

<b>Report to Accountability Board</b>	<b>Forward Plan reference number:</b> FP/AB/137
<b>Date of Accountability Board Meeting:</b>	<b>23<sup>rd</sup> February 2018</b>
<b>Date of report:</b>	<b>1<sup>st</sup> February 2018</b>
<b>Title of report:</b> <b>Harlow College HAMEC (Harlow Advanced Manufacturing &amp; Engineering Centre) skills capital round one underspend</b>	
<b>Report by:</b>	<b>Louise Aitken</b>
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## **1. Purpose of report**

- 1.1 To seek Accountability Board (the Board) decision for utilisation of an underspend arising from a VAT rebate associated with the Harlow Advanced Manufacturing and Engineering Centre (HAMEC) project.

## **2. Recommendations**

- 2.1 To **agree** that Harlow College can submit a business case to utilise the underspend of £234,815 arising from a VAT rebate from the HAMEC Project, that was received in December 2017, on alternative broader projects. Any funding approval is subject to a full Business Case being provided and approved by the Board at a future date. Any business case would need to meet the requirements of the SELEP Assurance Framework.
- 2.2. To agree that the Accountable Body will issue a formal request for the underspend of £234,815 to be returned if any business case put forward by Harlow College is unsuccessful.

## **3. Background**

- 3.1 Harlow College received £2.5m of Local Growth Funding through the first round of skills capital funding (2015-17) for the HAMEC project. This was towards the total project costs of £7.5m, of which Essex County Council contributed £2m. The centre has been completed and is now up and running and exceeding targets. With the involvement of employers and the increase in opportunities the College has seen growth in both fulltime students and apprentices following a manufacturing route.
- 3.2 In December 2017, Harlow College was advised by HMRC that the construction phase of the project was VAT refundable based on the premise's current usage. This arose from a decision taken by Harlow College Board of Governors to examine whether the College could reclaim the VAT paid on a number of capital building programmes that had taken place on the Harlow

College campus since 2001. HMRC judged that the purpose of the HAMEC is currently predominantly non-business focused. This has resulted in a VAT release on spend of £1,022,667. Accordingly, based on percentage contributions to the overall project, the SELEP skills capital total VAT release is £234,815.

- 3.3 Although SELEP's LGF contribution to the HAMEC project as a whole was 33% (£2.5m of a £7.5m project), VAT is only repayable against the construction costs of the project, which totalled £5,113,337. Harlow College contributed £3m towards the construction phase through a bank loan and the SELEP contribution was £1,174,076 or 22.9% of those construction costs. Applying 22.9% to the total VAT rebate of £1,022,667 means the SELEP proportion of the rebate would be £234,815.
- 3.4 Under the terms of Harlow College's Grant Agreement, they are required to return any grant in the event of an underspend.
- 3.5 The SELEP Assurance Framework requires that a decision is required of the Board to re-purpose the grant.
- 3.6 The College has already confirmed that they would be able to utilise this VAT rebate to add value and additionality to the HAMEC and related projects and to deliver against the SELEP Skills Strategy and Essex Employment and Skills Board priorities.
- 3.7 Through the work the College are doing with their employer advisory group they have identified a need to invest and develop sliding head technology with full scale bar feeds which will add another dimension to the computer numerical control (CNC) skills being learnt by students and will support manufacturing employers using sliding head technology with their skills and recruitment needs. Further to this, the College's intention for the centre is to keep abreast with new and emerging technologies, which in turn will require additional ongoing investment. To this end, the College is currently in discussion with employers and suppliers in relation to the potential additionality of CNC injection moulding technology, CNC press breaks, folding and cutting machines.
- 3.8 Additionally the College is exploring redeveloping some of the space within HAMEC, along with an additional external construction for the development of off-site manufactured, engineered housing. The proposals are expected to enable increased learners to access the facility, addressing the growing skills shortages in engineering.
- 3.9 Harlow College have also outlined that their own proportion of the VAT return is to be used for this project and the Technical and Professional Skills Centre

at Stansted Airport (which was awarded £3,500,000 Local Growth Funding in May 2017), and which is in its construction phase. This is incurring unforeseen costs which will add additional value to the overall project and which Harlow College is endeavouring to fund. These additional costs are currently estimated at £472,537, not all of which can be met through the project contingency. These new and unforeseen costs are as a result of planning and security requirements for: water attenuation, extension of a footpath (to meet strict airport lighting requirements), additional lighting, additional perimeter security measures. As well as the cost of the works, all of these incur additional design and planning costs.

