

**Chief Executives' Group – North Yorkshire and York  
7 September 2017  
LEP update**

**1 Purpose of the Report**

The focus of this report is;

- The Local Growth Fund Delivery Update
- Increasing LEP Capacity
- LEP Energy Strategy
- Northern Cultural Regeneration Fund

**2 Local Growth fund**

- 2.1 The YNYER LEP Local Growth Fund now totals £146m. The first two years delivery has achieved targets year three is on track. However as previously reported there is significant risk in years 4 and 5 and the LEP Board will be considering whether to retain or de-allocate funds from high risk projects. To mitigate this risk a call form projects was issued over the summer with in excess of £100m expressions of interest.
- 2.2 A paper will be presented to the 15 September LEP Board summarising the expressions of interest together with proposals.  
**A copy of this paper is attached under separate cover (Agenda item 3, annex B)**
- 2.3 The LEP will be undertaking further work with key projects with a focus on strategic fit and in particular deliverability. This reflects the need to ensure the Local Growth Fund remains on track through to 2021.

**Chief Executives are asked to note the Local Growth Fund report being considered by the LEP Board on 15 September.**

**3 Increasing LEP Capacity – Capitalisation of costs**

- 3.1 This paper sets out a proposed methodology to provide the York, North Yorkshire and East Riding LEP with an additional income stream to mitigate the increasing management costs of administering the Growth Deal, thus increasing the sustainability and effectiveness of the secretariat to continue delivery operations.
- 3.2 Background** - The current position set out by Government is that Growth Deal capital funds cannot be utilised directly (eg. top-slicing funds) to cover the management costs of programme delivery and/or any other revenue running costs incurred by the LEP (for example: salaries (project development time), project appraisals etc.).

The difficulty has, therefore, been finding a solution that will not fall foul of National Audit Office requirements regarding the conversion of “capital to revenue” in accounting terms.

### 3.3 Proposal

The following sets out a process that overcomes the “capital to revenue” conversion by creating two distinct transactions but which requires the agreement of the LEP Board and Project Sponsor partners in order to be implemented. The proposal is as follows;

1. The Project Sponsor includes a project management cost (ie. the cost of their project manager’s time) as an eligible cost to the project as part of the business case submission. This is classed, therefore, as a capital cost of the project.
2. The Project Sponsor is reimbursed for such costs subsequently via expenditure claims made with the cost attributed to Growth Deal capital grant.
3. With the advance agreement of the Project Sponsor, the equivalent value of grant paid as project management costs is returned to the LEP as a “contribution”. There is, therefore, no additional cost or gain to the project sponsor as the transactional effect is neutral.
4. However, whilst the expenditure paid out from LEP to Project Sponsor is classed as capital (one distinct transaction), the “contribution” to the LEP from the Project Sponsor is revenue income (a separate distinct transaction)

The principle is that it is easier for the Project Sponsor to capitalise staff costs because they will hold the asset against which it is charged rather than the LEP. This model is operated by the Heart of South West LEP.

The benefits of this methodology are;

- it is efficient and non-time consuming given resource (ie. no time-recording recharges to calculate)
- it is easy to account for
- it maintains a direct link between an auditable costs paid out (capital) via an eligible claim for payment. Similarly, the return of an equivalent sum to LEP revenue as a contribution to running costs is now an entirely separate transaction.

- 3.4 Implementation** - It is proposed to apply this methodology with immediate effect once the LEP Board and YNYER Leaders Board have agreed to it. It will only be applied to projects that are “on-going” and those that are to yet to start. Schemes that have reached financial and/or practical completion will be excluded.

In the case of “on-going projects”, a funding agreement variation will be issued to increase the grant level to that equivalent of an agreed Project Manager cost after negotiation with the project sponsor. The example table, below, highlights the potential extra capital grant to be paid to projects over the remaining lifetime of the Growth Deal and the potential revenue contributions to be returned if implemented (£680k), assuming an average £50k Project Manager cost.

**Growth Deal  
Capitalisation of Costs**

Growth Deal Projects	GD Round	Project Status	Additional Capx Funding returned as Revenue				
			2017/18	2018/19	2019/20	2020/21	
North Northallerton Housing	Round1	On-Going	£50,000	£0	£0	£0	
Dalton Bridge	Round2	On-Going	£50,000	£0	£0	£0	
Bridlington Harbour & Marina	Round3	On-Going	£50,000	£0	£0	£0	
Craven College - Animal Management Centre	Round2	Yet To Start	£50,000	£0	£0	£0	
Yorkshire Arboretum Tree Health Centre	Round3	Yet To Start	£0	£30,000	£0	£0	
Scarborough ELITE	Round3	Yet To Start	£50,000	£0	£0	£0	
A1M J47 Improvements	Round2	Yet To Start	£50,000	£0	£0	£0	
A1079 Roundabout - Killingwoldgraves	Round2	Yet To Start	£50,000	£0	£0	£0	
Scarborough Housing & Employment	Round3	Yet To Start	£0	£50,000	£0	£0	
Skipton Employment & Housing Growth	Round3	Yet To Start	£50,000	£0	£0	£0	
Pocklington Flood Alleviation Scheme	Round3	Yet To Start	£0	£50,000	£0	£0	
York Central	Round3	Yet To Start	£0	£0	£50,000	£0	
Harrogate Central	Round3	Yet To Start	£0	£0	£50,000	£0	
Pickering Employment	Round2	Yet To Start	£0	£0	£0	£50,000	
<b>Total</b>			<b>£400,000</b>	<b>£130,000</b>	<b>£100,000</b>	<b>£50,000</b>	<b>£680,000</b>

