

Enterprise M3 Board

30 July 2020

Capital Programme Update – Item 9a

Enterprise M3 Board Directors are asked to:

NOTE: the current progress in delivering Enterprise M3's capital programme.

NOTE: that if the Board agree the recommendations within the papers presented on 16 July 2020, then Enterprise M3 will have £3m of unallocated funding available to support new projects.

NOTE: that following concerns around delivery of the project, the PMG agreed to remove the Regional Cyber Security and Big Data Innovation Centre at Royal Holloway from the Local Growth Fund programme. The Enterprise M3 team are continuing to work with Royal Holloway on future pipeline projects.

NOTE: the award of £13.3m of additional funding from the new Getting Building Fund and the proposed list of projects to be delivered with this funding.

1. Background - Enterprise M3 Capital Funding

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

- **Getting Building Fund** launch and announcement that Enterprise M3 has been allocated £13.3m of this funding. Section 4 of this paper provides further detail.
- The launch of the **Supporting Town Centres Fund** to support Town Centres in their recovery from Covid 19. Following the launch of this new fund in May 2020, three projects have been awarded funding to date. Following the second closing date, a further two projects have been approved and we are considering how we might take forward a number of proposals relating to digital solutions to support town centre retail.
- **Government's formal review of the 2020/21 programme** has taken place which will act as a 'gateway' to Enterprise M3 receiving the remainder of our Local Growth Fund this year. We were able to report that our full LGF amount is contractually committed and that it remains possible to spend our remaining LGF in this financial year. Informal feedback from government on our response has been positive and we expect to receive the final one-third of our funding in August.
- A detailed **review of the projects which remain 'at risk'** and may not significantly deliver by 31 March 2021 with a view to making decisions on whether these should proceed. Section 2 provides some background information and a verbal update on these projects will be given at the meeting.

2. Capital Programme 2020/21 – status update

2.1. Government has in recent weeks confirmed that the expectation is that LEPs should spend all their remaining Local Growth Fund (LGF) by the 31 March 2021. As a result, the targets set for the Enterprise M3 capital programme have remained as forecast prior to lockdown. Enterprise M3 will seek to deliver the following through its capital programme in 2020/21:

- Capital expenditure of £47m
- 2500 jobs created/safeguarded
- 1200 new homes completed
- 14,000sqm of new employment floorspace
- Support 400 apprenticeships
- Create/refurbish 2,500sqm of learning floorspace

- 2.2. These measures form our key performance indicators with Government and will be the baseline against which we will report our progress across 2020/21 and the basis of our Annual Performance Review. In the final year of the LGF programme and with the long term funding landscape uncertain, it is important that Enterprise M3 can continue to demonstrate its ability to deliver a capital programme which unlocks economic growth.
- 2.3. We will continue to report to PMG and Board on the following detail in order to provide a regular update on the progress against our targets in the Delivery Plan:

Table 1: Key Performance Indicators – July 2020

Key Performance Indicator	Current forecast	Actual (as at 23 July 2020)	Change since last report (28 May 2020)
<u>Expenditure</u>			
Expenditure of £47m of LGF in 2020/21	£20m-£48m*	£2.6m	+£2.6m
Total LGF expenditure across programme of £219m (100% of the total allocation to date)	£219m	£173m	+£2.6m
<u>Income from loan repayments</u> - £2.79m in 2020/21	£2.79m	£0.84m	+£0.84m
<u>Outputs</u>			
1,200 new homes completed	1,200	-	-
2,500 jobs created/safeguarded	2500	-	-
14,000 sqm commercial floorspace completed	14,000	-	-
2,500sqm learning floorspace completed/refurbished	2,500	-	-
400 apprenticeships supported	400	-	-

**Range based upon latest confidence levels of expenditure in 2020/21 and projects still subject to approval (e.g. Whitehill and Bordon Town Centre are not included in this figure)*

