

Enterprise M3 Programme Management Group

14 May 2020

Capital Programme Update – Item 5

Programme Management Group is asked to:

- NOTE:** the final position on expenditure to end of 2019/20
- NOTE:** the near-final position on outputs to the end of 2019/20
- NOTE:** the current progress in delivering Enterprise M3’s capital programme
- NOTE:** that if PMG (and subsequently the Enterprise M3 Board) agree the recommendations within the papers presented on 14 May 2020, then Enterprise M3 will have £5.6m of unallocated funding available to support new projects.
- NOTE:** the update provided on the Blackwater Valley Hotspots project, as set out in section 7 of this paper.

1. Background - Enterprise M3 Capital Funding

1.1. Since the Enterprise M3 Programme Management Group last met in March 2020, we have seen a number of key changes within our capital programme, including:

- Expenditure of £36.9m of Local Growth Fund in 2019/20. Whilst less than our Delivery Plan target of £45m, this achievement represents a huge effort by the whole team and our delivery partners to accelerate the delivery of projects in 2019/20, with 25 new contracts signed over the course of the year.
- A further strengthening of our year end position for 2019/20 in terms of outputs with Delivery Plan targets for new homes completed, apprenticeships and new learning floorspace created being met and exceeded. For commercial floorspace and jobs created, we have delivered over 90% of our Delivery Plan target.
- Have written to all of our current projects and have quickly gained a robust understanding of the potential impact of Covid 19 on our capital programme.

2. 2019/20 Year End Position

2.1 Enterprise M3 was allocated a further £17.5m for the 2019/20 financial year from its agreed £219m six-year Growth Deal with Government. To date, we have received £176.1m of Local Growth Fund from Government, of which over £170m has been distributed to projects, with £36.9m having been allocated across 2019/20. This figure represents 97% of our total available funding allocation.

2.3 In terms of project outputs, the following have been delivered over the course of 2019/20 and the table below summarises performance against the targets set at the beginning of the financial year.

Table 1: Output delivery in 2019/20

Output	2019/20 forecast	2019/2020 actual	Total delivered to date (2015/16 – 2019/20)
Jobs created/safeguarded	2500	2,348	5,999
New homes completed	1000	1,789	3,491

Commercial floorspace completed (sqm)	9,000	8,389	38,751
Apprenticeships supported	300	742	1,938
New/refurbished learning floorspace (sqm)	5,000	11,664	29,051

2.4 Our Annual Report will report fully on the figures above, as well as performance across a range of our activity using a number of measures. Overall, our performance against the output targets set in our Delivery Plan has been strong, with three of the five targets exceeded and for both commercial floorspace and jobs created/safeguarded we achieved over 90% of our target figure. We are still awaiting the very final outputs figures from our projects and it is possible that these figures will increase before the position for 2019/20 is finalised.

3. Enterprise M3's 2020/21 Capital Programme

3.1 Enterprise M3 has £71.3m available to support its capital programme in 2020/21, this money comes from a number of sources, as set out in table 2 below. As in previous years, our aim is to make this money available to support projects across the Enterprise M3 area as swiftly as possible and we will look to deploy as much of this funding as possible over the course of the financial year.

Table 2: sources of Enterprise M3's capital funding

Source of funding	Amount (£m)
Carry forward of LGF from previous years	3.1
Carry forward of LGF and GEF loan repayments	22.7
2020/21 LGF allocation	42.7
2020/21 forecast loan repayments	2.8
Total available funding	71.3

3.2 One of the immediate impacts of Covid 19 has been the request for Enterprise M3 to consider capital repayment holidays in this financial year. Under her delegated authority, the Chief Executive has agreed a partial capital repayment holiday for two projects which had been forecasting to make repayments to Enterprise M3 in 2019/20. This has had the impact of reducing our forecast loan repayments from £3.9m to £2.8m. In light of these discussions, the team have been in touch with those who are due to make loan repayments in 2020/21, to speak to them about whether there is any risk to repayments being made. At the current time, we are confident that we will receive £2.8m in loan repayments this financial year although we will keep this under close review.

3.3 Over 2019/20, the Enterprise M3 team focused resources on ensuring that we progressed projects to the point of contract. This approach meant that we were able to report to Government in December 2019 that we had contractually committed our full £219m Local Growth Fund and we have continued to take forward additional projects using recycled funding from both the Growing Enterprise Fund and Local Growth Fund. This work has meant that the levels of our unallocated funding are relatively low and currently stand at £7.3m. Table 3 below sets out our current position in terms of contractual commitments.

