

Open Report on behalf of the Executive Director for Environment & Economy

Report to:	Economic Scrutiny Committee
Date:	24 May 2016
Subject:	Single Local Growth Fund - Accountable Body Progress Report

Summary:

This report provides an update from the Accountable Body on the progress of the Single Local Growth Fund (SLGF) operated on behalf of the Greater Lincolnshire LEP. The report is focussed on the financial year 2015/16 and highlights the spend position for the year end and the challenges faced in providing a robust Accountable Body function.

Actions Required:

It is recommended that members:-

1. Comment on the role of Lincolnshire County Council as Accountable Body of the Single Local Growth Fund;
2. Note the current progress on project delivery and spend.

1. Background

As part of their Growth Deal, Local Enterprise Partnerships (LEPs) were asked to sign up to working with government to develop a single assurance framework covering all Government funding flowing through LEPs, to ensure all LEPs have robust systems and processes in place. Work on developing each LEP's local assurance framework was a core element of their Growth Deal, and as such provided the assurance to enable the release of Single Local Growth Funds for projects identified within the growth deal offer.

Lincolnshire County Council is the accountable body for all the Greater Lincolnshire LEP (GLLEP) funds with the single local growth funding being the predominant fund. This is set out in the original memorandum of understanding that created the LEP. We were instrumental in producing the assurance framework and ensured the successful transfer of £26.4 million of Single Local Growth Fund grant via a Section 31 grant determination for the financial period 2015/16.

Government have appraised the GLLEP Assurance Framework. Our assurance framework was deemed as low risk around the following areas:

- LEP governance and decision making
- Local authority partnership working across the LEP
- Transparent decision making
- Accountable decision making (including role of the Accountable Body and by Economic Scrutiny Committee)
- Ensuring value for money (prioritisation; appraisal; business case development; risk management)

This enabled the release of funds upfront and it is worth noting that not all LEPs and their accountable bodies received the monies in this way. Government were clearly confident that there is strong underpinning local authority partnership arrangement in place to facilitate strong decision making and fund accountability.

The £26.4m was the first expenditure target from the £82.3m identified for Single Local Growth Fund project through the growth deal offer. Greater Lincoln's local growth allocation of £146.2m also includes £50m towards Eastern By-Pass, Local Transport Board funding of £11.9m and Regional Growth Fund of £2m.

National Audit Office Review

The National Audit Office (NAO) and Government Internal Audit Agency (GIAA) recently undertook some work to review all LEPs assurance frameworks prior to agreeing the release of further funding. We received a letter on the 10th March highlighting 2 minor areas.

The audit was undertaken as a desk based exercise and no discussion was held with us as part of the process. In our response back to government (provided in Appendix A) we have reiterated that we continue to review and improve our systems and processes.

The points raised by the audit were minor and this has given us increased confidence that Lincolnshire County Council's working practices to support the work of the LEP remain strong. Aligned to this was a positive annual "conversation" that we had with members from the Local Growth Unit and a subsequent report highlighting our strengths as a LEP area.

A member from the Department for Business, Innovation and Skills (BIS) was interested in visiting Greater Lincolnshire and assess how we operate the Growth programme. It was incredibly positive that we were selected especially as this occurred prior to further announcements on funding. We hosted Douglas Leckie (Growth Deal Implementation Policy Lead) on 24th March and as a result of the meeting have instigated sharing identified best practice with other accountable bodies around our audit and accounting practices.

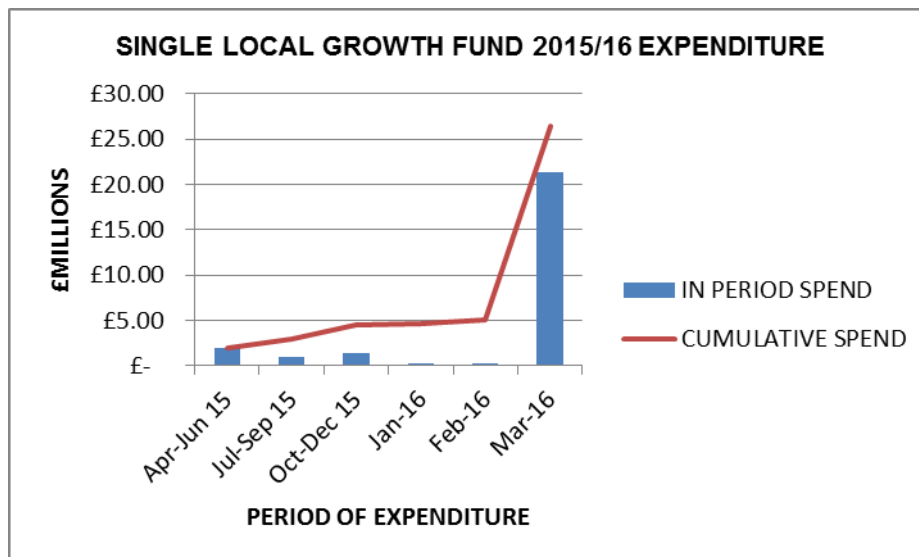
2015/16 Contracted Project Spend Overview