- 2.4. Progress to date is broadly as would be expected at this point in the year, with the first monitoring reports of this financial year which will allow us to update our forecasts. A verbal update on the latest position will be given at the meeting.
- 2.5. The latest forecasts for expenditure across 2020/21 range between £20m and £48m, with a high degree of confidence that £20m will be achieved, a reasonable level of confidence that a further £14m will be achieved and a low level of confidence that an additional £14m will be achieved. The range of these confidence figures remains relatively wide and we would expect us to be able to refine this figure in the coming weeks, following the latest set of monitoring information and claims from our projects. We are seeing the high confidence figure increase (up £7m since the last Board meeting), reflecting the fact that a number of projects have started back on site in recent weeks and have been conservative on our forecasting at this stage, given the complexities of the ongoing situation with Covid-19. In addition, we remain in the position where we have a strong pipeline of projects and subject to approval, the Whitehill and Bordon Town Centre project would significantly improve our expenditure position for 2020/21 and at this stage, this unapproved project is not included in the figures above.
- 2.6. With expenditure of £47m in 2020/21, Enterprise M3 will be in a position that all funds made available by Government to date will have been spent in full. Our current forecasts and information from projects suggest that this target is achievable. We will continue to monitor this closely as the latest monitoring reports are returned from projects.
- 2.7. Nine 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 around £20m of

expenditure in 2021/22. At this current level, this can be accommodated within our capital programme as it would be possible to use loan repayments to support expenditure beyond March 2021 and still meet Government's expectation that Local Growth Fund is used by this date. However, this will need some very careful management around a number of high-risk projects and the team have been engaged in discussions with all those projects that fall into this category.

- 2.8. One such 'at risk' project in recent months has been the Blackwater Valley Hotspots project. The Blackwater Valley Hotspots proposal was approved by PMG in July 2018 with an allocation of £1.965m 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. In recent months, Guildford Borough Council had alerted us to the fact that they were unable to deliver the project and would likely have to return the funding to Enterprise M3. Since these initial discussions, Guildford have been working with Surrey County Council to agree a way forward for the project, with Surrey County Council delivering the project. It was agreed by PMG on 16 July 2020 to continue to support this project, in light of this resolution, with the caveat that a maximum of £500,000 would be available to support the project in 2021/22. If further funding were available in this financial year, this would have to be found from local sources rather than from Enterprise M3's capital funding.
- 2.9. Another 'at risk' project is the Royal Holloway Cyber Security Centre. Enterprise M3's remaining contribution to this project of £4.17m sits alongside university funding to the amount of £17.9m from cashflow. Due to pressures now arising from Covid-19 on revenue generation and the uncertainty on future student numbers, this is no longer a viable option for the university. Meetings held with the University have been unable to provide sufficient confidence that this project can be delivered within the required timescales and PMG were updated on the latest discussions at their meeting on the 16 July 2020. In light of these delivery concerns it was agreed that the project should be removed from the Enterprise M3 capital fund and the funding should be made available to pipeline projects. This was a difficult decision as all PMG members recognise the merits in the project for the university, Enterprise M3 and the region but reinforced the point that deliverability has to be key at this time. In discussions with Enterprise M3, Royal Holloway had highlighted a proposal for a Media Security Centre. Whilst we are unable to ringfence money for this project, we have offered to continue to work with Royal Holloway so that this project could form part of our longer-term project pipeline.
- 2.10. PMG also received updates on two other projects, considered to be 'high risk' at this stage. The Basing View Living Lab project has now received its full Council approval and procurement work is ongoing in the hope that the full funding allocation be drawn down this financial year. The North Downs Line project was approved by PMG in November 2019 and legal negotiations have been lengthy. We are still unclear on whether this project will progress and propose that unless we have received an update from Network Rail by the Board Meeting on the 30 July, that the funding allocation of £955k is removed from this project. A verbal update will be provided at the meeting.

3. Available funding and opportunities to support new projects

- 3.1. Enterprise M3 has £71.2m available to support its capital programme in 2020/21, this money comes from a number of sources, including this year's LGF allocation from Government, loan repayments and a small carry forward of LGF from previous financial years. 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, with a target expenditure level of £47m.
- 3.2. We continue to work closely with our projects, particularly on the impact of Covid-19. In recent weeks, under her delegation the Chief Executive has approved an additional £115k for the Sparsholt Animal Health project. This funding which will help to ensure the completion of this facility by November 2020 and goes alongside significant additional investment to cover additional costs by the college, has been included in the figures presented in table 2 below.
- 3.3. Over the last 18 months, 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 currently stand at £7.8m. Table 2 below sets out our current position in terms of contractual commitments and reflect the decision that the Royal Holloway project will no longer be included within the capital programme.