**NYCC, as accountable body for the LEP, have also been consulted and have agreed this approach.**

**Ask: Local Authority Chief Executives are asked to agree this approach**

#### **4 YNYER Energy Strategy**

4.1 As agreed at the previous meeting Wallace Sampson has been providing CEX Leadership for the evolving LEP energy strategy. Work is ongoing engaging key partners and gathering the evidence base.

This includes working with LCR and Humber to ensure a joined up approach. An online communication forum is being created and I would encourage LA's to join to ensure their evidence base is included.

Hydrogen is an area where investment opportunities exist. In particular this is looking at the potential for Hydrogen stations along M62 corridor. Both Selby and East Riding are being engaged.

**Ask: Local Authorities are asked to note progress.**

#### **5 Northern Cultural Regeneration Fund**

5.1 Chief Executives will be aware of this £15m legacy fund from the Great Exhibition of the North.

5.2 Government is seeking one bid per LEP with 4-5 investments of £3-4m planned.

5.3 The LEP has set a closing date on 30 September for project to submit proposals. We would encourage early engagement from interested parties.

**Ask: Local Authorities are asked to support bids from their Local Area.**

## **6 Recommendations**

6.1 Local Authority Chief Executives are asked to;

1. Note the Local Growth Fund paper being submitted to the LEP Board on 15 September
2. Agree the proposed LEP approach to capitalising revenue.
3. Note progress with the LEP Energy Strategy
4. Support opportunities in their area for the Northern Cultural Regeneration Fund.
5. Approve the 2017 budget contributions.

James Farrer

Chief Operating Officer, York, North Yorkshire and East Riding Local Enterprise Partnership

September 2017

Appendices

Annex A – Local Growth Fund Financial Position by Project

Annex B – Local Growth Fund review September board

## Annex A: Local Growth Fund Financial Position by Project

<b>Expenditure</b>								
<b>Business Growth Capital (Indicative Budget Allocation £13,000,000)</b>	<b>2015/16 ACTUAL £m</b>	<b>2016/17 ACTUAL £m</b>	<b>2017/18</b>		<b>2018/19 projected £m</b>	<b>2019/20 projected £m</b>	<b>2020/21 projected £m</b>	<b>TOTAL £m</b>
			<b>ACTUAL £m</b>	<b>Projected £m</b>				
York Bio-Hub.		0.95	0.05	0.05				<b>1.00</b>
Bioeconomy grants				2.00	3.00	2.50	2.50	<b>10.00</b>
Lets Grow Grants				1.00	1.00			<b>2.00</b>
		<b>0.95</b>	<b>0.05</b>	<b>3.05</b>	<b>4.00</b>	<b>2.50</b>	<b>2.50</b>	<b>13.00</b>
<b>Skills Capital (Indicative Budget Allocation £9,600,000)</b>								
	<b>2015/16 ACTUAL £m</b>	<b>2016/17 ACTUAL £m</b>	<b>2017/18</b>		<b>2018/19 projected</b>	<b>2019/20 projected</b>	<b>2020/21 projected</b>	<b>TOTAL</b>
			<b>ACTUAL £m</b>	<b>Projected £m</b>				
Askham Bryan College - Agricultural Skills Centre	1.00							<b>1.00</b>
Askham Bryan College - Engineering	0.60							<b>0.60</b>
Selby College - Equipment	0.11							<b>0.11</b>
Harrogate College.	2.80	0.20						<b>3.00</b>
Selby College Trailblazers (GD3)		0.07						<b>0.07</b>
East Riding College Mechtronics (GD3)		0.23						<b>0.23</b>
Craven College Animal Management Centre				0.80				<b>0.80</b>
Craven College Electronic and Computing Lab				0.04				<b>0.04</b>
York College Internet of Things				0.02				<b>0.02</b>
DTA RADAR 2				0.01				<b>0.01</b>
Yorkshire Arboretum Tree Health Centre (GD3)					0.26			<b>0.26</b>
GIFHE - ELITE project Scarborough (GD3)				2.00	1.35			<b>3.35</b>
York College - HL Skills Engineering (GD3)				0.09				<b>0.09</b>
Unallocated Skills Capital							0.02	<b>0.02</b>
	<b>4.51</b>	<b>0.50</b>	<b>0.00</b>	<b>2.96</b>	<b>1.61</b>	<b>0</b>	<b>0.02</b>	<b>9.60</b>

