

## **D2N2 INFRASTRUCTURE AND INVESTMENT BOARD (IIB)**

**25<sup>th</sup> July 2016**

### **High Risk Projects and next steps**

#### **Introduction**

There are 8 projects at risk of not delivering totalling £22.64m out of the original allocation this year of £55.4m. The funding needs to be spend by the promoter before March 31<sup>st</sup> 2017.

In the past we have accelerated spend on approved projects, to cover any underspend however this is not a realistic option as the projects suitable for this are in the high risk category.

The Accountable Body needs to provide assurance to BIS/DCLG at the end of the financial year that the project expenditure allocated to deliver Growth Deal 1 and 2 has been spent.

Any underspend may result in less money being paid to the LEP for projects in the following years and therefore could result in less investment being made available for the area over the next few years.

#### **IIB Actions**

The Local Assurance Framework sets out an approvals process which needs to be adhered to and for which the IIB members have agreed to follow:

The process sets out the following:

1. Promoters are requested to provide and agree with the LEP the date on when a Stage 1 and Stage 2 submission will be submitted for approval prior to the start of the financial year.
2. Promoters are requested to submit a valid Stage 1 application no later than July of the financial year in which funding is to be released. Failure to submit will render a project High Risk
3. A Stage 2 application (business case) is to be submitted in line with the programmed date agreed with the LEP; however this is to be no later than November 30<sup>th</sup> of the year in which funding is to be released. Failure to submit a business case in line with the programme will render the project High Risk.
4. Where a project is seen as High Risk the IIB will write to the promoter setting out the risks and requesting a written response outlining how the risks will be mitigated.
5. In the event that a project has, in the opinion of the IIB or the LEP Board, significantly changed (by 10% or more) from what was originally proposed (i.e.: spend profile, outputs and outcomes, or delivery) the IIB will write to the promoter requesting a written response detailing why the project has changed.
6. If a project has not commenced within 3 months of the IIB meeting at which the project was approved, the project will be reported as a High Risk project. In this

instance the IIB will write to the promoter requesting a written response detailing why the project has been delayed. If the IIB are not satisfied with the response, the IIB can remove the project from the programme.

7. The IIB will be provided with quarterly performance reports by the project monitoring officer. If it is reported that a project is delayed (commencement/completion/outputs/outcomes) by 12 months or more then the project will be reported as a High Risk project. In this instance the IIB will write to the promoter requesting a written response detailing why the project was delayed

### High Risk Projects:

The LEP and the Accountable Body meets with officers representing the Local Authorities from the D2N2 area on a monthly basis where individual projects are discussed. This has resulted in the following projects being highlighted as high risk

Projects	Project Allocation	2016/17	Accumulative
Skills Hub	£30m	£3.79	£3.79
A61 Corridor	£12.8	£0.5	£4.29
Buxton/Drakelow	£5.0	£2.5	£6.79
Ins Adv. Manufacturing	£5.0	£2.5	£9.29
Midland Mainline	£5.0	£2.5	£11.79
Newark SLR	£7.0	£6.0	£17.79
Becketwell	£4.0	£2.85	£20.64
OCOR	£12.0	£2.0	£22.64

### 1. Skills Hub £30m overall Grant - £3.79m allocated in 2016/17 budget

The project was due to commence in 2015/2016 financial year and was delayed due to the project not having progressed and issues with Barclays bank funding.

The project has not progressed much over the past few months and there is significant doubt whether the project will remain as originally planned and receive a Stage 2 approval this financial year.

The promoter has asked to attend the August IIB meeting to provide an update on the project.

### Recommendations

The IIB is asked to request a full and detailed report outlining how the project is to be progressed which will set a number of milestones that the promoter will adhere to in order to deliver the project.

