

<b>Report to Accountability Board</b>	<b>Forward Plan reference number:</b> FP/AB/170
<b>Date of Accountability Board Meeting:</b>	16 <sup>th</sup> November 2018
<b>Date of report:</b>	5 <sup>th</sup> November 2018
<b>Title of report: Harlow Advanced Manufacturing and Engineering Centre (HAMEC) skills capital round one underspend utilisation update</b>	
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## 1. Purpose of report

- 1.1 The purpose of this report is to seek Accountability Board (the Board) approval to reduce the match funding requirement associated with the approval for the award of £234,815 of Local Growth Fund (LGF) Capital Grant to Harlow College to purchase specialist equipment supporting the Harlow Advanced Manufacturing and Engineering Centre (HAMEC) (the Project)

## 2. Recommendations

- 2.1 The Board is asked to:
- 2.1.1 **Approve** a change request to reduce the scope and cost of the Project as Harlow College have been unsuccessful in securing all of the match funding that was a condition of the LGF award that was made to the Project by the Board in April 2018; and to
- 2.1.2 **Approve** the reduced match funding requirement for the Project from £250,415 to £80,663.

## 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 original 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 Harlow College has seen growth in both fulltime students and apprentices following a manufacturing route.
- 3.2 In December 2017, Harlow College were advised by HMRC that the construction phase of the original project was VAT refundable based on the premise's current usage. This 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 In February 2018, the Board agreed that Harlow College would be given the opportunity to bring forward a business case to utilise SELEP's proportion of the under spend arising from the VAT rebate received.
- 3.4 In April 2018, Harlow College brought forward a business case for the purchase of specialist equipment which would support the Harlow Advanced Manufacturing and Engineering Centre. This business case was assessed as providing high value for money with high certainty. Accordingly the Board approved the further award of £234,815 to Harlow College. However this award was subject to confirmation that the match funding was secured.
- 3.5 Match funding for the project to utilise the VAT rebate was originally sought from Essex County Council through their proportion of the rebate (£187,852). Essex County Council confirmed in September 2018 that they are unable to provide this funding as match for the Project.
- 3.6 Harlow College have not secured alternative match funding and have therefore submitted a change request. With reduced available funds, Harlow College is proposing to remove some equipment from the scope of the Project with allocated costs of £170,000. The College will meet the £18,000 shortfall as a further match contribution from their own resources. The outcomes and delivery timescales for the project will remain the same.

#### **4. Specialist equipment for HAMEC - the Project**

- 4.1 The under spend arising from a VAT rebate enables investment in areas of HAMEC that were value engineered out of the original project, including sliding head technology with scale bar feeds that will add another dimension to the computer numerical control skills being learnt by students. Harlow College's ambition and intention is for the centre to keep pace with new and emerging technologies to respond to employer need. This will align to current industry practices and add significant value to the centre, leading to more highly skilled, industry ready engineers.
- 4.2 Science, Technology, Engineering and Mathematics (STEM) based industries have been identified as having significant skills shortages in both the SELEP and Essex Employment and Skills Board Evidence Base. Sectors including construction, engineering, digital, IT, health, logistics care and finance are lacking the skills required for growth. The need for engineering is particularly acute with growing numbers of local employers struggling to recruit and with an ageing workforce. Local and regional advanced manufacturing employers must recruit 13,500 more engineers to fill emerging roles and those vacated by an imminently retiring workforce. Harlow's proposal is supported by the Essex Employment and Skills Board and responds to the skills shortages identified through their skills evidence base.

