

Item Number: 4
Item Title: Solent LEP - Review of Budget Position, Financial Forecasts and Capital Programme Update
Meeting Date: 20 October 2022
Purpose: For Information

1. Introduction

- 1.1 This report provides the Solent Growth Forum (SGF) with an update on the financial position of all LEP funds to 31 August 2022 against the revised budget and the forecast budget for the period up to and including 31 March 2025. A presentation will be made at the meeting which will summarise the overall financial position and highlight some specific projects for the SGF to consider.
- 1.2 Additionally, it sets out the progress, key risks, and mitigation actions as appropriate across the two main capital delivery programmes, the £178m Local Growth Deal (LGD) and the £15.9m Getting Building Fund (GBF), for the SGF to consider.
- 1.3 It also includes the key monitoring data that is submitted to Government reporting on project progress.

2. Recommendations

- 2.1 It is recommended that the SGF:
 - **Note** latest position of the LEP budget for the current year as attached at Appendix A and the forecasts out to 31 March 2025 as attached at Appendix B.
 - **Note** latest position of the LGD and GBF as set out in Appendices C and D respectively.
 - **Note** the specific updates in relation to LGD and GBF tail projects as set out in paragraphs 2.5.1 and 2.5.2.
 - **Note** the update in respect of the Annual Progress Reviews in paragraph 2.6.
 - **Note** Project and Programme Risk Matrix at Appendix E including the RAG rationale and corrective actions matrix.
 - **Note** the Local Growth Deal and Getting Building Fund Reporting Matrix attached at Appendix F

2.2 Current Financial Year

The revised budget of £22,392,920 for the 2022/23 financial year reflects the latest status of the tails of the two major funding programmes as well as forecasts for other key areas of LEP delivery such as business support, skills and the recently launched loan funds.

2.3 Local Growth Deal Tail

There remains a small tail on the Local Growth Deal programme of approximately £9m (excluding the agreed loan funding) which consists in the main of three major, multi-year transport projects. Both the North Whitely transport improvements and the A326 Highways improvements continue to make progress and the £42m (£34m LEP funded) Stubbington Bypass scheme is now open.

Progress on the defrayal of all the LGD tail funding is reported at each FPPMG and Board meeting in order to enable all members to track progress against each of the remaining projects.

The financial status of the entire LGD programme can be found at appendix C, alongside the updated status of each scheme which have also been RAG rated in the high-level delivery risk matrix at appendix E. Where there are specific issues these have been set out in paragraph 2.5 below.

2.4 Getting Building Fund (GBF)

The Getting Building Fund programme continued to deliver well in 2021/22 with a relatively small tail of £2m being re-profiled into 2022/23 and the overall financial position of the GBF programme is attached at appendix D, with the updated status of each scheme RAG rated in the high-level delivery risk matrix at appendix E.

2.5 Specific Project Updates by Exception

Project progress is reported by exception to each meeting of the FFPMG and LEP Board where members are asked to consider a range of recommendations or to be aware of emerging risks. A snapshot of the recent issues the Board has been asked to consider is set out below and will be highlighted at the meeting in a presentation.

2.5.1 Local Growth Deal Capital Programme

The following three projects are summarised below, with more detail being provided at the meeting.

Hampshire County Council - Stubbington Bypass

The bypass was opened in May 2022, with the street lighting and power supply works completed, and the finishing works to the highways verges concluding in Autumn 2022. The funded project also includes improvements to roads in Stubbington village, and these works are due to start in and are expected to be complete by February 2023.

Portsmouth City Council - Southsea Coastal Defence Scheme

Work to sub frontage one of the scheme is on track to complete by the end of December 2022. Modest employment outputs have already been created by the project, with the vast majority of outputs (employment, housing, commercial space) to be created over the next 10 years.

Vistry Homes - North Whiteley Infrastructure Improvements

The first of three phases of infrastructure improvements are complete, with the second and third phases running in parallel. The grant funded element of the project is expected to complete by June 2024, though house building is programmed continue beyond this timescale into 2028.

2.5.2 Getting Building Fund (GBF) Capital Programme

Updated narratives have been added to the risk register at appendix E which includes trend arrows and RAG ratings for SGF to be able to pick out those that have changed and where risks are either emerging or being mitigated.

Project Change Request (PCR) / Maritime Innovation Hub

Government have provided an update on 6 September that the PCR request to allocate £850,000 to the proposed Solent Maritime Innovation Hub from the previously approved CEF University of Southampton project will require approval from the new DLUHC Minister and that this is expected to take 'some weeks'.

At the last meeting of the Board in July 2022, it was agreed that in order to submit a formal business case to the Solent Freeport for £400,000 of seed funding by the deadline of 2 September the LEP should ringfence £850,000 to underwrite the GBF pending the government decision.

The outline business case was therefore submitted to Solent Freeport on 2 September with confirmation from the LEP and its accountable body that the LEP match funding was in place.

An verbal update on the funding bid is expected after the Freeport Board which is taking place on 12 October 2022.

