Paper 24.11.4

Date:
2 July 2015

Coast to Capital Board

Local Growth Fund Conditions and Flexibilities
Report by Accountable Body Representative

Executive Summary

The purpose of this report is to:

- Advise the Board in relation to the funding conditions and flexibilities associated with the Local Growth Fund (LGF) capital grant that is the main source of Government funding supporting the Growth Deal to deliver the Strategic Economic Plan (section 1).
- Provide options for the Board to consider to allow Delivery Bodies (DB) the ability to vire funding between projects and financial years in order to optimise the use of LGF in a compliant manner (section 2 & 3).
- Provide options for the Board to allow the carry forward of unspent LGF for DBs who are unable to spend their full LGF allocation within the financial year subject to financial limits (section 4)
- Provide options for the Board to determine the extent of delegation to DBs in relation to permanent virement of funds between Growth Deal projects (section4).

Recommendation(s)

(1) That the Board notes the funding conditions that apply to the use of the Local Growth Fund as set out in paragraph 1.2.

(2) That the Board notes the flexibilities that are permissible to enable DBs to manage project funding and slippage as set out in paragraph 2.3

(3) That the Board approves the flexibilities and constraints within which DBs will be authorised to vire LGF as set out in 3.2 to 3.5 and subject to the requirements set out in 2.3; and that this approval is communicated for adoption by the Local Transport Body in relation to highways and transport schemes.

(4) That the Board approves the ability to carry forward unspent LGF for DBs in exceptional circumstances as set out in 4.4.

(5) That the Board determines the arrangements for permanent virements between LGF projects as set out in 5.2b.

1. Funding conditions and flexibilities

1.1 The Department for Communities and Local Government (DCLG) set out the grant funding conditions for Local Growth Fund (LGF) in a letter to Coast to Capital LEP and the Accountable Body dated 6 February 2015.

1.2 To ensure compliance with the LGF grant funding conditions, the LEP and Accountable Body must ensure that the following conditions are satisfied:

a) The funding for the Growth Deal is provided as capital grant under section 31 of the Local Government Act 2003 and can only be used for '**Capital Expenditure'** [1] purposes.

b) The funding must be applied in respect of **capital expenditure incurred** [2] during the financial year for which it is awarded (ie for Growth Deal for the period 1 April 2015 to 31 March 2016).

c) All funding paid pursuant to the Growth Deal, irrespective of whether paid by DCLG or the Department for Transport (DfT) will fulfil the following requirements:

i) It will be **used to support the Growth Deal** agreed between the Government and the LEP and will be **used to secure the outcomes set out in the Growth Deal**.

ii) It **will be deployed solely in accordance with decisions made through a local assurance framework** agreed between the LEP and the Council as the Accountable Body (AB). This framework must be consistent with the standards set out in the national assurance framework. In the case of specific schemes which are still subject to business case sign off by DfT, the DfT business case sign-off process may mean that the local assurance framework process is not required in full. This will be agreed on a scheme by scheme basis.

d) That the **LEP will track progress against agreed core metrics and outcomes**, in line with the national monitoring and evaluation framework.

1.3 The funding conditions are very specific in terms of the requirement to ensure application of the grant to fund capital expenditure within the financial year that the grant is awarded. It should be noted that the LEP is also required to track and demonstrate delivery of the contracted outputs and outcomes set out in its Strategic Economic Plan agreed via the Growth Deal negotiation with Government and this is a key factor of approving individual business cases.

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[1] Capital Expenditure is defined in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and as interpreted through guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

[2] Expenditure Incurred means that goods, works and/or services have been delivered to the beneficiary of the grant at a defined point in time.

1.4 However, the use of Section 31 Grant in support of the Growth Deal provides LEPS with much greater flexibility in its application than other government grants would otherwise offer. The AB is able to utilise its expert knowledge of public sector funding to support the LEP in working with DBs to optimise the use of LGF. This willhelp to facilitate timely delivery of the Growth Deal projects subject to compliance with the funding conditions set out at 1.2 above. These proposals should also apply to projects under the management and control of the Local Transport Body (LTB). The potential opportunities for flexible and proactive management of the funding are set out in section 2.

1.5 Current governance arrangements require all virements of funding between projects to be reported for approval into the LEP Board. Given the dynamic nature of the overall programme and individual projects, the LEP Core Team is experiencing and forsees significant challenges in relation its ability to resond to the changing position on a range of projects and reprofiling of projects within the programme. The proposals for delegation of virement within this report will help to address that difficulty.