- 4.3 This investment will enable the purchase of specialist equipment to add to the inspirational, industry relevant facilities already on offer. Developed through close partnership with employers such as Truck-Lite, BTL Precision, Stansted Airport and e2v Teledyne, this offer is the result of close employer collaboration.
- 4.4 The LGF element of the VAT rebate can only be used for capital expenditure. This investment will enable the purchase of more specialist equipment. The change request has led to the removal from the original list of equipment of an industrial 3D Printer and Water Jet Cutting Machine. The proposed water cutting technology in relation to programming is similar to routing machines and other CNC technology currently at Harlow College. Although learners will not now get full exposure to water jet cutting technology, Harlow College have indicated that they could supplement this activity via industrial visits and use of digital media. The current equipment now within scope of the Project are:
- DMG Mori CNC sliding head machine with full sized bar feed
  - Edgecam Site Licence software
  - Full sized bar feed to feed the DMG Mori 450 eco-turn
  - F1 Project / School engagement workshop
  - Mobile Devices for workshops
- 4.5 In the event that Harlow College identifies a source of match funding to make up the £188k shortfall, the College would look to reinvest the equipment proposed for omission in the change request.
- 4.5 The purchase of this additional equipment will enable Harlow College students, adult learners and partner schools to work on leading edge technology to learn innovative engineering concepts with equipment that will replicate the workplace. It will enable the expansion of the apprenticeship offer. Learners will develop skills to set, programme and operate the technology to be better able to respond to employer needs and priorities. As per the original business case, specifically through the equipment described above learners will:
- Learn alternative machine languages and methods for small piece production
  - Work on real prototype developments for employers
  - Develop and practice the skills required for the use of industrial machines
  - Through the F1 workshops, the college will become a manufacturing centre for schools and the only manufacturing test centre in the region
  - F1 workshops will explore a range of elements including air trace visualisation, race track flight case, quick change tool holders and F1 model pack.
  - Equipping the HAMEC workshops with mobile devices (iPads) will give learners the ability to access and store production engineering data as well as online maintenance manuals aligning processes to that of standard industry practice

- Additionally, HAMEC will offer new opportunities to learners at level 1 and learners with learning difficulties and disabilities

4.6 The expected impacts of the schemes include those originally outlined:

#### **Positive Impacts**

- Increased numbers of apprentices
- Enhanced learning for current students
- Further out-reach with 10 schools, promoting engineering as a career choice and inspiring 100 young engineers of the future
- Establish a dedicated project based workshop from September 2018 to assist in the delivery of engineering design
- Establish a Young Engineers Academy for Years 7-11
- Increasing the number of females entering the sector
- Support for young people who are NEET (not in education, employment or training)
- Support for those with learning difficulties and disabilities
- Special return to work programmes to tackle low skills and improve employability
- Supporting employers with recruitment and training in close consultation with the HAMEC Industry Advisory Panel
- Assisting unemployed people to upskill and retrain
- Increased provision for learners at level 1
- Increase work placements by 30% annually
- Increasing the already expanding growing (27% in year one) of learners and maintaining the excellent retention rate (96%)
- Addressing the local skills shortage and growth requirements as captured in the LEP Skills Strategy and evidence base

### **5. Project cost and funding contributions**

- 5.1. Further to the change request, the total cost of the equipment outlined above is now £315,378 with Harlow College seeking £234,815 in LGF as the table below illustrates.
- 5.2. Although the proportion of match funding is less than originally set out, Harlow College will now contribute £80,563 (26%) to the project, greater than their original 13%. The original overall match funding proportion was 52%, however there is precedent for lower proportions of match provided to projects.

**Table 1 – Revised project funding breakdown (2018/19)**

<b>Project funding/financing</b>	<b>Capital cost (£)</b>	<b>Percentage of total project costs (%)</b>
Requested reallocation of LGF funds	£234,815	74%
Applicant contribution as per original bid (cash reserves)	£62,563 <sup>1</sup>	20%
Applicant new contribution for business change request	£18,000 <sup>2</sup>	6%
<b>Total</b>	<b>£315,378</b>	<b>100</b>

Note that all funding will be spent in financial year 2018/19.

**6. SELEP ITE Gate 2 Review** (note that this is as per April 2018 Business case. Given that outcomes will remain the same).