Table 2: 2020/21 funding position (as at 23 July 2020)

	Amount (£m)
Available funding (Table 2)	71.2
Contractual commitments	57.3
Approved projects still subject to contract	6.1
Total unallocated funding available to support new activity	7.8

- 3.4. The Enterprise M3 Board is being asked to consider a potential project at this meeting, with a recommendation to proceed on the condition that the funding is used this financial year. As the above table demonstrates, these recommendations can be accommodated within our available funding and will leave £3m of unallocated funding. Should the recommendations of the papers be agreed by Board in July 2020, this will impact the figures in table 3 in the following way:

Table 3: 2020/21 funding position if recommendations are approved by Board in July 2020

	Amount (£m)
Approved projects still subject to contract	10.9
Total unallocated funding available to support new projects	3

- 3.5. Our experience of managing this programme since 2015 suggests that the position will change and the team will be closely reviewing this so that additional pipeline projects can be brought forward should other projects slip or not require all of the allocated funding. Changes to any of projects in our capital programme could mean that our unallocated funding figure will increase. As a result, we have continued to develop our pipeline, particularly with projects which could deliver in this financial year. The table below gives details of our available pipeline of projects/proposals as at the 23 July 2020:

Project name	Amount (£m)
Regional Battery storage	5
Surrey Heath 5G	4
Active Travel Programme	Scalable
Future Workspaces Programme	Scalable
Future Towns Mobility Demonstrator	0.9
Queen Mary's College	0.23
East Hampshire Advanced Manufacturing & Technology Park	1.84
Brockenhurst college	0.1
Alton college	0.83
Space and Satellite incubator	1

4. Getting Building Fund

- 4.1. A meeting of the Covid-19 Board sub group was held on 15th June to brief them following a letter from Robert Jenrick which was sent to all LEPs, inviting them to identify capital projects that could stimulate the economy over the next 18 months. The sub group agreed the key criteria by which to judge the £160m of submitted projects. The criteria included:

- Focus on digital and clean growth activity;

- Deliverable within 18 months (as per government guidance)
- Economic impact
- Profile

- 4.2. This exercise culminated in the submission of 13 projects from Enterprise M3, seeking a funding request of £47.7m which would help to safeguard 4000 jobs and unlock nearly 2000 homes. A summary list of the projects submitted is attached at Appendix 2.
- 4.3. On 2 July 2020, we were formally notified that Enterprise M3's notional allocation under the new 'Getting Building Fund' would be £13.3m and that this funding would come to the LEP across two financial years. The next stage in the process to access this funding is for Enterprise M3 to submit a list of projects that we wish to take forward using this funding by 17 July. The PMG meeting on the 16 July was used as an opportunity to seek a broad sign-off for our list of proposed projects to be delivered under the Getting Building Fund.
- 4.4. The funding to each LEP was awarded on the basis of population, economic resilience and Covid 19 exposure. We know our resilience score, which is based on productivity, household income, unemployment and population density is considered to be very high - the third highest in the country - and we understand Covid 19 exposure is based on deprivation, particularly in coastal communities and in areas with historically high unemployment levels. There is a continued emphasis on levelling up, with those most impacted by Covid 19 combined with fundamental low economic activity rates receiving larger sums.
- 4.5. Whilst there are similarities between the Getting Building Fund (GBF) and our existing capital programme, there are a few key areas of difference between the two funding streams. Critically, we have been advised that we must manage the GBF separately to LGF. Other key points for Board members to note include:
- Getting Building Fund must be **spent by 31 January 2022** (LGF deadline is 31 March 2021)
 - The Getting Building Fund will likely be front-loaded and we will be expected to **demonstrate significant levels of expenditure this financial year.**
 - Government intends to include a '**clawback**' mechanism into the funding award to LEPs and it is not expected that we will be able to roll-over funding (as we have been able to with LGF). Deliverability of projects will therefore need to be a key consideration.
 - As for our existing capital programme, projects will be subject to **business case development and independent due diligence.** LEPs will have the flexibility to not proceed with a named project following these processes and replace it with a pipeline project.
- 4.6. Following notification of our funding allocation, the Enterprise M3 team reviewed the 13 projects that were submitted to Government. This has focused on ensuring that we take forward a balanced portfolio of new projects and programmes within the funding envelope that we have been given by Government. In addition, we have also looked at the potential opportunities that our existing LGF programme might offer in the coming weeks and months to take forward projects included in our list as well as looking to re-focus projects to deliver with a smaller amount of funding.
- 4.7. The list agreed by the Programme Management Group and that we advised Government we would take forward are outlined below. These projects have a consistent theme of 'green and digital' which together will form a strong programme with a set of interventions contributing to our emerging Recovery and Renewal Action Plan. Further details of these projects is listed in Appendix 3.

