

<p>Coast to Capital Board meeting No. 32 17 November 2016</p>	<p>Ref No. 32.12</p>
<p>Report Title: Local Growth Fund 1 and 2 – update and pipeline</p>	
<p>Report by: Anthony Middleton</p>	
<p>Recommendations:</p> <p>For the remainder of the 2016/17 financial year, the Board is requested :</p> <ul style="list-style-type: none"> a) To approve accelerated spend in 2016/17 on the projects as set out in 3.1.1. b) To agree the release back into a single pot, the forecast unspent balances on projects that have been assessed, in agreement with delivery bodies, to not be able to use their full funding allocation this financial year, as set out in 3.1.2. c) To commence a regular six monthly call for bids starting in December, to establish a pipeline of projects as set out in 3.1.3 and 4.1 and to pre-approve allocations as listed in 3.1.3. d) To carry forward and / or release under the flexibility protocol (on the same basis as agreed by the Board for 15/16) the 2016/17 allocations forecast to be unspent by year end, on individual projects with growth fund spend totalling c. £8.703m as set out in 3.1.4. e) To agree that the earmarked funding allocations for this year and subsequent years, for transport resilience, sustainable transport and skills be amalgamated into a single pot to cover future calls for bids as set out in 3.1.3, 4.0 and 5.0 below. f) To provide feedback on the suggested bid evaluation and assessment approach / criteria as set out in 4.1, 5.0 and Appendices B and C, which will subsequently be incorporated in the new LEP assurance framework. 	

1.0 Summary

The projects and investments team have undertaken a review of the LEP's management and governance of Local Growth Fund Projects (LGF). This paper sets out the financial findings of that review and recommended steps to improve and reinforce delivery of the programme. A further paper examines the governance structure of the programme and makes recommendations in this regard, together with a proposed updated assurance framework document.

During this review the accountable body have been consulted throughout and have commented and input into this paper being supportive of the proposed approach.

2.0 Background - Financial

The programme of projects within the LGF totals £225.8m of allocated items out of a total allocation from Government of £226.5m. The spend allocation from Government for 1016/17 is £57.2m with a draw down six months into this financial year of £4.62m. The forecast spend, without remedial action, at the date of authorship of this paper, is to only draw down approximately 52% of the funding available this financial year. Urgent remedial action is required to therefore elevate in year spend to achieve levels promised to Government.

3.1 Remedial Action Strategy

(Appendix A provides an overview of this strategy.)

The proposed strategy is to:

1 Encourage Acceleration of in Year Spend

Encourage acceleration of spend on projects that are able to draw down funding hitherto allocated for spend within next financial year. This will have the resultant effect of releasing further funding for future bidding rounds next year.

Two projects have been identified as having the potential to accelerate and deliver the following additional 2016/17 spend, although this level of spend at this stage is still provisional:

Shoreham flood defences Western Harbour arm £3.352m bought forward from 17/18

University of Chichester Engineering & Digital Technology Park £5.719m bought forward from 17/18 and 18/19

Following a detailed review and forecast spend revision on all projects and including the above accelerated expenditure, the forecast 2016/17 spend without the further actions detailed below would be £38.7m.

2 Remove and re-allocate funds from projects that are unable to deliver to in year spend forecast targets, where a strong and credible case cannot be made for carry forward

Following a robust challenge and review exercise with all delivery bodies, mutual agreement has been reached that the following sums allocated to the projects listed below will be released back to add to in year unallocated balances. Following this release back the total in year unallocated growth fund balance will be £9,799,018.

Epsom Quadrant £200,000 Scheme no longer proceeding.

Growth is digital infrastructure £125,000**

A29 re-alignment £700,000

Business finance £1,000,000**

Funding never allocated £242,683

TOTAL £2,267,683

**Subject to final confirmation.

3 Call for Bids giving priority for Spend within 2016/17

There are a number of potential bids from delivery bodies that are likely to be able to spend the full £9,799,018 in year unallocated sum.

Also, subject to board approval it is proposed to transfer c£4m from the 16/17 LGF to the Growing Places loan fund (see separate board paper).

It is proposed that a six monthly call for bids is put in place starting December 2016, to build a pipeline of projects. The total 'pot' of funding available (unallocated) will be c£45.6m. Further details can be found at item 4.0.

In addition the establishment of a £750,000 feasibility fund for 2016/17 will enable delivery bodies to develop more robust bids and business cases for future years call for bids. The mechanics of operation of this fund will be set out within the new assurance framework. Any feasibility funding awarded will be subject to clawback if future schemes do not progress and funding cannot therefore be capitalised.