2. Proactive management of funding streams and project slippage

2.1 A meeting was held between Finance Officers of WSCC and DCLG together with the Department for Business Innovation and Skills (BIS) Relationship Manager and Strategic Director of Coast to Capital (C2C) on 2 June 2015. The purpose of the meeting was to discuss and agree arrangemenets for flexible management of the LGF funding within the funding conditions set out in 1.2 above to ensure optimisation in the use of LGF funding and robust project and programme delivery. The key outcomes of the meeting and implications for C2C are set out in the remainder of this report.

2.2 BIS, CLG and Her Majesty's Treasury (HMT) acknowledge that there will be some degree of slippage in LEP projects and programmes. Government is encouraging LEPs and their ABs to proactively manage the use of LGF funding to ensure that the key requirement for robust and sustainable project development and delivery is achieved within the funding conditions.

2.3 In the event that a Delivery Body (DB) incurs project slippage on one or more LEP Growth Deal projects:

i) it is permissible to allow virement between individual Growth Deal projects between financial years to facilitate delivery and optimise use of funding;

ii) if a DB is unable to utilise its full allocation of LGF within 15/16, it is permissible to allow a DB to apply the LGF to other (non LEP Growth Deal) capital projects within its wider capital programme provided that the DB:

a) Engages in advance of any virement with the LEP and the AB in relation to its forecast spend against budget and the need to vire the application of LGF between projects whether they are Growth Deal Projects or non Growth Deal Projects is agreed between the LEP Chief Executive the AB Representative and the Delivery Body representative.

b) can demonstrate to the LEP and the AB that the LGF has been applied to 'Capital Expenditure' within 15/16.

c) identifies the equivalent unrestricted local capital funding sources that have been displaced by the LGF in 15/16, and demonstrates to the LEP and the AB that these funding sources are subsequently applied in 16/17 against the LEP Growth Deal Project(s) – effectively swapping eligible funding streams between financial years.

d) Can demonstrate to the LEP and the AB that the full amount of allocated LGF for the approved LEP Growth Deal Project(s) has been properly applied to the approved project (s) over its agreed project delivery profile.

iii) Where a DB within the Coast to Capital LEP is unable to take advantage of the flexibilities set out in 2.3i and 2.3ii above, and incurs project slippage, DCLG finance has confirmed that the AB (WSCC) will be permitted to carry forward an underspend into 16/17 via rolling this through a specified reserve account at the year-end to be applied to expenditure incurred in 16/17.

iv) However, DCLG and BIS expect that any such carry forward amount should be marginal in the context of the overall level of LGF awarded for 15/16 (£41.53m). This facility should therefore only be used in exceptional circumstances. BIS will meet with the LEP and AB in December 2015 to review progress in delivering the programme and to identify the need to carry forward unspent LGF.

3 Opportunities for optimising utilisation of LGF

3.1 The provisions set out in section 2 provide an opportunity for the LEP Board to optimise use of LGF to deliver its SEP objectives in a compliant manner whilst securing robust programme and project delivery.

3.2 This may be achieved by agreeing increased flexibility for those DBs that have more than one LEP Growth Deal project and/or capital programmes that are wider than the LEP Growth Deal Programme. The LEP Board is asked to consider whether it will allow any or all of the following flexibilities to apply with the agreement of a nominated LEP representative and the AB Representative:

i) A DB to vire LGF grant between multiple LEP Growth Deal Projects within 15/16 without financial limit in order to manage the impact of individual project slippage locally and optimise use of LGF within the year.

ii) In the event that a DB is unable to apply all of the allocated LGF to its LEP Growth Deal projects in 15/16, it may apply LGF to its other (non Growth Deal) capital schemes to ensure that LGF is fully utilised. The DB will substitute LGF for its local funding streams, deferring their application to match 'slipped' Growth Deal expenditure in 16/17.

iii) Similarly to ii above, in the event that a DB wishes to accelerate the delivery of a Growth Deal project in 15/16, it may apply local capital funding sources to supplement the approved LGF for the year to finance total project expenditure. The DB will be able to swap LGF funding in the subsequent year in place of local capital funding sources to fund a local (non Growth Fund) project.

3.3 It is proposed that DBs are awarded this flexibility without the need to seek prior approval from the LEP Board given that this will optimise use of LGF and facilitate more robust and timely project delivery.

