recent Deliverability Risk assessment is presented in Appendix 6.

The headline results of the risk assessment are:

- Of the 54 schemes with forecast spend in 2016/17, 3 (6%) present a high programme risk, 28 (52%) present a medium programme risk and 23 (43%) present a low programme risk.
- Of the 13 schemes in the programme that are yet to spend, 2 (15%) present a high programme risk, 2 (15%) present a medium programme risk and 9 (70%) are a low programme risk.
- The schemes currently deemed high risk are:
  - <u>16/17 start</u>
  - **> Ashford Spurs** (Kent) – funding gap
  - **> Dover Western Dock Revival** (Kent) – unresolved additionality issue
  - **> A28 Sturry Link Road** (Kent) – Developer match funding and planning risks
  - <u>17/18 start</u>[1]
  - **> Thanet Parkway** (Kent) – funding gap
  - **> Beaulieu Park Railway Station** (Essex) – complex rail project with several stakeholders

Figure 1, overleaf, shows the forecast spend associated with all schemes, split by programme risk level (Low, Medium, High) and quarter in 2016/17. It highlights that the majority of spend on all projects is weighted towards the end of the year.

[1] Since April Accountability Board, Westhanger Lorry Park has been removed from the programme. The DfT has confirmed that a larger lorry park option will be considered instead, in response to 'Operation Stack'.

Figure 1: Forecast scheme spend by programme risk level – 2016/17 split by quarter

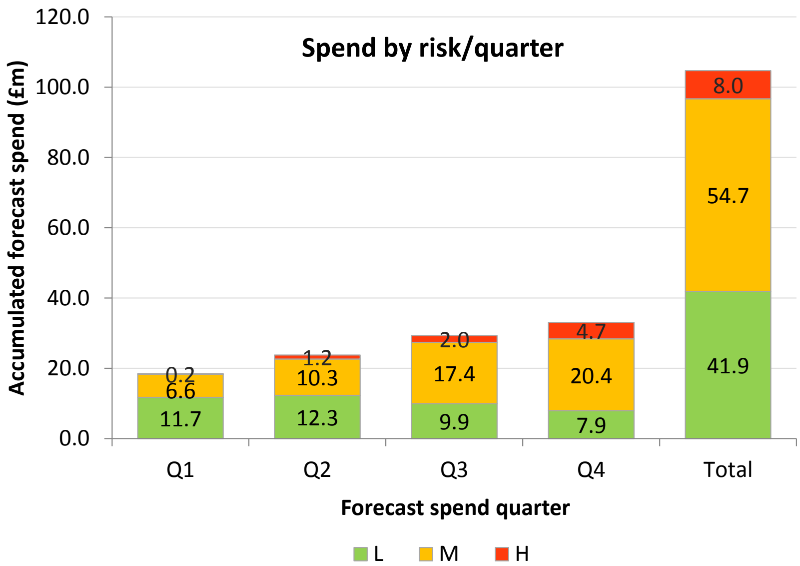
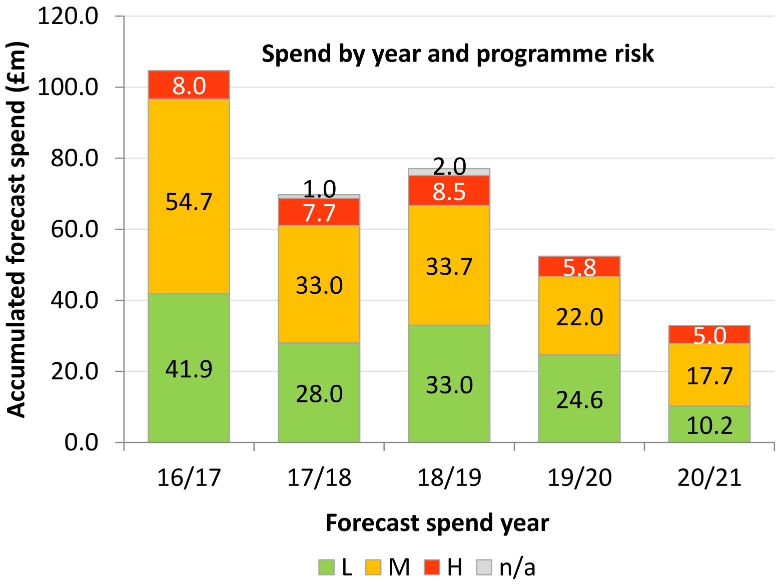


Figure 2, below, shows the forecast spend associated with all schemes, split by programme risk level (Low, Medium, High) and promoter. It shows that Kent is the only promoter with forecast spend on high risk schemes in 2016/17.

Figure 2: Forecast scheme spend by programme risk level – 2016/17 split by promoter

Figure 3, overleaf, shows the forecast spend associated with schemes in the overall programme, split by programme risk level (Low, Medium, High) and year.

Figure 3: Forecast scheme spend by programme risk level - 2016/17 to 2020/21



8. Financial Implications

8.1. 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 19.8% 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.

8.2. A lack of proven delivery ability may also adversely affect allocations made under the latest round of Local Growth Fund. A detailed report has been made available to the Accountability Board in this paper, updating on the final slippage carried forward from 2015/16.

9. Legal Implications

9.1. None at present

10. Staffing and other resource implications

10.1. None

11. Equality and Diversity implications

11.1. None

12. List of Appendices

- Appendix 1: Programme summary dashboard, including headline summary of 2015/16 final underspend and risk;
- Appendix 2: Table showing movement in variances from last reported position (April 2016)
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(available at www.essex.gov.uk if not circulated with this report)

13. List of Background Papers

13.1. 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	31st May 2016