Finally, it is proposed to ring fence an annual 'top slice' of £400k pro rata, going forward from the in-year unallocated balance to fund additional resources within the projects team, in order to deliver improved governance and management of the programme going forward.

4 Carry forward spend to future financial years and/or use board approved flexibility freedoms to release equivalent sums to delivery bodies

There are a number of projects with a total LGF value totaling £8,703,065 that for very legitimate reasons (see below) cannot draw down funding as was originally forecast this financial year. These are 'key' strategic projects for the LEP region and as such require funding to continue to be ring fenced for their delivery.

Carry Forward / Flexible Funding Release	
Less Preston Barracks CRL carry forward	-991,245
Less Gatwick Skill carry forward	-4,706,959
Less Growth is Digital Catapult carry forward	-49,861
Less growth is Digital 5G carry forward	-315,000
Less Epsom plan E carry forward	-155,000
Less A284 carry forward	-545,000
Less A2300 carry forward	-1,030,000
Brighton Bike Hire carry forward	<u>-910,000</u>
	-8,703,065

The table below summarises the recommended remedial action plan:

Available Funds in Accountable Body Bank Account	57,230,241
Less Forecast (includes accelerated spend)	38,728,158
Less Unallocated Funds (inc funds released back to single pot) NB. £750k earmarked for feasibility fund. £400k annual pro rata earmarked for annual funding of projects team.	9,799,018
Less carry forward / flexible funding release	8,703,065
Balance at year end	0

4.0 Detailed Financial Position – September 2016

From the above table, the immediate challenge is to ensure that:

- a) We allocate £9,799,018 to credible projects as soon as possible which that will draw down an equivalent magnitude of funding in year, via the new call for bids. The unallocated categories of funding are as follows :

Funding released back for 2016/17	£2,267,683
Skills funding: £1,011,335 for 2016/17, no further years skills funding earmarked	
Sustainable transport:	£5,110,000 for 2016/17
	£2.1m for 2017/18
	£6.9m for 2018/19
	£5.5m for 2019/20
	£4.5m for 2020/21
Transport resilience:	£1,410,000 for 2016/17
	£0.86m for 2017/18
	£5.1m for 2018/19
	£4.1m for 2019/20
	£6.8m for 2020/21

The above funding sums were never based upon specific schemes and were merely notional balancing sums, in many cases against the original total LGF programme allocation.

Since a quarterly call for bids will inevitably generate considerable interest across the new and historic categories of spend, it is sensible to view future year's earmarked sums as a single pot. This single pot will be the platform upon which to base the future quarterly call for bids. If this approach is agreed the single pot upon which the LEP will be launching will be valued at c£45.65m (including this year's funding).

4.1 Six Monthly Call for Bids

A six monthly call for bids is recommended to commence early December 2016 based on the approach set out below.

4.2 Criteria for Award of Funding

Applicants would bid for funds under the existing Strategic Economic Plan priorities, however it should be noted that the SEP is expected to go through a refresh next year so we are recommending to award funding on the basis of the criteria set out below which may not explicitly link to the current SEP. Each application will be assessed against a set of core criteria and a set of criteria relevant to the type of project. There are some simple eligibility tests that all projects must pass such as, a lower and upper grant limit of

£500,000 and no more than £5,000,000 which must be matched by at least 50% for non-transport projects and at least 15% for transport projects. The key eligibility for the first call will be for spend in 16/17 and we are recommending that we request for at least 30% of the LGF amount is to be spent in the 16/17 financial year. As is currently the case, applications will be for capital expenditure only and all projects must demonstrate evidence of state aid compliance.

Each project will then be assessed against four key objective led criteria:

- Strategic Fit- An assessment of the strategic fit with the Coast to Capital priorities within the Strategic Economic Plan, Devolution Proposals and any other Coast to Capital Strategy.
- Delivery of outputs- Assessment of what outputs the project will deliver. This will include, the level of private and public sector leverage, the number of new or safeguarded jobs, number and types of businesses supported, number of new learners and apprentices, number of new homes, size of new or refurbished commercial and learning floorspace, length of new roads and cycle ways, improvements to journey times and carbon reductions.
- Value for money- An assessment of the value for money using the HMT Green Book criteria
- Deliverability- An assessment of the level and technical feasibility and the Delivery body's ability to deliver expenditure in 16/17 and complete the project in the required timescales.

