

REPORT OF THE CITY DEAL AND GROWTH DEAL ADVISORY BOARD

TO

BLACK COUNTRY EXECUTIVE JOINT COMMITTEE – 3 December 2014

BC LOCAL GROWTH DEAL PROJECT APPROVAL RECOMMENDATION
– GROWING PRIORITY SECTORS

Key Decision:	Yes
Forward Plan:	Yes

1. PURPOSE OF REPORT

- 1.1 To present the recommendations of the Advisory Board in relation to the Growing Priority Sectors programme by Sandwell Council, seeking permission to proceed to grant agreement by the Accountable Body (Walsall Council) as set out below in section 2.

2. RECOMMENDATIONS

- 2.1 That the Joint Committee grants approval for the Accountable Body for the Growth Deal (Walsall Council) to proceed to a Grant Agreement with Sandwell Council to deliver the Growing Priority Sectors Regional Growth Fund – with delivery to commence in the 2015/16 financial year.

3. REPORT DETAIL

- 3.1 The Joint Committee received a report on the 17th September setting out the background and work so far in the development of the Black Country Growth Deal Round 1, approving a way forward for the 15 projects involved, which will utilise the individual Red Amber Green (RAG) ratings for each project proposal.
- 3.2 To ensure that these RAG ratings are as accurate as possible, each projects business case has been further scrutinised by specialists and officers (October 2014), culminating at the Advisory Board Star Chamber on the 10th November 2014, where representatives from 13 of the 15 projects were further questioned by members of the Advisory Board and the Working Group of the Joint Committee. The remaining two projects were scrutinised at the Advisory Board on 19th November.
- 3.3 The recommendation of the Advisory Board is based on the RAG ratings agreed through this process, attached as Appendix 1, together with subsequent information received, which for this project is Green and the process presented to the Joint Committee on the 17th September in section 3.6.

4. FINANCIAL IMPLICATIONS

- 4.1 The costs associated with this development work and the delivery of projects that form part of the LGF round 1 will be covered by allocations from government associated with this programme. This includes the use of any interest accrued by the Accountable Body to cover costs associated with the delivery of Accountable Body functions, as approved by its (Walsall Council) Cabinet on the 29th October 2014.

5. LEGAL IMPLICATIONS

- 5.1 The appropriate Grant Agreements are being prepared by the Accountable Body (Walsall Council) and will include all conditions passed onto the LEP by Government, together with all terms, conditions, performance measures and sanctions as required by the approvals/conditions received from Government or approved by the LEP board or the Joint Committee.

6. RISK MANAGEMENT

- 6.1 Risk is being managed through the on-going assessment of individual projects and their ability to deliver the required spending profiles and outcomes for the programme as required or agreed with Government and set into place by the LEP board or the Joint Committee.

7. EQUALITY IMPLICATIONS

- 7.1 None at the time of drafting

Back Ground papers

The Black Country Strategic Economic Plan (SEP)

Business Cases for each Individual Project

Attachments

Appendix 1 – Growing Priority Sectors Programme, Project Headlines and Outline Business Case RAG Rating

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Appendix 1 – Growing Priority Sectors Programme, Project Headlines and Outline Business Case RAG Rating

Project Description

- Strengthens the capacity of Black Country businesses to take advantage of new market opportunities.
- Will provide Access to Finance via the Regional Growth Fund to grow Priority Sectors through capital investment in plant, machinery & property.

Start date: July 2015, completing in 2017/18

Headline Outputs Include: Levering in up to £18m of private sector investment, creating 600 new jobs by assisting 40 companies to create 5796 sqm of new floor space and 35 Apprenticeships.

Funding Profile: Total Project at £24m, LGF requested of £6m of which £1.91m in 15/16 and the balance of £3.82m (excluding projected £247,500 of programme management costs) up to and including 2017/18, an intervention rate around 25%.

October 2014 Update and Revised RAG Rating

PROJECT MANAGEMENT

Remained Green throughout the assessment process, as there is a continuing pipeline of enquiries and applications for RGF support – all of the previous allocation is now committed and several new enquiries are being processed.

Undertaking an analysis of RGF scheme performance in terms of impact on business competitiveness as well as job and private investment delivery.

ECONOMIC OUTPUTS

Remained Green throughout the assessment process, as the demand evidence and enquiry list output delivery projections continue to appear robust.

With LGF funding for the programme at 50% of the previous programme allocation, a more targeted approach is being considered by the RGF Investment Board.

FUNDING

Remained Green throughout the assessment process. Programme management costs for the new programme will need to be funded from the LGF allocation, these are included at 2% of the LGF award of £6m.

OVERALL RATING PROPOSED

GREEN

Recommendation – Proceed to Grant Agreement

OUTLINE BUSINESS CASE (Including October Revisions)

PROJECT TITLE: Growing Priority Sectors

PROJECT SPONSOR: Sandwell MBC

October 2014 Re-Assessment Update and Outstanding Scrutiny Issues

PROJECT MANAGEMENT

- There is a continuing pipeline of enquiries and applications for RGF support – all of the previous allocation is now committed and several new enquiries are being processed.
- An analysis is underway of RGF scheme performance in terms of impact on business competitiveness as well as job and private investment delivery.