This was always going to be a challenging year as we implemented and tested systems and worked to progress projects to contracting stage. As highlighted in previous reports these are complex, multi funded, multi partnered schemes where contract negotiations can take a long time.

To date we have contracted with 9 schemes to the value of £147m and agreed contracted grants of £38.9m single local growth fund contribution. Projects are progressing on site but there have been unforeseen delays resulting in increased pressure to agree and release the £26.4m spend target.

In order for the grant recipient to report on delivery and draw down SLGF grant, in line with the terms and conditions set out in the funding agreement, an application for reimbursement, "grant claim", must be made. We have requested that all claims are fully evidenced on eligible expenditure both incurred and defrayed.

The table below identifies the amount of monies expended within an identified period and shows a cumulative spend picture.



As you can see there is a large spike in expenditure in the last month of 2015-16 resulting in the release of £21m solely in March. The accountable body team endeavored to ensure that claims submitted were robust so that they will withstand scrutiny from future audits.

Many of the claims were for large amounts including agreed retrospective costs and as part of first claim submissions we tested the projects' reporting mechanisms and challenged expenditure that did not meet our strict audit requirements. Although this approach is often difficult for projects, it does enable a lighter touch approach moving forward.

We are aware, however, that there is a balance between ensuring we hit spend targets and providing a good audit trail.

The table below shows target and actual spend for **contracted** projects.

15/16 GROWTH DEAL CLAIM EXPENDITURE OVERVIEW	2015/16 Contracted		2015/16 Actual		2015/16 Variance	
Project Name	Target Spend	Target Grant	Total Spend	Total Grant	Spend	Grant
Boole Technology Centre	£ 2,884,928	£ 1,442,464	£ 1,767,286	£ 1,767,286	-£ 1,117,642	£ 324,822
Grantham Southern Relief Road	£ 9,400,000	£ 5,900,000	£ 5,997,109	£ 5,997,109	-£ 3,402,891	£ 97,109
Bishop Burton College	£ 8,241,594	£ 6,500,000	£ 7,087,277	£ 6,161,111	-£ 1,154,317	-£ 338,889
Unlocking Rural Housing Programme	£ 4,050,863	£ 368,000	£ 2,572,157	£ 900,000	-£ 1,478,706	£ 532,000
Boston Quadrant	£ 5,174,857	£ 1,000,000	£ 1,106,187	£ 856,187	-£ 4,068,670	-£ 143,813
Tentercroft Street Growth Corridor Ph1	£ 700,000	£ 350,000	£ 700,000	£ 350,000	£ -	£ -
Tentercroft Street Growth Corridor Ph2	£ 1,050,555	£ 749,745	£ 785,007	£ 560,232	-£ 265,548	-£ 189,513
Skegness Countryside Business Park	£ 4,316,328	£ 1,309,086	£ 1,649,267	£ 1,309,086	-£ 2,667,061	£ -
Sub Total	£ 35,819,125	£ 17,619,295	£ 21,664,290	£ 17,901,011	-£ 14,154,835	£ 281,716
			Target Grant	£ 26,400,000		
			Underspend	£ 8,498,989		

Note that against the target of £26.4m of grant available that we were only able to release grant of £17.9m for contracted projects. This resulted in an underspend of £8.5m.

As agreed by the Economic Scrutiny Committee when it scrutinised SLGF in September 2015, it was important that we took steps within our agreed freedom and flexibilities in order not to risk losing funding to Greater Lincolnshire.

For 2015/16 our original growth deal package expenditure target was £18.7m, however in late September 2015 Department for Transport (DfT) stated that the funding profile for Local Transport Board (LTB) contributions to Grantham Southern Relief Road, as included in the allocation released to the Accountable Body of £26.4m in February 2015, had to be spent against Growth Deal projects in this financial year. This placed us in an extremely difficult position and several other LEP Accountable Bodies across the Country found themselves in a similar predicament.