The report will go to be presented by the promoter to the next IIB (early September) where the IIB will be asked to:

1. Delete the project from the programme or
  2. Allow the project to proceed in line with the approved programme and milestones
- or

3. Remove this years funding and request that the promoter deliver a full stage 2 proposal to the IIB by April 2017 using the remaining grant funding. Failure to deliver a successful Stage 2 business case by the April IIB meeting would remove the project from the programme.

2. A61 Corridor **£12.8 overall - £0.5m allocated in 2016/17 budget**

A stage 1 submission has been received by the LEP and considered. The submission however has identified significant changes from those what were originally proposed for the project in the original submission. Therefore a Stage 1 submission has not been approved and the project is high risk.

Recommendations

The IIB is asked to request a full and detailed report outlining how the project is to be progressed which will set a number of milestones that the promoter will adhere to in order to deliver the project.

The report will go to be presented by the promoter to the next IIB (early September) where the IIB will be asked to:

1. Delete the project from the programme or
  2. Allow the project to proceed in line with the approved programme and milestones
- or
3. Remove this years funding and request that the promoter deliver a full stage 2 proposal to the IIB by April 2017 using the remaining grant funding. Failure to deliver a successful Stage 2 business case by the April IIB meeting would remove the project from the programme.

3. Drakelow/Buxton **£6m overall - £5m 2016/17 overall**

Following discussions with the LEP it has been agreed to deal with these 2 projects together as they involve the same promoter and an element of underspend and over spend.

Drakelow originally had an allocation of £4m for a grant to construct a new road and bridge to a mixed use development. The promoter (Derbyshire County Council) has agreed to provide a loan to the developer for the entire road which has resulted in potential savings of £2m.

Buxton has an allocation of £2.0m, it is a Grade 1 listed building and the detailed costs have now been received which have exceeded the budget. Overall by the promoter offering a loan both projects are able to be delivered now for the same overall budget.

Whilst we understand the Buxton project is ready to be submitted to the IIB, the Drakelow project is not and we are awaiting confirmation that the loan agreement has been approved by Derbyshire County Council. Stage 2 approval is required for both projects.

Recommendations

The IIB is asked to request a full and detailed report outlining how the project is to be progressed which will set a number of milestones that the promoter will adhere to in order to deliver the project.

The report will go to be presented by the promoter to the next IIB (early September) where the IIB will be asked to:

1. Delete the project from the programme or
2. Allow the project to proceed in line with the approved programme and milestones

#### Institute of Advanced Manufacturing £5m overall- £2.5m 2016/17

A stage 2 application should have been submitted to the May IIB, however it was not received.

We have not received an update on the project since.

#### Recommendations

The IIB is asked to request a full and detailed report outlining how the project is to be progressed which will set a number of milestones that the promoter will adhere to in order to deliver the project.

The report will go to be presented by the promoter to the next IIB (early September) where the IIB will be asked to:

1. Delete the project from the programme or
  2. Allow the project to proceed in line with the approved programme and milestones
- or
3. Remove this years funding and request that the promoter deliver a full stage 2 proposal to the IIB by April 2017 using the remaining grant funding. Failure to deliver a successful Stage 2 business case by the April IIB meeting would remove the project from the programme.

#### Midland Mainline £5m overall - £2.5m 2016/17

The project was reported to the June IIB. The project will not spend this financial year and has a number of significant issues that have not been mitigated.

#### Recommendations

The promoter has already acknowledged that he will not be in a position to deliver the project this financial year and therefore the IIB is asked to:

1. Delete the project from this years programme and allocate the money to a new project or
2. Delete the project from this year's programme and look to fund from any future years underspend if it is available

Newark Southern Link Road £7m overall- £6m 2016/17

Phase 1 of the project was approved by the IIB last year. The promoter is making progress on the design of the second phase however we are advised that there are funding issues from the developer.

The full design, a detailed tender and identification of funding all need approval before any additional money is released.

Recommendations

The IIB is asked to request a full and detailed report setting how the promoter intends to deliver both projects. The report needs to set out milestones that the promoter will adhere to in order to deliver the project.