ECONOMIC OUTPUTS

- Given demand evidence and enquiry list output delivery projections continue to appear robust.
- Given that the LGF funding for the programme is 50% of the previous programme a more targeted approach is being considered by the RGF Investment Board.

What priorities are to be set for the new RGF programme – e.g. sectors, types, locations?

FUNDING

- Programme management costs for the new programme will need to be funded from the LGF allocation – the previous programme included a 2% allowance.

How will programme management costs be addressed in the new programme?

July 2014 Assessment

PROJECT MANAGEMENT

Senior Responsible Officer (SRO): Conrad Parke, Project Manager (RGF)

This project is an extension of the existing Regional Growth Fund (RGF) Round 3/4 programme for the Black Country and will be delivered in accordance with the existing RGF governance arrangements, which include a Programme Board, a Project Management Team and external technical support in relation to due diligence and State-aid.

Applications are appraised in accordance with an established Investment Appraisal Manual, by a Steering Group and recommendations for approval are made to the LEP Board with final sign off by Sandwell MBC as the Accountable Body. The extension of the Accountable Body function has not been confirmed at this stage and it is understood that an overarching delivery framework in the form of a Collaboration Agreement between project partners is being developed.

A summary of lessons learned from Round 3/4 has been provided and indicates a number of possible improvements that can be made to the management of the project going forward, notably in terms of simplifying the application process and improving the consistency and quality of applicants own due diligence reporting.

A comprehensive risk register has been provided and does not identify any high risk areas in relation to the management of the project. The project manager has however indicated potential reputational risks given the levels of demand for RGF and the limited level of funds available for this project.

ECONOMIC OUTPUTS

The forecast of key economic outputs (set out below) is based primarily on evidence collected from the RGF 3/4 programme and the range of output thresholds that will be applied to new applications. Individual grants would be within a maximum threshold of £10,000 per job created. The average grant application is expected to be £200,000 with a maximum intervention rate of 30%. The floorspace output is based on averages compiled from a sample of previous RGF expressions of interest.

Sandwell MBC has agreed to provide further clarification on the profiling of outputs over the period to 2021 and to review the potential job safeguarding outputs that could also be delivered but which were not included in the LEP submission for the Growth Deal.

Headline outputs	Total
Jobs created	600
Private sector investment	£17m
Business assists	40
Learner assists	14
Floorspace (sqm)	5,796
Apprenticeships	35

Demand for funding is expected to be significant. A number of surveys have confirmed that access to finance remains one of the main barriers to growth, particularly amongst supply chain companies unable to access debt finance to support their growth plans. The previous RGF Round 3/4 was 4-times oversubscribed and the LEP has details of over 500 companies with growth plans over the next 5-years.

Given this level of demand and the pipeline of existing enquiries when compared to the scale of funding that will be available, there is a recognised challenge of managing expectations. In response, further consideration could be given to a more targeted approach to key sectors promoting higher value-added jobs growth in Black Country.


FUNDING

The total LGF funding (profiled below) is significantly lower than originally requested, down to £6m from £15m and this has been reflected in the output profile above. Match funding comes directly from the applicant, on the basis of a minimum 70% contribution to total eligible project costs, subject to State-aid considerations.

LGF spend profile	2015/16				All 2015/16	Future years	Total LGF
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar			
	£0	£1,000,000	£750,000	£250,000			
					£2,000,000	£4,000,000	£6,000,000

Sandwell MBC has provided a breakdown of project management costs which equate to £298,000 per annum and includes for technical support as well as direct project management/support activities and evaluation. It is not clear whether this cost will be borne by the Council or will come from the overall LGF funding for the project. This is the equivalent of £10,000 (or 5%) per average grant awarded and is a matter that would need to be addressed in the Collaboration Agreement between project partners referred to above.

KEY ISSUES & RISKS

Overall risk rating: 

Given the established track record from the previous RGF programme, delivery risks for this project appear low in terms of levels of business demand for funding – managing expectations may be the greater challenge given the pipeline of enquiries.

A key area to consider is whether, given the limited scale of funding available, a more 'strategic'

approach should be adopted in the targeting and selection of business investment projects supported. This may ensure that the impact of the project is maximised in terms of added value to the BC economy. A review of the established Investment Appraisal Manual and investment criteria may be appropriate in this respect, including consideration of sector focus, minimum grant thresholds and grant rates.

The approach to due diligence for applicants may also warrant a review to achieve more consistency, possibly via a framework panel, and to ensure that due diligence is proportionate to levels of LGF investment made into individual businesses.

The proposed Collaboration Agreement will be a key mechanism for ensuring the maximum benefit is achieved from this project at the Black Country level and should be put in place at the earliest opportunity. This should include a review of the approach to funding project management costs.