2.6 Annual Progress Reviews

For the fourth year, Annual Progress Reviews (APRs) have been programmed in with funded projects. In order to best manage LEP Executive and Accountable Body time, a two-tier approach has been taken as follows:

- Those projects deemed high priority, i.e. still in delivery phase, claiming funds, or where there maybe ongoing issues causing concern, have been asked to attend an APR meeting with the LEP Executive and Accountable Body Finance team, preceded by a pre-meeting report coving the broad areas of delivery, finance and reputation, in line with the standard risk monitoring approach.

- Those projects deemed medium or low priority, i.e., where all funds have been claimed, the main delivery phase is complete and outputs continue to be monitored, have been asked to complete the pre-meeting report questions as part of their Q2 monitoring return. As these are assessed in October and November, any concerns can be identified, and further APR meetings booked in if deemed necessary.

Eight APR meetings have been held to date out of an anticipated 12. These have run smoothly with all parties funding the meeting a useful point to set out the current situation, identify any challenges that need to be addressed, and ensure the ongoing working relationships are maintained. The meetings and reports will also help inform the Q2 monitoring returns to government which are due to be submitted to Government on 25 November.

3. **Loan Funds Update**

Live call update

The deadline for Expressions of Interest (EoI's) for the LEP's two loan funds was the 8 July 2022. Seven EoI's were received for the [Solent Prosperity Loan Fund](#) and six for the [SME Priority Sectors Loan Fund](#). After reviewing the EoI's all seven Prosperity Loan Fund and two SME Priority Sector Loan Fund EoI's were invited to develop full applications, with a deadline of 30 September 2022. Three full applications were received and are currently being reviewed by the LEP Executive and Accountable Body.

Proposed new loan call(s)

Following lessons learned from the recent loan funding calls the LEP Executive and Accountable Body are considering the best way to relaunch the loan funds to ensure that the funding calls are positioned correctly and are useful to the market. It is therefore proposed to bring back a new loan fund call proposal for the Board to consider in December with a view to launching early in the new year.

4. **LGD / GBF Monitoring and Reporting**

Solent LEP takes a risk-based approach to monitoring funded projects, with the risk scores allocated as per the Risk Scoring Matrix in Appendix E. The Risk Matrix at appendix F is reported to FPPMG and Board at each meeting, most recently at the LEP Board meeting on 7 October. This is also monitored by the LEP Executive and Accountable Body on an ongoing basis in order to identify any issues or challenges early on, and come to an agreed approach to resolving them. The resolutions rely on the Corrective Actions at Appendix E depending on the risk score allocated to any particular project.

5. **Financial Summary**

The current position of the LEP Budget for 2022/23 is set out in appendix A and the future years forecasts are shown in appendix B with the main financial risks highlighted in this report.

Appendices C and D show the overall position of the Local Growth Deal and Getting Building Fund programmes respectively including the tail funding that is being managed across the 2022/23 and 2023/24 financial years.

As highlighted in this report due to the complex nature of some of these projects and delays that the Covid-19 pandemic inevitably caused, the Accountable Body has enacted the freedoms and flexibilities made available by HMG by re-profiling relatively small funding tails of both the LGD and GBF into the 2022/23 financial year.

An indicative budget for 2024/25 has been established to maintain the good practice of a three-year rolling budget and whilst at this stage there is a lack of certainty of the funding that will be available a core operational budget has been established and both loan and SME grant activity will be continuing.

The contingency / reserves budget has been maintained at a strong level in order to provide the Board with the flexibility to react to ongoing developments as the future direction of LEPs continue to evolve.

The FPPMG and the LEP Board will continue to receive an update at each meeting regarding the progress against the LGD and GBF tails.

The risks of both programmes continue to be reported and monitored in the funding risk register at appendix E where all projects are regularly reviewed and have the latest RAG rating attached to them.

The Accountable Body will continue to provide up to date and accurate advice to ensure that all LEP funds are spent with regularity and propriety, that they secure value for money for the public purse and maximise investment opportunities for the area.

6. Equality impact assessment

An EIA is not required at this stage. EIA's are not required for note items and, in relation to decisions, these relate to agreement of programme-wide budgets (as opposed to any new investment decisions) and internal risk registers.

7. Legal implications

With reference to the recommendation to: -

i Endorsing the financial budget for 2022/23 of £22,392,920 as set out in appendix A and the revised budget for the period 2022/23 to 2024/25 as set out in appendix B.

PCC's (acting as accountable body for the LEP) s.151 officer acts as the Chief Finance officer (by the relevant delegation powers) for the LEP and is in receipt of a general delegation from the Council in order to manage such matters.

Where necessary specific legal advice has been provided within the body of the appendices the recommendations within this report refers to, and any specific legal action referred to within these will be managed in accordance with the advice provided.

In terms of the high-level risk matrix for the LGD programme (appendix E) - and any project specific points raised at para 2.5.1 and 2.5.2 - action taken as prescribed by the grant agreements will be reviewed by legal on a case-by-case basis with separate advice provided.

8. Financial comments from the S151 Officer of the Accountable Body

All of the financial information and associated implications are reflected in the body of the report and the Appendices.