As a result Government confirmed that if it was not possible to spend all of the 2015/16 target on the contracted projects due to unavoidable delays and if future allocated schemes could not be brought forward to meet the gap, funding could be spent in 2015/16 with the agreement of the Accountable Body's Section 151 Officer against identified LCC Capital Schemes, and reimbursed completely against the SLGF programme in a future year as required.

The accountable body did look at reducing any underspend by bringing spend forward and we implemented the flexibility of increasing intervention rates for a number of schemes. There was however the need to identify LCC projects that aligned to the ethos of growth deal and had expended monies within the 2015/16 period.

The table below identifies the LCC projects that utilised the remaining grant:

Project Name	Total spend
East West Link	£ 5,429,452
Eastern Bypass	£ 546,822
Lincoln Canwick	£ 2,522,716
Total grant paid and LCC capital released	£ 8,498,989

Three internal transfer payments were made to the sum of £8.5m, in the main to East/West Link. A proportion was also used for Lincoln Eastern Bypass and Lincoln Canwick Hill works.

The approach taken effectively earmarks and utilises LCC capital budget in future years against the SLGF contracted schemes.

We have specifically raised the issue with Government around undertaking such transactions when we could simply hold the monies on reserves; however we have followed the government's preferred approach in order to secure our future allocations.

We can provide assurance that for the financial year 2015-16 that for the single local growth fund:-

- resources have been subject to the usual local authority checks and balances;
- decisions and activities taken on projects have conformed with legal requirements;
- ensured that the funds have been used appropriately and in accordance with our contract;
- ensured that the local LEP assurance framework has been adhered to;
- maintain the official record of all relevant LEP documents relating to SLGF
- facilitated for a local audit of funding allocated by LEPs (the result of which was an unqualified report on cash balances)

Following our first year review there are many lessons learnt that we will take forward into future year delivery:

- The partnership with project sponsors must concentrate more on spend profiles in order to improve spend profiling and we will be implementing a system to identify weaknesses early on in a project lifecycle
- Continuing our close work with government to build on our own best practice but challenge central decisions around the effective management of funds
- Building stronger 2-way relationships with project partners to fully understand the complexities of schemes and enabling us to respond and quickly support identified constraints
- Making sure we capture the added value of projects to demonstrate the wider impacts against strategic plans

16/17 Pipeline schemes

Work on pipeline projects is progressing well with specific work on due diligence having taken place.

Project	Stage
Access to Employment Zones	Contractual agreement has been drafted and is with North East Lincolnshire Council's legal team for comment. With negotiations still taking place, the forecast claim for retrospective design fees scheduled to spend in 2015/16 will not be achieved.
GO Skegness Sustainable Transport	Contracts have been drawn up and signed and a meeting scheduled to discuss the first claim cycle. This scheme will provide a package of measures to help unlock potential growth in the tourism industry by providing and developing opportunities for visitors to use sustainable travel modes to benefit the local economy,

	support active lifestyles, improve visitor experience, extend the visitor offer and attract new visitors.
South Humber Industrial Infrastructure Programme (SHIIP)	The project is at draft contract stage and is focussed on unlocking the economic potential of industrial development land in North East Lincolnshire's (NEL) area of the Humber Estuary. We will seek to contract the first phase of the scheme in May 2016.
Lincoln Transport Hub	As a DfT retained scheme ministerial approval will be required. The draft strategic, management and commercial business cases for the scheme are all being updated and re-issued to DfT for review. The design has now been agreed and will be viewed at the 25 th May Planning Committee.
Northern Roundabout Infrastructure Project	Project is to be considered in place of the Berkeley Circle project along with the NEP7 scheme and will be requesting £1.9m of growth deal support. The scheme will be presented to the May Investment Board meeting as it is currently in its design phase.
Normanby Enterprise Park 7 (NEP7)	The proposal will provide road access, a roundabout and all associated services to facilitate the reuse of a reclaimed brownfield site Normanby Enterprise Park 7 (NEP7) for industrial and commercial development. The project was approved at the March Investment Board and has proceeded to Contract stage.
Grantham College	The project was discussed at the March Investment Board and has been agreed to proceed to contract stage.
Scunthorpe Town Centre	North Lincolnshire Council cannot confirm the final footprint of highways improvements until it has confirmation of the location to anchor new development buildings in the Town Centre. Feasibility work to determine this still needs to be undertaken. Construction is due to commence in 2016.
Lincolnshire Lakes	The detailed design work is ongoing, and a lining solution is being firmed up for Lake 1. The procurement strategy has been finalised – North Lincolnshire Council will utilise Environment Agency's Water and Environment Management (WEM) for Call Off.
Holbeach Peppermint Junction	The timetable for the delivery of the road improvement scheme has moved out with a start on site expected in March 2017. This revision has been made in order to reflect the likely impact of the need to undertake various

	statutory functions before the works commence, in particular, obtaining Side Road Orders and a CPO. The impact of this revised timescale is that the Holbeach Peppermint scheme growth deal draw allocation will now be forecast in future years.
Agri-food Centre of Excellence, Holbeach	The University of Lincoln (UOL) ESIF submission for match funding is still within the ESIF process. Following discussion with UOL some of the growth deal allocation for this scheme has been moved forward into 2016/17 forecasts on the basis that if the ESIF proposal is successful the project will be in a position to begin in autumn 2016.