The report will go to be presented by the promoter to the next IIB (early September) where the IIB will be asked to:

1. Delete the project from the programme or
2. Allow the project to proceed in line with the approved programme and milestones

Derby Becketwell £4m total - £2.85m 2016/17

This is a new project, which was approved by the IIB in June. A stage 1 and stage 2 submission are required.

There are concerns that the stage 2 submission will not be delivered this financial year.

Recommendations

The IIB is asked to request a full and detailed report setting how the promoter intends to deliver both projects. The report needs to set out milestones that the promoter will adhere to in order to deliver the project.

The report will go to be presented by the promoter to the next IIB (early September) where the IIB will be asked:

1. Delete the project from the programme or
2. Allow the project to proceed in line with the approved programme and milestones  
or
3. Remove this years funding and request that the promoter deliver a full stage 2 proposal to the IIB by April 2017 using the remaining grant funding. Failure to deliver a successful Stage 2 business case by the April IIB meeting would remove the project from the programme.

Our City Our River £12 overall - £2m spent - £2.5m 2016/17

The project was approved last financial year and to be delivered in phases. Phase 1 is on site.

There are concerns that the project may not deliver the information to the Accountable Body/LEP in order to release this years funding for Phase 2.

### Recommendations

The IIB is asked to request a full and detailed report setting how the promoter intends to deliver both projects. The report needs to set out milestones that the promoter will adhere to in order to deliver the project.

The report will go to be presented by the promoter to the next IIB (early September) where the IIB will be asked to:

1. Delete the project from the programme or
  2. Allow the project to proceed in line with the approved programme and milestones
- or
3. Remove this years funding and request that the promoter deliver a full stage 2 proposal to the IIB by April 2017 using the remaining grant funding. Failure to deliver a successful Stage 2 business case by the April IIB meeting would remove the project from the programme.

### Next Steps

The Accountable Body has confirmed that we are not in a position to accelerate funds we did last financial year unless promoters can actually spend the money before 31<sup>st</sup> March into approved projects and therefore our options are limited to

1. Removing non-performing projects from the programme.
2. Identify new projects from the approved pipeline that can be delivered this financial year.

In addition to the high-risk projects there is also a programme underspend of £3.78m that needs allocating to a new project this year. Part of the underspend is the shortfall from the Derby Placemaking and Cycle project which was originally £6.5m, of which £0.75 has been committed to The Spot development and £4m allocated to the Becketwell project leaving a shortfall of £1.65m

In order to deal with the current underspend and the funding from the projects to be deleted for the programme LEP officers are pulling together a list of projects from the pipeline where promoters are in a position to deliver a Stage 1 and Stage 2 proposal and also deliver spend on the project this financial year.

The list will be presented to the next IIB meeting with for approval

Recommendations:

The IIB is requested to:

1. Note that the funds this year are at risk due to a large number of high profile projects that are failing.

2. Request project sponsors provide the LEP officers with a detailed report setting out how the promoter intends to deliver the project, how it will mitigate any risks and provide a detailed list of milestones that if not adhered to will ultimately result in the project being deleted from the programme. The report needs to be presented to the LEP officers/ Accountable Body by 15<sup>th</sup> August.

1. Request the attendance of promoters managing the above projects to attend the next IIB meeting to deliver the report.

Following the attendance of the promoter the IIB are asked agree the next steps of either:

a. Delete the project entirely

b. Reallocate the 16/17 funding to a new project, therefore reducing the overall funding available for the project. A list of new projects will be delivered to the IIB meeting for approval.

c. Remove this years funding and request that the promoter deliver a full stage 2 proposal to the IIB by April 2017 using the remaining grant funding. Failure to deliver a successful Stage 2 business case by the April IIB meeting would remove the project from the programme.

d. Agree to proceed with the project on the basis of the new milestones. If the project slips the LEP will then remove the project from the programme without further notice.

d. Ratify the list of projects to be delivered this year using the current underspend and the funds from the deleted or delayed projects.