Projects would bid against one of the four categories under which the overall scheme will deliver its benefits. These include infrastructure, regeneration and housing, business and enterprise and skills. And they would then be assessed against a set of key criteria relevant to the category they are in. For example if the bid were to fund some infrastructure that will unlock a significant regeneration or housing site, then the applicant would bid under the Regeneration and Housing category. The full set of criteria is set out in Appendix C.

The type of projects that we are looking to come forward are summarised under each category below.

4.2.1 Infrastructure

Infrastructure covers; energy supplies and schemes (including sustainability), water supplies, transport (rail, road, air, cycling), digital communications, waste disposal networks and facilities. These are essential ingredients for the success of a competitive modern economy. Research has shown that well-designed infrastructure investments benefit both economic growth and employment generation.

Bids for capital investment are proposed in the following infrastructure categories:

- a) Sustainable transport schemes (including promotion of cycling and sustainable public transport).
- b) Transport resilience schemes.

- c) Road schemes that make a substantial impact upon economic growth and housing supply and or public transport resilience.
- d) Flood alleviation schemes that protect the economy.
- e) Water supply resilience schemes.
- f) Digital communications infrastructure improvement schemes.
- g) Waste disposal network facilities.

4.2.2 Regeneration and Housing

The ultimate objective of any call for bids and associated criteria will be determined following report back from the Housing and Regeneration Task Force. However, some suggested criteria for bids includes:

- a) Bids for capital investment that allow otherwise unviable housing schemes to be unlocked through grant intervention. The burden of proof will be on applicants to clearly demonstrate that the viability of the scheme in question would not be sustainable without public sector intervention. Examples of such schemes could include contaminated site remediation for example.
- b) Capital schemes that deliver a mix of housing and employment space, where without public sector intervention the development of the employment space would not be viable.
- c) Regeneration schemes that deliver demonstrable positive impact to an area.

4.2.3 Skills

As with previous rounds bids within the following categories will be compliant:

- a) Capital investment to develop new facilities that promote economic growth and employment opportunities and skills development, together with skills relevant to local labour markets. Particular attention will be paid to schemes that partner with employers of industry to deliver skills growth.

4.2.4 Business and Enterprise

This category covers capital investment opportunities to enable business and enterprise growth. Bids for capital investment within the following areas will be compliant:

- a) Investments that purchase capital equipment which will allow expansion of employment.
- b) Investments that allow business expansion to generate employment and/or greater economic outputs.
- c) Enterprise bids that promote start up growth opportunities.

4.2.5 Financial Criteria for Bids

To ensure a wide spread of funding it is suggested that in subsequent calls for bids, that Coast to Capital makes clear to applicant that bids should not apply for contributions above £5m, with at least a 50% match or greater being made by the applicant organisation for non-transport schemes and at least 15% for transport based schemes.

5.0 Process

The attached flow chart (Appendix B) suggests a new process to evaluate bids. In essence this simplifies the current process, makes it more fair, equitable and transparent, by applying a uniform scoring system that will allow bids in different categories to be ranked and scored. The end result is that each bid gets a

discreet score that will allow it to be compared against bids in any category. The higher the score the greater the outcome benefit of the bid. Each stage of the proposed process is set out below:

- 1) Following a requested initial engagement with a member of the Coast to Capital team the applicant will initially complete an Outline Business Case (OBC) template document. This document is based upon the standard public sector OBC template, used across many public sector organisations.
- 2) Once the OBC is submitted by the applicant it is validated by Coast to Capital officers for completeness and then presented to the relevant task and finish expert evaluation group. A list of task and finish groups is detailed within a separate paper on governance.
- 3) The relevant expert task and finish evaluation group will then undertake necessary due diligence and evaluation of each OBC and score it against the proposed new criteria as listed in Appendix C.
- 4) The evaluation group will then submit their scoring profile for each bid to the Programme Board who have delegated authority (subject to board approval) to award funding for bids requesting up to £2m. The Programme Board will decide on funding awards for this threshold of bid and will also make a recommendation to the Investment Committee regarding the award of funding for bids seeking a contribution above £2m. The Investment Committee will also receive a note of funding bids approved below the £2m threshold.
- 5) The Investment Committee will receive recommendations from the Programme Board regarding bids above £2m and make final decisions on funding awards.
- 6) The successful applicant then submits a Full Business Case (FBC) at the appropriate time, which is then reviewed by officers. Typically the FBC will be produced following the formal tendering of the project and confirmation of accurate project spend following procurement. Subject to there being no material changes that would lead to a change of bid average score as originally undertaken by the evaluation task group, then the project funding agreement will proceed to signature and the project will enter a new monitoring regime known as the Gateway Process. This process is described within a separate paper.