Infrastucture Capital (Indicative Budget Allocation £60,613,138)	2015/16 ACTUAL £m	2016/17 ACTUAL £m	2017/18		2018/19 projected	2019/20 projected	2020/21 projected	TOTAL
			ACTUAL £m	Projected £m				
Housing at Middledeepdale, Scarborough	2.32							2.32
Skipton Employment - Flood Alleviation Scheme	1.20							1.20
Newlands Bridge	1.50							1.50
Growth at Catterick Garrison.	1.20	0.80						2.00
Housing and employment at Northallerton.	1.96	4.04						6.00
Malton Agri Business Park	0.62	1.48						2.10
Tadcaster Bridge		1.40						1.40
Dalton Bridge		0.23	1.57	1.57				1.80
Bridlington harbour (GD3)		1.90	0.11	1.60				3.50
A1/A59 Jct 47 improvements				2.47				2.47
A1079 Roundabout Improvements				1.00	3.00	2.30		6.30
Harrogate-York Rail Improvements					9.60			9.60
Scarborough housing and employment (GD3)					0.20	0.80	3.00	4.00
Skipton Employment and Housing Growth (GD3)				0.50	2.00	2.00	0.28	4.78
Pocklington Flood Alleviation (GD3)						0.50		0.50
York Central (GD3)						2.50	2.50	5.00
Harrogate Central						0.50	0.50	1.00
Pickering Employment							1.00	1.00
Selby Housing and Employment Olympia Park					5.00	3.00		8.00
North Yorkshire Rural Connectivity (NYCC Highways)	2.00	1.62				-2.00	-1.62	0.00
	<b>10.79</b>	<b>11.48</b>	<b>1.68</b>	<b>7.14</b>	<b>19.80</b>	<b>9.60</b>	<b>5.66</b>	<b>64.50</b>
<b>Transport (DfT Retained)</b> (Indicative Budget Allocation £40,700,000)								
Transport (DfT Retained) (Indicative Budget Allocation £40,700,000)	2015/16 ACTUAL £m	2016/17 ACTUAL £m	2017/18		2018/19 projected	2019/20 projected	2020/21 projected	TOTAL
North Yorkshire Rural Connectivity Grant (DfT)		7.00		5.00	5.00	5.00	2.00	24.00
East Riding Road Maintenance Scheme (DfT)		4.78		3.34	3.34	3.34	1.90	16.70

		11.78		8.34	8.34	8.34	3.90	40.70
<b>Total value of Growth Deal Expenditure</b>	15.3	24.70	1.73	21.49	33.75	20.44	12.09	127.77
<b>Cumulative</b>	15.3	40.00	41.73	61.49	95.24	115.68	127.77	

Income	2015/16 ACTUAL £m	2016/17 ACTUAL £m	2017/18		2018/19 projected	2019/20 projected	2020/21 projected	TOTAL
Section 31 LGF grant to LEP (DCLG)	15.3	12.92	10.20	10.20	23.65	6.51	14.63	83.21
Section 31 grant to LEP (DfTretained)		11.78	8.34	8.34	8.34	8.34	3.90	40.70
<b>Total LGF S31 Income</b>	<b>15.3</b>	<b>24.70</b>	<b>18.54</b>	<b>18.54</b>	<b>31.99</b>	<b>14.85</b>	<b>18.53</b>	<b>123.91</b>
<b>Cumulative</b>	<b>15.3</b>	<b>40.00</b>	<b>58.54</b>	<b>58.54</b>	<b>90.53</b>	<b>105.38</b>	<b>123.91</b>	
<b>Balance</b>	<b>0</b>	<b>0</b>	<b>16.81</b>	<b>-2.95</b>	<b>-4.70</b>	<b>-10.30</b>	<b>-3.86</b>	

Excluding £21.9m  
direct with HCA  
and DfT

Contracted/Low Risk Projects

Medium Risk projects/programmes

High Risk Projects/Programmes

## ANNEX B – LEP Area Investment Funds

Strategic Economic Plan Priorities	Local Growth Fund	Growing Places Fund	European Regional Development Fund	European Social Fund	European Agriculture Food and Rural Development	TOTAL
Priority 1: Business	£2m (capital)	-	£14.2m (revenue)	£3.7m (revenue)	£0.3m (capital)	£20.2m
Priority 2: Bio-economy	£10.5m (capital)	-	£14.6m (revenue/capital)	-	£5.1m (capital)	£30.2m
Priority 3: People	£9.6m (capital)	-	£2.7m (revenue)	£31.2m (revenue)	-	£43.5m
Priority 4: Place	£40.9m (capital)	£10m (capital)	£8.1m (capital)	-	£3.6m (capital)	£59m
Priority 5: Connectivity	£82.2m (capital)	-	£1.2m (capital)	-	-	£83.4m
<b>Total</b>	<b>£145.2m</b>	<b>£10m</b>	<b>£40.8m</b>	<b>£34.9m</b>	<b>£9m</b>	<b>£236.3m</b>