Sheffield City Region
LOCAL ENTERPRISE PARTNERSHIP

16th January 2019

Local Growth Fund (LGF) and Programme Demand

Purpose of Report

This report updates the LEP Board of the current LGF programme position, the available headroom and the current level of over programming. The report makes recommendations to reduce the number of schemes in the pipeline thus reducing the over programming and also recommends actions are endorsed to be progressed with schemes in contract or with funding approval that are not progressing in accordance with the milestones agreed and are deemed to have a high risk of slipping beyond the life of the LGF programme.

Thematic Priority

Cross cutting - financial

Freedom of Information and Schedule 12A of the Local Government Act 1972

The paper will be available under the SCR Publication Scheme

Recommendations

LEP Board are asked to consider the review of the LGF programme, including the available headroom and over programming position and agree the steps to be undertaken:

1. Removal of four schemes from the pipeline thus reducing the over-programming position;
2. Return of one scheme with funding approval to the pipeline to increase the available headroom;

1. Introduction

1.1 LGF is a 6 year, £360m funding programme secured through three rounds of Local Growth Fund bids. 2019/20 is the fifth and penultimate year of funding. Some investment made in the early years of the programme have now repaid loan funding back to the programme which has increased the total value of available programme funding to £377.6m.

1.2 The programme position at the November 2019 board was headroom of £32m, however 3 projects with a value of £22.5m were subsequently approved at the MCA Board in November leaving available headroom of £9.5m. The LEP Board made the decision to retain this level of funding for inward investment activity, whilst requesting that each scheme in the programme continued to be reviewed to identify opportunities to reduce the pipeline of schemes and / or increase available headroom.

1.3 A line by line review of all schemes has been undertaken and all schemes with approval but not yet in contract have been assessed against their readiness to meet the conditions associated with their approval, this exercise has resulted in a reduction in the pipeline and the approvals as some schemes have voluntarily withdrawn their scheme.

1.4 **The programme position** is:

- £123.1m of projects have now completed
- £159.2m of projects are currently in delivery
- £26.3m has been approved for projects which are in the process of satisfying conditions prior to contract.

Cumulatively this gives a total commitment of £308.6m

There are, in addition, two ringfenced schemes within the programme pipeline totalling a further £45.1m.

Collectively the total commitment is £353.7m

When set against the total programme value of £377.6, the available programme headroom is £23.9m.

1.5 The pipeline of schemes is currently £58,457,116 leading to an over programming position of £34.6m.

2. Proposal and justification

2.1 The proposal presented for Board consideration is:

1. Moving a number of schemes in the programmed pipeline (where funds are reported to the Board as an over-programmed position) into a non-programmed pipeline (without a notional programme allocation)
2. An agreement to remove funds from one scheme which has not been able to satisfy the conditions of award scheduled to be completed in June 2019
3. An endorsement for detailed monitoring and reporting against a number of schemes in contract or with funding approval which are stalled or are at risk of not making progress within the LGF window

2.2 The cumulative effect of enacting both of the first two proposals will lead to an increase in available headroom of £1m giving a total available headroom of £24.9m and a potential decrease in the value of schemes in the programmed pipeline of £8.9m leaving a pipeline of £49.6m.

Taken together this would result in an over programmed position of £24.7m. There is a potential to utilise loan repayments to reduce the over programming to £16.7m.

2.3 **Removal of 4 schemes from the programmed pipeline into a non-programmed pipeline –** total value £8.9m

An assessment of the pipeline has identified a number of schemes which are

(a) unlikely to complete the business case process and deliver the scheme within the lifetime of the LGF funding

(b) a scheme where there is limited likelihood of the case for grant being satisfactorily made.

There are a range of underlying factors contributing to this including confirmation of a lack of match funding or inability to raise private capital, not securing planning consent or not being able to justify the need for the grant.

Approval is sought to remove these schemes from the pipeline, maintaining them in a pipeline of scheme (without a notional programme allocation or for future funding post LGF).

2.4 **Initial removal of 1 scheme with funding approval and potential for partial withdrawal of a grant –**total value £1m

Monitoring has indicated that there is one scheme with funding approval that has failed to meet the conditions of the award within the milestones set which are now overdue since

June 2019. The proposal is to return this to the pipeline and consider it again for funding, subject to availability, when it can satisfy its conditions.

2.5 The over -programmed position of between £16.7m-£24.7m is deemed an acceptable level to proceed with.

The increase in available headroom to £24.9m enables the LEP Board to maintain the priority to preserve £9.5m for inward investment activity, whilst being able to endorse that four infrastructure / transport / skills schemes in the active pipeline, which have met assurance requirements. These four schemes have a total value of £12.8m.