- 6.1 The SELEP Assurance Framework sets out the requirements for an Independent Technical Evaluation (ITE) review of the Business Cases for schemes seeking LGF funding.
- 6.2 The ITE review of the Project Business Case confirms economic appraisal has been carried out and indicated that there will be annual economic benefits of £251,334 as a result of the purchase of the additional specialist equipment. While multi-year scheme appraisal was not carried out, this annual benefits quantum provides assurance that the benefit cost ratio of this additional scheme element would be greater than 2:1.
- 6.3 The ITE review of this Business Case has recommended approval for this Project. The ITE report notes that Harlow College is using its proportion of the VAT rebate (£600,000) for the Stansted Airport College Project. The review recommends therefore that in the monitoring and evaluation of the Stansted Airport project, this should be noted.
- 6.4 The ITE review also notes that the LGF element of the VAT rebate can only be used for capital expenditure and it must be providing additional benefits to the HAMEC and cannot be used on any other schemes.
- 6.5 For the full ITE report, see Appendix 1 of Agenda Item 5.

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<sup>1</sup> £600,000 VAT refunded on Harlow College's contribution to the construction of HAMEC will be transferred to spend on the Stansted Airport College project

<sup>2</sup> The difference in costs between equipment removed from the project £170,000 and original contribution from Essex CC (£188k,000) which the college is meeting

## 7. Compliance with SELEP Assurance Framework

Requirement of the Assurance Framework to approve the project	Compliance	Evidence in the Business Case
A clear rationale for the interventions linked with the strategic objectives identified in the Strategic Economic Plan		The business case clearly articulates the need for increased engineers and STEM based skills as set out in the Strategic Economic Plan and the contribution this Project will make
Clearly defined outputs and anticipated outcomes, with clear additionality, ensuring that factors such as displacement and deadweight have been taken into account		<p>The business case sets out clear outputs and outcomes, showing additionality achieved through this Project. This includes out-reach work with schools and disadvantaged groups.</p> <p>The ITE notes that Harlow College is using its proportion of the VAT rebate (£600,000) for the Stansted Airport College Project. The review recommends therefore that in the monitoring and evaluation of the Stansted Airport project, this should be noted.</p>
Considers deliverability and risks appropriately, along with appropriate mitigating action (the costs of which must be clearly understood)		The Business case sets out how the Project has been determined and the high level of employer engagement meaning that there is low risk of the equipment not being utilised or relevant.
A Benefit Cost Ratio of at least 2:1 or comply with one of the two Value for Money exemptions		The ITE report notes that while multi-year scheme appraisal was not carried out, the expected annual benefits quantum provides assurance that the benefit cost ratio of this additional scheme element would be greater than 2:1.

## 8. Financial Implications (Accountable Body Comments)

- 8.1 The funding requested for this Project is currently being held by Harlow College as it forms part of the VAT rebate received by the College in relation to the £2.5m of LGF originally allocated to Harlow College for the development of the HAMEC.

- 8.2 In the event that the Board should chose not to approve the Project change request, meaning that the Project is unable to progress, the Accountable Body will request that the funding is returned by Harlow College in line with the Grant Agreement; this funding will then be added to the uncommitted LGF funding for reallocation through the agreed prioritisation approach.

**9. Legal Implications (Accountable Body Comments)**

- 9.1 Approval for Harlow College to retain the LGF Grant will be supported by a separate Grant Agreement with the Accountable Body.
- 9.2 Should approval not be given for this Project change request, Harlow College will be requested by the Accountable Body to return the funding under the terms of their Grant Agreement, as previously agreed by the Board on the 27<sup>th</sup> April 2018.

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

- 10.1 None at present.

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

- 11.1 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.
- 11.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.
- 11.3 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 College will ensure that any equality implications are considered as part of their decision making process and where possible identify mitigating factors where an impact against any of the protected characteristics has been identified.

**12. List of Appendices**

13. 12.1 None

**14. List of Background Papers**

- 14.1 HAMEC Project Change request paper
- 14.2 Board reports for original decision (23<sup>rd</sup> February) and case for utilisation of VAT underspend (27<sup>th</sup> April)
- 14.3 Business case for original project presented at 27<sup>th</sup> April Board

**(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)**

<b>Role</b>	<b>Date</b>
<b>Accountable Body sign off</b>  Stephanie Mitchener (On behalf of Margaret Lee)	  8/11/18