Future Activity

Local Growth Fund 2016/17 payment

On the 4th March, the Cities and Local Growth Unit wrote to LEPs confirming arrangements for Local Growth Fund grant payments to be made in 2016/17. We can confirm that the previously indicative allocation for 2016/17 has been paid in full to the sum of £39.864m and has been made under section 31 of the Local Government Act 2003.

Indicative funding profiles for 2017/18 and beyond remain dependant on outcomes of the annual review process, however following positive feedback we are encouraged that monies again will be received upfront. Work will now continue on moving the pipeline projects to contracting and providing an accurate spend profile to monitor project progress.

In addition to the LGF grant, the LEP will also receive an allocation for the Business Growth Hub of £492,000 payable over the next two years (£246,000 in 2016-17 and £246,000 in 2017-18).

Funding Opportunity

Following the Chancellor's budget in March, future funding was confirmed for local growth. As expected the funding will predominately support transport, skills capital and housing.

The specific lines that have been included are:

- £475m for Local Transport Majors. This will enable investment in larger transport projects than was previously possible and will be made available to LEPs to bid for alongside new Growth Deals.
- £2 billion long term housing loan funding for the investment in infrastructure needed to support major housing developments. Developers will be invited to submit bids to the Homes and Communities Agency (HCA). Strong local engagement is expected and all LEPs are encouraged to be involved.

- The remaining money will be for a further round of Growth Deals. This will be made up of contributions from BIS, Department for Communities and Local Government (DCLG) and DfT. Skills capital funding has been extended beyond 2016-17 through to 2020-21, reflecting the Government's support for the Further Education estate after Area Reviews have concluded. The Local Sustainable Transport Fund has also been brought into the flexible element of the Fund.

The profile of the emerging funding will seek to increase the size of the Local Growth Fund in later years, with the majority of funding available in 2019-20 and 2020-21. However, some funding may be made available in 2017-18 and 2018-19.

Idea generation for Growth Related Projects

On the 8th February 2016 the LEP put out a request to the public and private sector for transformational strategic schemes which would enable further significant economic growth for Greater Lincolnshire in the short to medium term. Forty applications were received by the 7th March closing date from across the Greater Lincolnshire area and the initial scoring process has been completed. The projects and their scores will be presented to the May Investment Board for discussion around the potential for priority pipeline schemes.

Process Audit

An independent audit has been scheduled for June 2016 with the objective of providing an opinion of the annual financial reports of the Greater Lincolnshire Local Enterprise Partnership (GLLEP) for the financial 2015/16. The audit will also review the effectiveness and efficiency of the operational procedures conducted on behalf of the GLLEP by the Accountable Body, Lincolnshire County Council (LCC).

The audit will focus on but not be limited to:

- A review activity for the 12 month period 2015/16
- Determine if revenues are reasonable and are properly controlled and appropriately recorded
- Review project accounts expenditure and determine if they are compliant with LCC policies, grant agreements and financial regulations
- To ensure that the organisation properly and effectively discharges its responsibilities with regards to financial management
- Review of the relevant assurance documentation and ensure that it is fit for purpose

In light of the government's own reviews we expect that this audit will run well.

2. Conclusion

The accountable body continues to provide a robust environment in which the LEP operates and the single local growth fund projects are in the main progressing well

into delivery. We have been successful in securing the next tranche of funding (£39.9m) for the 2016/17 period.

Project spend will be monitored closely with the aim of moving towards a more consistent spend profile.

We will continue to work with the LEP to ensure that the strongest of projects are submitted to future funding opportunities enabling us to deliver against our strategic priorities and build on our strong portfolio of existing schemes.

3. Consultation

a) Policy Proofing Actions Required

n/a

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	NAO Audit response letter
Appendix B	Single Local growth fund project overview

5. Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Linsay Hill Pritchard, who can be contacted on 01522 550632 or Linsay.hillpritchard@lincolnshire.gov.uk