Table 3: 2020/21 funding position (as at 7 May 2020)

	Amount (£m)
Available funding (Table 2)	71.3
Contractual commitments	60.7)
Approved projects still subject to contract	(3.3)
Total unallocated funding available to support new activity	£7.3m

- 3.4 The Programme Management Group is being asked to consider a potential project cost increase (of £0.553m) and two new projects with a total value of £1.7m. As the above table demonstrates, all projects can be accommodated within our available funding. Should the recommendations of the papers be agreed by PMG on 14 May 2020, this will impact the figures in table 3 in the following way:

Table 4: 2020/21 funding position if recommendations are approved by PMG on 14 May 2020

	Amount (£m)
Approved projects still subject to contract	£5m
Total unallocated funding available to support new projects	£5.6m

4. Impact of Covid 19 on the capital programme

- 4.1 The focus of the Enterprise M3 team in recent weeks has been on understanding the potential impact of Covid 19 on the capital programme. This paper summarises some of this work and a verbal update on the latest position will be given at the PMG meeting.
- 4.2 The team have had numerous discussions with partners and collected detailed information about projects and the possible impact that Covid 19 will have on key milestones, expenditure profiles and delivery of outputs and outcomes. Following announcement of the lockdown in March 2020, almost all projects stopped activity on site and this did impact marginally on our expenditure levels at the end of 2019/20 and we expect this to have a significant impact on expenditure in the first quarter of 2020/21.
- 4.3 Since the beginning of May, increasingly work has started on site on a number of projects and we are now aware that work is now continuing on 13 of our 38 projects which are forecast to deliver in 2020/21. We expect this number to increase in coming weeks. Using this information and the financial forecasts that each project has provided to us, we have undertaken some initial scenario planning in order to estimate possible expenditure levels in 2020/21 as detailed below.
- 4.4 Each of the 38 projects in our programme has provided up to date expenditure forecasts for this financial year. These forecasts were submitted in mid-April so we are reasonably confident that all have taken account of the current Covid-19 situation in so far as was possible at the time. Where work is now on site, we have assumed the following:
- A high level of confidence that 40% of the forecast expenditure will be achieved;
 - a medium level of confidence that 40% of the forecast expenditure will be achieved;
 - a low level of confidence that 20% of the forecast expenditure will be achieved.
- 4.5 Where work has stopped on site, we have split the confidence levels in the following way:
- A high level of confidence that 10% of the forecast expenditure will be achieved;
 - a medium level of confidence that 40% of forecast expenditure will be achieved; and

- a low level of confidence that 50% of forecast expenditure will be achieved.

4.6 This work has projected that Enterprise M3 will spend between £12m and £46m in 2020/21, with the remainder of our available funding being spent in 2021/22. The latest information suggests that we have a high level of confidence that we will spend £12m, a medium level of confidence around a further £15m of expenditure and a low level of confidence around £19m. As we learn more about what the move out of lockdown might look like, we will start to revise these confidence figures and will update PMG and Board accordingly.

4.7 Around 10 projects have already signalled to us that they will unlikely be able to drawdown their full LGF allocation in 2020/21 and we are currently forecasting that there will be £22m of expenditure in 2021/22. At this current level, this can be accommodated within our capital programme as it would be possible use loan repayments to support expenditure in this year and still meet Government's expectation that Local Growth Fund is used by 31 March 2021. However, this will need some very careful management around a number of high-risk projects and a verbal update on the approach of the team will be given at the PMG meeting. Section 7 of this paper gives some detail on one key change that we may see with the capital programme in the weeks and months ahead.

4.8 Now we have a more thorough understanding of the position of our individual projects, we will re-commence our Delivery Plan work and will set targets for key areas of programme delivery as we have done in previous years.

5 Update on Government approach to transfer of funds

5.1 At a meeting of LEPs on Monday 4 May, we were informed that Government would be using a different approach to transferring Local Growth Fund this year. In previous years, we have received a payment of our annual allocation in full at the start of the financial year but this year we will receive two-thirds of the funding (£28m) in May, with the remaining one-third (£14m) being transferred to LEPs, following a 'review point' in September 2020.

5.2 At the time of writing, we don't yet have written confirmation of this change nor any detail on what the 'review point' might entail. We are aware and have alerted Government to the fact that this approach could mean that we have to 'postpone' activity until we have more certainty that the final funding instalment will be forthcoming. We hope to get further clarity and will provide a verbal update on possible implications for our programme at the PMG meeting.

5.3 We have also been alerted to the fact that there will be no immediate announcement on additional Local Growth Funds. We had been hopeful that the additional Local Growth Fund announcement in the Budget would allow us to support more of our pipeline of projects but we are unlikely to have any certainty on this until September 2020 at the earliest.

