PURPOSE OF REPORT

The purpose of this report is to provide LEP members with an update and overview of progress on the development and delivery of the Local Growth Fund (LGF) (also referred to as the Local Growth Deals), and associated programmes; and to provide a recommended way forward in relation to potential uses of funding previously held for contingencies and ensuring we achieve a spend rate that will improve our grading from government.

RECOMMENDATIONS

In order to manage the risks identified in para 2 & 3 of this report, LEP board members are asked to approve the following:

A) The proposal to bring new projects onto the LGF portfolio (listed in para 3) and amend the funding structure of the current LGF projects in order to utilise spend.

B) The proposed re allocation of the unallocated and contingency (£40.8m) set out in paragraph 4

CONTACT OFFICERS:

Simon Nokes; simon.nokes@greatermanchester-ca.gov.uk

Steve Warrener; steve.warrener@tfgm.com
1. Introduction and Background

1.1 The Government awarded a total of £493.5m over three Growth Deals to the GM LEP from 2015-2021 for capital projects that will benefit the local area and economy. This was broken down as follows:

- Transport projects were allocated £358m to support the infrastructure and capital requirements for Greater Manchester’s (GM’s) priority Transport schemes.
- Skills Capital allocation was set at £79m to fund the development of world class learning facilities at Further Education (FE) level, to support delivery of the work and skills strategy priorities, in line with the Greater Manchester Strategy.
- ED&R (Economic Development & Regeneration) received an allocation of £56.5m for projects that include investment in business support science, innovation and inclusive growth.

1.2 Prescribed outcomes against this funding were limited to jobs and match funding and were set against the full programme allocation of £493.5m, recognising that only some projects would be able to demonstrate ‘direct’ achievement of these outcomes.

1.3 The outcomes agreed in the original profile with Government were for 6,250 jobs to be created and for the public sector investment to generate £210m of private sector investment. These were set to be generated from Skills Capital, ED&R and Transport projects.

2. Current performance and reporting

2.1 Through our annual conversation with Government, GM has been requested to increase the rate of spend by using local flexibility around the financing of LGF schemes due to GM having been deemed as ‘requires improvement’ for delivery of LGF programme. This is in the context of a spend profile that was agreed at the time with Government who had requested that we accept a significantly front end loaded profile. Government were aware of our actual proposed spend profile and had previously been content with this; however they have now asked GM to confirm how we will increase spend over the coming months.

2.2 GMCA have recently undertaken a number of actions to improve reporting. This includes:

- A full reconciliation of all project historical spend;
- Ensuring there is no time lag between when expenditure is recorded and claimed against LGF;
- Ensuring all current CA projects which are eligible for LGF are utilising LGF funds first in order to achieve spend by the March 2021 deadline;
• Working towards accelerating spend to 60% (currently considered ‘good’ by MHCLG) of grant received and reducing the issue of forecast spend beyond March 2021; and

• Ensuring uses for currently unallocated contingency are identified and implemented in a timely manner.

3. Potential project and funding structure changes

3.1 Despite the above work that has been undertaken in recent months, there are still a number of issues with the LGF spend forecast by that require resolution:

a) The programme spend in the current financial year is not currently forecast to meet Government expectations. This is primarily due to the £70m front loaded funding agreed with Government and the legacy impact of historical issues in relation to resource profiling and approvals on some elements of the programme.

b) Not all the LGF grant is forecast to be spent by the funding deadline of March 2021. This is primarily due to GM’s ambition to deliver enhanced outcomes through increased scope on large projects such as Stockport Interchange Mixed Use and Salford Central, which has resulted in additional development work and subsequent rephasing of those schemes. Plans are in place for progressing these enhanced outcome schemes with our partners. The Stockport Interchange Mixed Use scheme is currently in the procurement phase and discussions with the rail industry on the best way to deliver increased capacity at Salford Central are ongoing and being supported by the Salford City Mayor. Government officials are being regularly briefed on progress and are aware that, due to the nature of the schemes, considerable expenditure on schemes starting later in the LGF programme will likely be incurred beyond March 2021, and that this issue is being addressed.

3.2 The local flexibility written into Local Growth Deal under Single Pot principles enables the realignment of programme and associated funding, at a local level, to match delivery challenges. Therefore, given the two points above, the recommendation is that we bring a number of existing CA funded projects, which are ‘Growth Deal eligible’, into our LGF portfolio, thereby using LGF to fund these schemes; and reducing the LGF spend on those projects which are forecasting to spend past March 21 (i.e. the LGF spend deadline). The additional projects have previously been subject to full business case appraisal and approved by the GMCA, so require no further appraisal in making this switch.
The projects we are proposing to bring into the LGF portfolio are outlined in the below table:

<table>
<thead>
<tr>
<th>Transport</th>
<th>Non Transport</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metrolink additional capacity programme/activities funded from Transforming Cities Fund</td>
<td>Protos Loan</td>
</tr>
<tr>
<td>SEMMMS 2019/20</td>
<td>Project Q</td>
</tr>
<tr>
<td>Wigan A49 Link Road (grant switch in from Wigan M58 Link Road)</td>
<td>Broughton House</td>
</tr>
</tbody>
</table>

3.3 By allocating a proportion of our LGF grant to a number of these existing CA funded projects that have, or are forecasting to spend, sooner we could increase our spend rate significantly by Q2 19/20 and reduce the amount of LGF grant that is currently forecast to be incurred past the deadline of March 2021. Scheme delivery and total grant commitment from the CA will not be affected as this is a change to the accounting structure of the projects only.