3.4 However, each DB will be required to secure advance agreement of the nominated LEP representative [the Chief Executive] and the AB Representative in relation to the virement. Each DB will also be required to report on its budget, actual expenditure, forecast outturn, intended and actual use of virement and application of funding streams via its monthly and quarterly monitoring to the LEP programme management team including the AB. This information will be routinely reported to the LEP Board.

3.5 The AB will retain the right to withdraw persmission for any DB to vire funding and/or withhold future grant payment on behalf of the LEP, should any DB fail to comply with the conditions of their signed Funding Agreement with the LEP and the AB.

3.6 This approach to management of LGF funding offers a valuable tool to the LEP and its DBs to enable successful project and programme delivery within an overall control framework. Local authority DBs already routinely manage s31 grant received for other (non Growth Deal) projects and programmes in a similar way within their wider capital programmes and this can be applied to other DBs who run wider capital programmes subject to compliance with their individual financial governance arrangements.

4 Conditions of 'Rollover' of unspent LGF

4.1 The flexibilities outlined in section 3 above are unlikely to be of any great assistance to DBs with small capital programmes or those running within one financial year who would be unable to swap out funding streams as described. These include universities, colleges or private sector DBs.

4.2 However, as set out in 2.3iii above DCLG and BIS have agreed a concession to enable the AB to carry forward unspent LGF providing that this is reasonable and is marginal in terms of the overall value of the LGF grant awarded. This concession has been confirmed via email and a formal letter is being sought. It is therefore important to note that its is not legally binding upon DCLG or BIS until we have a formal letter and therefore could be subject to change if Central Government circumstances change. It is therefore important that this facility is only used in exceptional circumstances so as to limit the financial risk exposure of the LEP.

4.3 It is important to note that:

a) In the absence of this concession, the financial risk associated with project slippage <u>must</u> sit with the individual DB and not the LEP or the AB.

b) The LEP will need to demonstrate to BIS and DCLG that any such slippage is unavoidable and is marginal in terms of the overall value of LGF approved for the financial year.

4.4 The LEP Board may wish to consider whether it will:

a) Allow such DBs to carry forward the lower of either 5% of total 15/16 profiled spend or £300,000 to 16/17 subject to approval of:

- A written report and justification from the individual D B
- The DB accepting risk for the residual 95% of slippage

The AB's recommends that the Board agree this in advance via the Funding Agreement with each DB in order to enable the effective management of grant slippage. This limit is recommended in order to manage the financial exposure of the LEP should Central Government change its intentions and subsequently seek to recover any unspent grant. Slippage in excess of these limits would be allowable in individual circumstances but should be considered by the LEP Board either at a meeting or via correspondence after consulting the Accountable Body.

5. Virement

5.1 The virement arrangements suggested in section 3 apply only where a DB is making virements between its projects to manage application of LGF within and between financial years to secure robust project delivery. It will not apply where a DB is seeking a permanent virement of LGF funding between its individual LEP Growth Deal Projects.

5.2 The LEP Board is asked to consider whether it would wish to:

a) allow any degree of permanent virement to be delegated to DBs to vire funding between their projects;

OR

b) require all permanent virements between their projects to continue to require prior LEP Board approval.

The AB recommends that the Board adopt option 5.2b in order for it to fully assess the impact of proposed permanent virements upon the scope, scale and nature of projects involved in the virement of funding which could change the nature of the overall programme. For the avoidance of doubt any virements of funding between Delivery Bodies would also continue to require LEP Board approval.

6. **Equality Duty and Social Value**.

6.1 This report itself does not contain any implications with regard to either the AB's or the LEP's duties with regard to equality or social value.

6.2 In exercising its functions described in this report the LEP will need to consider on a case by case basis whether it is appropriate to undertake an Equality Impact Report or prepare a report as to implications of any particular decision with regard to social value.

7. **Risk Management Implications**

7.1 The report proposes a framework for achieving flexible management in the use of LGF in accordance with the funding conditions specified by DCLG, international accounting and financial reporting standards.

7.2 By agreeing to and complying with procedures and specific criteria set out in sections 1 to 5 of this report, the LEP and AB will facilitate the successful delivery of a robust Growth Deal Programme in a financially and legally compliant manner, thereby ensuring efficient and effective use of public funds.

7.3 This approach will serve to mitigate some of the pressures associated with partners concerns that project slippage may result in unspent LGF being lost to the LEP and Delivery Bodies.

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2 July 2015