- 3.10 Recruitment activities suggest that the engineering pathway being offered at Stansted Airport College will very likely be oversubscribed, placing significant pressure on the practical workshop resource. To overcome this, Harlow College is planning to put back an external hangar and storage facility that was within the original plan and planning submission, but which had to be value engineered out of the scheme in order to bring the project back within the available budget. The inclusion of the hangar will add further costs to the project, but will enable the centre to meet the emerging demand and support engineering employers based at the airport.
- 3.11 Harlow College are working with Essex County Council separately with regards to the underspend associated with their contribution to the HAMEC project. Any decision will be subject to Essex County Councils own governance processes.

#### **4. Options**

##### **Option 1- Approve Harlow College submission of a business case for the utilisation of the HAMEC project underspend resulting from VAT return to their broader projects. (recommended Option)**

- 4.1 The Board are asked to agree that Harlow College can submit a business case for the utilisation of the HAMEC project underspend resulting from VAT return of £234,815 on alternative projects which would deliver against the SELEP Skills strategy and Essex Employment and Skills Board priorities. This will primarily be to add value to the HAMEC. Harlow College will utilise their proportion of the VAT return for adding value to the Technical and Professional Skills Centre at Stansted Airport.
- 4.2 The process for utilising underspend has been used historically by the Board in other instances where underspend has been identified, and is in line with the SELEP Assurance Framework and Government expectations.
- 4.3 Should this option be approved, a full Business Case will be prepared setting out the full details of the Project to benefit from the underspend and submitted to the SELEP Independent Technical Evaluator. Thereafter a report will be brought back to the Board for consideration and approval of the funding decision.

## **Option 2 - Return the underspend to SELEP**

- 4.4 SELEP has considered whether in this instance the identified underspend of £234,815 should be returned to SELEP, for use on alternative skills projects, prioritised by the Essex Business Board. This would allow for other skill providers to bid for the funding through a competitive bidding process.
- 4.5 The business case for any Project prioritised through this process would need to meet the requirements of the SELEP Assurance Framework.
- 4.6 This is not the recommended option at this time. In line with previous decisions, SELEP would look to allow the respective college the opportunity to utilise the underspend in the first instance. Only if this is not possible, and the supporting business case does not meet the requirements set out in the Assurance Framework, would it seek to have the underspend returned.

## **5. Financial Implications**

- 5.1 This underspend will result in £234,815 of available LGF Skills funding; a decision on how to utilise this is therefore required, in line with the SELEP Assurance Framework.
- 5.2 In particular, any business case brought forward for utilisation of the funding will be expected to demonstrate high value for money. Also, in line with the skills capital process that was approved by the Board in June 2016, an element of match funding of the investment would be expected.

## **6. Legal Implications**

- 6.1 The Grant Agreement that Essex County Council, as the Accountable Body for SELEP, has in place with Harlow College, sets out the requirement for grant to be returned in the event of an underspend or over-claim.
- 6.2 Any future approval for Harlow College to retain the LGF Grant will be supported by a separate Grant Agreement with the Accountable Body.
- 6.3 HMRC have informed Harlow College that they would need to notify them if their Board of Governors decide to change the use of the HAMEC building during the next 10 years. In the event of a change of use, through, for example, increasing the proportion of commercial work undertaken by the College or bespoke training offered to employers, this could result in the building coming into the scope of VAT. Should this happen Harlow College could be requested to repay some or all of the VAT.
- 6.4 The HAMEC building is funded by the SELEP and others on the basis of the current usage. If Harlow College chose to change the usage at a future date to a more commercial basis, it is at this point that they will need to reconsider

the VAT position. The SELEP and its partners will not be part of that decision making process, and therefore the SELEP would not be liable for any future VAT payments.

**7. Staffing and other resource implications** (Accountable Body Comments)

7.1 None at present.

**8. Equality and Diversity implications** (Accountable Body Comments)

- 8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when a public sector body makes decisions it must have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
  - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
  - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.
- 8.3 In the course of the development of the project business case, the delivery of the Project and their ongoing commitment to equality and diversity, the promoting local authority will ensure that any equality implications are considered as part of their decision making process and were possible identify mitigating factors where an impact against any of the protected characteristics has been identified.

**9. List of Appendices**

9.1 None

**10. Background Papers**

11.1 [Insert to previous decision report for the original award]

**(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
<b>Accountable Body sign off</b>	
Lorna Norris	14/02/18

(On behalf of Margaret Lee)	
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