6 Proposals for the use of unallocated funding in light of Covid 19

6.1 The wide-ranging impact of Covid-19 has led to discussions about how Enterprise M3 might use the remaining capital and revenue funding that we have available. As PMG members will know, we have focussed efforts in recent months to develop a robust pipeline of projects and this pipeline currently consists of £20m of projects (including the projects being considered by PMG on 14 May 2020).

6.2 As set out in section 5, the current solution means that the additional funding announced by Government at the Budget in March 2020 will not be forthcoming in the immediate future. We therefore will have to manage our pipeline carefully and the proposal set out in Item 8(b) that we only fund the Vaultex project should additional funding be made available is part of this approach. We hope that proceeding in this way will allow us to manage our contractual commitments in the final year of the programme but also ensure that we have a robust pipeline of high quality, deliverable projects should funding become available.

- 6.3 Across the pipeline, the Enterprise M3 team is also reviewing the viability of projects in light of current events and our approach is to only recommend projects for immediate approval which have a strong contribution to make to economic recovery from Covid-19, in line with the aspirations which were emerging from our Local Industrial Strategy work. It is our view, that the Aldershot Town Centre Regeneration project and the additional funding sought for Guildford Sustainable Movement Corridor have a contribution to make on this basis and are therefore recommended for approval.
- 6.4 Finally, Enterprise M3 has also been investigating the potential of using some of the available funding to directly support economic recovery from Covid 19 and this proposal will be discussed with a sub-group of Board Directors on 13 May 2020. The first such proposal for this work is set out at Item 7 which proposes setting up a fund to support recovery in Town Centres across the Enterprise M3 area which can be implemented swiftly and on a pilot basis. The team are considering other similar options around business readiness for adapting to longer-term social distancing requirements and supporting our Further Education Colleges in adapting to online learning, building on previous investments across our college network. We expect that we will look to use our available capital and revenue funding (through the remaining Capital to Revenue Swap) to support this activity. A verbal update on these proposals will be given at the PMG meeting but PMG members are asked to note that, without additional funding from Government, taking forward this activity would mean that we would not have the available funding to support many of the existing projects in our pipeline. A list of existing pipeline projects and their expected date for business case submission is included below:

Table 5: List of pipeline schemes

Project	Amount	Expected date for business case to be presented to Board/PMG
East Hants Advanced Manufacturing/Technology Park	£1.85m	July 2020
Whitehill and Bordon Town Centre Phase	£4.85	July 2020
Commercial in confidence significant infrastructure project	£5m	July 2020
Blackwater Valley Gold Grid Public Transport Corridor – Hampshire Elements	£1.5m	July 2020

7 Project changes

- 7.1 The Blackwater Valley Hotspots proposal was approved by PMG in July 2018 with an allocation of £1,965,000 to Guildford Borough Council (GBC) to deliver the scheme. The project consists of a package of improvements designed to address congestion at key junctions on the A331 and A323 to the west of Guildford.
- 7.2 The LEP has entered into a funding agreement with GBC and since approval they have been carrying out detailed design and preparation of the scheme. It is now at the stage where detailed design for both the A331/A31 and A323/A324 junctions are complete and the scheme is now ready to go out to tender.
- 7.3 However, an issue has arisen in terms of delivery in that as the primary beneficiary is SCC, GBC's preference was for Surrey County Council (SCC) to deliver the scheme, with GBC effectively subcontracting the delivery to SCC but retaining overarching responsibility for it and making the LEP funding and matched funding available to the SCC.
- 7.4 However, SCC have advised that they do not have the capacity to deliver this scheme, even were the deadline to be extended to March 2022.

- 7.5 GBC now effectively have two options:
- To deliver the scheme themselves as originally envisaged
 - To abandon delivery of the scheme
- 7.6 GBC are currently considering this internally and expect to decide as to whether they are able to deliver the scheme themselves by 26th May 2020.
- 7.7 If they go for the first option then it is envisaged that the scheme would continue and be delivered to budget (although this will be dependent on the economy post Covid 19 as this is unlikely to be contracted until later in the year), albeit with a slightly increased timescale. However, if they abandon delivery then the funding agreement requires that they repay all the LGF grant including any that has already been incurred in developing the design, currently in the region of £147,000. Though the design documentation would remain available if there was an opportunity to deliver the scheme in the future.
- 7.8 In view of the existing Covid-19 situation and the desire to develop an effective Economic Recovery Plan, it is considered that GBC need to make a final decision on this issue by the end of May. If they do not do so, then it is recommended that the LEP withdraw the funding allocation and request that the grant claimed to date be repaid.

Appendix 1 - Project summaries (projects shown as green are contractually committed; those in amber are approved but not yet contracted and those in red are not yet approved by PMG/Board).

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