If these schemes are approved the available headroom, less the amount ringfenced for inward investment is £2.6m.

2.6 Board Members should note there are a number of further opportunities to increase the available headroom, however we have not yet concluded negotiations on this, areas include:

- 2 Contracted schemes in delivery reporting a potential reduction in their value – of up to £1.5m
- A number of schemes in contract have overclaimed professional fees or are retaining high levels of contingency which could return to the programme
- A number of schemes do not appear to be achieving their business case outcomes which has a potential if confirmed to result in clawback

This is being monitored on a scheme by scheme basis and action is proposed to reclaim any over payments.

2.7 **Risk Management**

Turning to risk management of the committed schemes and the over-programmed pipeline.

There are a number of schemes (currently 4) in the committed programme (in contract or with funding approval) which are now designated by the programme and performance unit as high risk. Underlying factors for this designation include the likelihood of slippage beyond the life of LGF, the failure to meet approved milestones or outcomes leading to a default position and the failure to meet the conditions of award. Cumulatively these total c£15m and therefore there is a probability of an increase in the available headroom if any of these schemes reduce their funding requirement or are required to seek alternative funds for the element of the investment that falls outside the LGF window.

The relevant Thematic Boards will receive an update on the status of these high-risk schemes and any further actions required. The LEP Board will be informed if actions are required that will result in an increase in available headroom.

There is a further scheme we are monitoring as whilst there are no immediate issues requiring mitigation the scheme is high value and at this stage of the programme has no room for any slippage if it is to conclude within the LGF window.

2.8 A risk assessment has also been undertaken on the over programmed pipeline. If decisions are made on 4 schemes that have satisfied assurance requirements, 7 schemes remain in the pipeline.

4 of these 7 schemes are designated as high risk. These are inward investment projects totalling £25m.

The designation as high risk is as a result of the company not yet agreeing to the SCR as their preferred location. Whilst the companies state decisions will be made in Jan 2020 (1 scheme), Feb 2020 (1 scheme) and March 2020 (2 schemes), the lead time to land a compliant business case and deliver the scheme post the corporate decision-making process could result in the scheme falling outside of the life of the LGF programme. Therefore, there is a high probability of the over-programming position reducing.

3. Consideration of alternative approaches

3.1 The LEP Board discounted a do nothing approach. Having chosen to prioritise the available headroom of £9.5m reported in November, for inward investment the LEP requested a scheme by scheme review of all projects in the programme to identify additional headroom or reduce the pipeline. As this paper indicates this has led to an increase in the available headroom and a reduction in the pipeline with the potential that further withdrawal of schemes from the programme or reductions in grant could occur in the next quarter.

3.2 Continue to prioritise Inward Investment projects over and above the initial £9.5m. This is not recommended due to the lead time for inward investment schemes to make decisions and to deliver. To prioritise inward investment carries a high risk of failure to meet the £35.5m annual spend target and to maximise the total value of the programme before March 2021.

4. Implications

4.1 Financial

This paper explores the financial implications of the LGF programme and makes recommendations to maximise the total value of the programme. The proposed actions will have a positive impact upon the over programmed position and return this to an acceptable level.

Subject to the high-risk project pipeline not fully materialising and the other smaller measures to return funds there is a potential that the over programmed position may be irradiated, and additional available headroom will become available.

4.2 Legal

Legal implications will need to be considered for any de-commitment scenarios.

4.3 Risk Management

Sections 2.7-2.8 detail the risk assessment undertaken to reach the conclusion that an over programming level of £24.7m or potentially £16.7m if loan repayments are factored in is an acceptable level to proceed with.

High risk schemes will continue to be monitored and any changes in the high-risk project pipeline reported back to the LEP.

4.4 Equality, Diversity and Social Inclusion

None

5. Communications

5.1 Subject to the decisions of the LEP Board further communications will take place with Scheme Promotors.

Communications has been undertaken with all scheme promotors as part of the independent audit of all schemes and more recently with LA CEX. A programme discussion is scheduled for the next meeting of the EDs and DOFs network.

One to one discussions are being diarised with the scheme promotors of designated high risk schemes to progress a clear action plan, agree mitigations or funding to be returned to the programme.

6. Appendices/Annexes

6.1 Appendix A: Full programme list as it is

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Background papers used in the preparation of this report are available for inspection at: 11 Broad Street West, Sheffield S1 2BQ

Other sources and references: