Report to the Greater Birmingham & Solihull Supervisory Board

13th April 2017

LOCAL GROWTH FUND PROGRAMME UPDATE

Purpose of the report

To note and discuss the progress made in delivering the Local Growth Fund programme.

Recommendations

The Supervisory Board is recommended to:

1. Note the progress in delivering the Local Growth Fund programme;
2. Note the project approvals that have taken place since that last meeting;
3. Ratify project approvals that were previously noted by the Supervisory Board via written procedure in between meetings;
4. Note the update on Growth Deal Round 3;
5. Approve the adoption of the revised Assurance Framework;
6. Note the adoption of a Programme Management Charge; and
7. Note the operational terms of reference for the Revolving Investment Fund, and note the agreement to transfer all 2016/17 underspend into the Fund.

Background

8. The Supervisory Board received a report on the Growth Programme at its last meeting on 8th February 2017. That report noted the approval of the Snow Hill Growth Strategy and STEAMHouse Phase 2 projects, progress in delivering the programme, the latest available information regarding an allocation of funds as part of Growth Deal Round 3, and the establishment of the Revolving Investment Fund (RIF).

Local Growth Fund programme update

9. Proposed actions agreed at the last Programme Delivery Board meeting to address key issues and risks are being implemented. This has helped address existing issues around budget, slippage and underspend. Delays in bringing in additional staffing and implementing the Programme Management System (PMS) remain significant gaps in the ability to proactively manage the programme. These same delays also help to create the most significant risks to the programme, lessening our ability to ensure projects remain on track and that decisions are made on the basis of accurate data.

10. Overall, the programme is expected to meet or exceed most forecast outputs and outcomes. However, following the withdrawal of two major skills-related capital projects from the programme in 2015, skills targets remain challenging.

11. Projects across the board have continued to slip since the last meeting. This will result in around an additional £3m not being utilised for project delivery as originally intended this year. However, project sponsors are now submitting change requests for more realistic timelines for their projects, which should lead to improved delivery performance next financial year.

12. Cumulatively, project delays have created a forecast underspend position of circa £28m. The creation of the RIF (below) helps to address this issue.

13. A number of smaller projects have now moved from the contracting to the delivery stage, and two major projects (Ashted Circus and Hagley Road SPRINT) received Full Business Case (Stage Gate 3) approval at the Programme Delivery Board (PDB) meeting on 23rd March. These will now go forward to Contracting (Stage Gate 4).

Project approvals to note

14. The Programme Delivery Board approved a capital grant investment of up to £8,100,000 into the Hagley Road SPRINT transport scheme at its meeting on 23rd March 2017. Further details on this scheme are included in **Appendix 4a**.

15. The Programme Delivery Board approved a £5,545,000 capital grant investment into the Ashted Circus, Birmingham Ring Road scheme at its meeting on 23rd March 2017. Further details on this scheme are included in **Appendix 4b**.

16. The Supervisory Board is asked to note the above decisions.

17. The Supervisory Board previously noted several Full Business Case approvals for LGF investment in between meetings via written procedure over autumn / winter 2016/17. The project approvals were made by the LEP Director, following an independent appraisal of the Full Business Cases. The project approvals that have been noted via written procedure are:

    a. Birmingham Centre for Clinical Haematology project – £2,427,000 capital grant approval to University Hospitals Birmingham NHS Foundation Trust;

    b. Expansion of Changan Research & Development Centre project – £1,610,000 capital grant approval to Changan Automotive UK;

    c. West Midlands Safari Park Skills Academy – £65,850 capital grant approval to West Midlands Safari Park;

    d. Virtual Reality and Robotics Development Centre – £188,867 capital grant approval to Solihull College and University Centre; and

    e. Food and Drink Advanced Manufacturing Facility – £25,000 capital grant approval to Birmingham Metropolitan College.

18. The Supervisory Board is asked to ratify the noting of these decisions. The reports previously circulated to Supervisory Board members regarding each of the above projects are available upon request.

Growth Deal Round 3

19. On 9th March 2017, Government announced the details of Growth Deal 3 allocations to LEPs in the Midlands Engine. GBSLEP was awarded £54.2m, taking the total value of the Growth Deal Programme to £433m to deliver vital capital projects across Greater Birmingham & Solihull up to 2021.

20. The GBSLEP Executive is currently working with high priority projects to bring forward Outline Business Cases are part of the second stage of the prioritisation exercise. The programme is currently circa 170% over-programmed, which is a healthy position given the underspend position in 2016/17.

21. Growth Deal 3 funding has not yet been conditionally allocated to any schemes proceeding through the pipeline. Funding allocations will only be considered following appraisal of an Outline Business Case, as a minimum.

Assurance Framework

22. At its meeting on 31st January 2017, the LEP Board approved an update to the Assurance Framework to take account of a number of issues that have arisen over the course of the programme:

    - Birmingham City Council's Audit of management arrangements, and the management response to the audit, both identified a number of areas where the Assurance Framework needed to be clarified

    - GBSLEP's programme management workflow has evolved as a result of knowledge gained through the operation of the programme over the last twelve months

    - The Department for Communities and Local Government (DCLG) have issued an updated National Assurance Framework that places new obligations on LEP Assurance Frameworks. The s151 officer for the Accountable Body was required to write to DCLG by the end of February to confirm that these new obligations have been incorporated. Without this written confirmation, DCLG will not release further Growth Funds.

23. A summary of the substantive revisions to the Assurance Framework is attached at **Appendix 4c**, while the revised Framework is published here: http://centreofenterprise.com/wp-content/uploads/2016/09/GBSLEP-Assurance-Framework-2017-182.pdf

24. The Accountable Body has confirmed that the revised Framework meets the new obligations from the National Assurance Framework in a letter to DCLG.

25. The Supervisory Board is therefore recommended to approve the adoption of the Assurance Framework.

Programme Management Charge

26. The LEP Board previously agreed that effective management of the LGF programme requires additional resources to that contained within the LEP's core running cost budget. In September 2015, £1.9m was approved from the capital programme through to 2020 for this purpose. This funding was due to start being drawn down this financial year.
27. Furthermore, at the Growth Team meeting in November 2016, additional staffing was agreed for more proactive programme management and to support sponsors to develop and secure funding for their projects – subject to their costs being capitalised from the agreed £1.9m.
28. Since then, following discussions with the Accountable Body, it has become clear that capitalisation is not a practical method of covering the full range of costs incurred by the LEP in managing the programme – now estimated at around £0.6m per annum against a capital programme of £433m. This figure takes into account current and proposed staffing levels, the introduction of the new programme management system, the comprehensive evaluation of the programme, and the procurement of independent appraisal and other professional services required for the smooth running of the programme. It also recognises the need for staff across the Executive to contribute some of their time to drive the pipeline of projects necessary to sustain the programme in years to come.
29. Introducing a programme management charge does enable the LEP to raise the resources required to effectively manage the programme. Calculations suggest that a charge of 1.75% of total grant on individual projects would raise around £1.9m to 2020, and a further £0.5m in 2021. The Supervisory Board should note there is inherently some uncertainty around these figures, and the timing is subject to change, as the charge for new projects would only be levied once they are in contract.
30. While paying this charge would be a condition of grant, project sponsors would be able to apply for additional grant from the LEP to cover these professional fees. Therefore the net cost to each individual project would be zero.
31. Introducing the charge enables the £1.9m currently earmarked to support programme management to be released back into the programme. This reduces the net impact to the programme, through to 2020, to zero or close to zero.
32. For new projects, the charge would be incurred once the grant funding agreement is signed and contracts exchanged. Projects that do not make it through this stage gateway would not incur any charge. For existing projects, the Executive would discuss with project sponsors introducing a variation to their existing grant funding agreement to enable them to draw down additional funding to pay their fees. Projects that have already drawn down all their allocation would not be subject to the charge.
33. Independent legal advice has been received from Pinsent Mason, confirming the LEP's ability to impose a programme management fee.
34. The introduction of the charge was agreed by the LEP Board at its meeting on 31st March 2017. The Supervisory Board is asked to note the adoption of the programme management charge.

Revolving Investment Fund

35. The draft operational terms of reference (TOR) for the RIF are attached. The Accountable Body and Finance Birmingham (as managers of the WMCA Collective Investment Fund) were consulted on the draft. This has helped create an approach consistent with other recyclable funds. The TOR were agreed by the Programme Delivery Board (PDB) at their meeting on 23rd March. The Supervisory Board is recommended to note the adoption of the TOR by the LEP Board at its meeting on 31st March 2017.

36. The Supervisory Board should note that although the RIF is primarily focused on the public sector, Finance Birmingham, or other suitably qualified external support, will be used to assess any private sector requests into the fund.

37. The initial proposal was to launch the RIF with £25m. This took into account the uncertainty around appetite amongst project sponsors for the fund and the forecast level of 2016/17 underspend. Initial discussions with project sponsors have now taken place. These suggest that there is considerable appetite for the fund. As the underspend is now expected to be around an additional £3m, it is therefore proposed that the RIF is increased to incorporate all of the eventual 2016/17 underspend. The exact size of this underspend will be confirmed following financial closedown.

38. This was agreed by the LEP Board at its meeting on 31st March 2017. The Supervisory Board is recommended to note that agreement.

Conclusions

39. This paper sets out the current status of the programme, including recent project approvals, and the latest position with Growth Deal 3, and sets out proposals for the introduction of a Programme Management Charge and operational arrangements for the Revolving Investment Fund. It also seeks approval for the revised Assurance Framework. The Supervisory Board is asked to proceed with the recommendations above.

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