1. Digital Skills	£2.2m
2. Digital Fibre Spine	£4.5m
3. Creative Tech Growth Booster	£0.9m
4. Park, Ride & EV Charge	£5.6m
5. Building Greener Futures prog.	£0.1m (pilot)
	£13.3m

4.8. For the projects that we are unable to progress at this stage the proposal is that we continue to develop these so that they form the basis of the pipeline (for either Local Growth Fund and Getting Building Fund). These include Space and Satellite incubator; Future workspace programme; Surrey Heath 5G; Regional Battery Storage; and the Active Travel Programme (although some of these projects could be included within the Greener Future programme). We are not taking forward the HCC broadband scheme as Government's view is the proposals do not have a strong fit with the aims of the GBF.

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).

Appendix 2 – Summary of the projects submitted to Government in June 2020

Appendix 3 – proposed projects to be taken forward using the Getting Building Fund

Rachel Barker, Geoff Wells, Lee Danson, Aleks Bennett, Kevin Travers
23 July 2020

Details of projects included in Enterprise M3's submission to Government (June 2020)

DIGITAL SKILLS WORK Invests in our network of Further Education colleges to extend digitalisation of learning, and to meet industry needs for digital technology skills in growing games industry.

DIGITAL FIBRE SPINE This investment enables a step change in digital connectivity for our area. Especially serving business parks, commercial sites, the major NHS regional hospital, Farnborough airport, major data centres and two town centre regeneration projects.

CREATIVE TECH GROWTH BOOSTER This project will rapidly boost our creative technology SME cluster, for innovation, and productivity gains, and builds on the successful StoryFutures creative industries R&D projects at RHUL.

PARK, RIDE & EV CHARGE This proposes a new "Park & Ride & Charge your Electric Car" site to increase use of low carbon transport options for commuters into Winchester.

SUPER-HUB REGIONAL ENERGY STORAGE This investment would increase the much-needed energy capacity and resilience of a region stretching along the M3 corridor into West London, including Heathrow and its economic hinterland.

SPACE & SATELLITE INCUBATOR CENTRE This Incubator Centre will stimulate post-Covid19 economic recovery by generating 1400 sqm of office, lab and workshop space for our growing space/satellite cluster and will be part of the Whitehill & Bordon Enterprise Zone on the Techforest site.

BUILDING A GREENER FUTURE This investment in renewable energy and low carbon projects will stimulate demand across the EM3 LEP area, in the Low Carbon sector, creating new jobs and delivering the co-benefits of CO2 reductions as well as developing a resilient energy system.

WHITEHILL & BORDON – A DIGITALLY CONNECTED NEW MARKET TOWN This investment will help create a vibrant, attractive and self-sufficient town centre at Whitehill & Bordon, including "The Makers' Market" , and a fibre broadband enabling free public Wi-Fi.

BLACKWATER VALLEY GOLD GRID The scheme aims to improve bus journey time reliability and improve passenger perception of the bus service by addressing issues including frequent delays.

ENTERPRISE M3 FUTURE WORKSPACES PROGRAMME This project will regenerate vacant buildings into high quality, town centre workspaces, in response to a Covid19-led demand for more local workplaces and less commuting.

LOW CARBON & ACTIVE TRAVEL FOR HIGH STREET RENEWAL This programme helps restore and renew customer confidence and commercial activity to our high streets through innovations in transport, including e-bikes, rapid road space re-allocation, micro-mobility, and smarter towns linking people to employment and transport to work.

RURAL BROADBAND A top-up to a current scheme offering rural residents up to £1,500 to enable a gigabit capable broadband connection.

SURREY HEATH 5G This project is seeking to establish the UK's first full 5G shopping centre in the Surrey Heath Borough Council freehold owned centre and is in partnership with the 5G Innovation Centre at The University of Surrey