3.4 Current LGF schemes which are also part funded by the CA can be reprofiled to use the LGF funds first on the project and use CA monies towards the end of the project.

3.5 We have also written to Government and formally requested that the £70m front loaded is removed from the metrics they use to calculate our grading and that it is instead allocated to the end of the LGF spend period (March 21). We have not yet had a response to that letter and therefore we have to plan on the basis that this will remain part of our next ‘grading’ calculation later in 2019.

3.6 If the proposed changes set out above are approved, the Q2 19/20 position would be that circa 70% of grant received would have been spent and therefore should improve our grading from government as well as minimising spend past the March 21 deadline. However if Government do not agree to remove the £70m front loading from our profile we would only achieve around 50% by Q2 19/20.

4. Unallocated Funding / Contingency

4.1 A further exercise has been undertaken to identify any currently unallocated funding contingency within the programme to ensure that we maximise the value of the funding and to ensure that we minimise the risk of any further expenditure beyond the LGF programme timescales. The currently unallocated funding / contingency is set out in the table below:
### LGF Unallocated Contingency by category

<table>
<thead>
<tr>
<th>Category</th>
<th>Total allocation (£ million)</th>
<th>Allocated (£ million)</th>
<th>Further Rounds (£ million)</th>
<th>Unallocated Programme Contingency (£ million)</th>
<th>Other Unallocated Contingency (£ million)</th>
<th>Total Unallocated LGF Contingency (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skills Capital</td>
<td>79.00</td>
<td>75.15</td>
<td>3.78</td>
<td>-</td>
<td>0.067</td>
<td>0.067</td>
</tr>
<tr>
<td>ED&amp;R</td>
<td>56.50</td>
<td>55.77</td>
<td>-</td>
<td>-</td>
<td>0.73</td>
<td>0.73</td>
</tr>
<tr>
<td>Transport</td>
<td>358.00</td>
<td>318.00</td>
<td>-</td>
<td>20.00</td>
<td>20.00</td>
<td>40.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>493.50</strong></td>
<td><strong>448.92</strong></td>
<td><strong>3.78</strong></td>
<td><strong>20.00</strong></td>
<td><strong>20.80</strong></td>
<td><strong>40.80</strong></td>
</tr>
</tbody>
</table>

4.2 The above table does not include any potential residual amounts from legacy and current programmes, including from the schemes within Greater Manchester Transport Fund 1 (GMTF1). Whilst not anticipated to be material, potential unallocated contingency from within this, and other programmes, will be kept under regular review.

4.3 The potential uses below do not take account of any potential use of unallocated LGF contingency into other existing and subsequent programmes/funding streams including, for example, Integrated Transport Block, Earn-Back Capital and Revenue, or Transforming Cities Fund 2 (TCF 2).

### Proposed Allocations of Unallocated Funding / Contingency

4.4 Within the above £40.8m of total unallocated LGF contingency, it is recommended that the currently Unallocated Programme Contingency of £20m is ring-fenced, at this stage, to support the delivery of the enhanced outcomes on a number of current Growth Deal Transport schemes. Further information will be provided through a future report later in the year, following additional work on the allocations for these schemes.

4.5 In relation to the remaining £20.8m of Other Unallocated Contingency, work is taking place within the context of consideration of wider funding allocations (e.g. in relation to Transforming Cities Fund 2 and the forecast outturn costs in the current Growth Deal programme scope) to support the delivery of the next set of priorities. A pipeline is being prepared from the 2040 Delivery plan with a clear focus on meeting the objectives set out in the recent Mayoral ‘Our Network’ presentation. A report setting out more detailed proposals in this regard will be brought back to the LEP in due course.

4.6 In the meantime, in order to facilitate the timely delivery of a number of important additional initiatives within the current Growth Deal spending period, it is recommended to:

a) Make a further allocation, in line with the original intervention rate, to Tameside Council of £1.5m following the demise of Carrillion mid project which saw the existing “Tameside One” skills capital project incur additional costs to in order to complete.
b) Increase the allocation for future Skills Capital funding by £6.22m (from the current remaining allocation of £3.78m) to £10m for:

- Completion of the final round of skills capital to the sum of £1.78m
- Creation of a new skills funding pot totalling £8.22m to help drive the implementation of the Local Industrial Strategy (LIS) to support tackling skills issues identified as key sectors in the LIS. This is in line with the revised investment strategy agreed last year by the CA and the approach set out in a report to the CA in October 2018. Some spend is likely to be capital but some would be revenue; and would therefore require the capacity, and the agreement of the GMCA Treasurer, to make the appropriate capital / revenue switch.’

c) In relation to the remaining Transport contingency of £13.08m, further work is required to identify potential future allocations and to ensure that any potential future allocations will be spent by March 2021. Subject to confirmation of the principles, as set out in this report, potential allocations will be brought to a future meeting of the LEP.

5. Conclusion

6.1 If the work on re-allocations and other changes as set out above are approved, we are confident that our LGF money remaining to be expended on agreed schemes beyond March 2021 will be less than 10% of the value of LGF. At present our understanding is that this is acceptable to Government but this will obviously be kept under review.

5.2 Also if the proposed changes to structure and projects detailed are approved our Q2 19/20 position would be circa 70% spent of grant received and therefore should improve our grading from government as well as minimising spend past the March 21 deadline. However if Government do not agree to remove the £70m front loading from our profile we will only achieve around 50% by Q2 19/20. An urgent meeting with Govt has been requested and once we have clarity on Government’s expectations this, and any further work required, will be reported back to the LEP.

6. Recommendations

As above