

**Director:** Melanie Corcoran, Director,  
Delivery  
**Author:** Lynn Cooper



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**Report** West Yorkshire and York Investment Committee

**Date** 16 June 2017

**Subject** Leeds City Region Growth Deal Delivery

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## 1. Purpose

1.1 To update the Committee on:

- the terms and conditions for receipt of the Growth Deal award 2017/18 including Key Performance Indicators;
- progress made in implementing, and achieving Growth Deal target expenditure 2016/17;
- the Growth Deal 2019/20 Review progress;
- profiled expenditure for the 2017/18 financial year; and also
- to seek agreement to endorse the revised estimate of profiled expenditure on the Programme up to 2020/21; and
- to agree the source of budget for the Finance Yorkshire Extension Fund.

## 2. Information

### Annual Funding 2017/18 and Key Performance Indicators

2.1 The Cities and Local Growth Unit has now confirmed the payment arrangements for the Growth Deal for 2017/18 which includes the Round 3 award. The revised payment schedule for the remainder of the Programme is as follows:

2017/18		2018/19	2019/20	2020/21
<b>April Payment</b>	<b>Subject to Conditions</b>	<b>Future indicative</b>		
£30,000,000	£42,228,329	£74,349,287	£75,510,320	£100,338,062
<b>Revised Total: £516,350,139</b> (includes £195,924,141 received in 15/16 and 16/17)				

2.2 The first payment of £30m for 2017/18 has been received, the second payment is dependent on achievement of conditions. These are in the form of seven Key Performance Indicators (KPI's) which have been jointly developed with the Cities and Local Growth Unit Relationship Manager. The draft KPI's have been reviewed by

Chief Executives, Directors of Development and the LEP Board and are currently subject to clearance within the Cities and Local Growth Unit. The KPI's are detailed in the attached **Appendix A**.

2.3 The Cities and Local Growth Unit are keen to see progress on two main issues which are addressed by the KPI's, these are:

- Capacity and resources to manage and deliver the programme;
- Delivery of projects including driving forward approval of funding and commencing on site delivery, as well as achievement of outputs and expenditure.

2.4 The achievement of these KPI's will be considered at a meeting with the Cities and Local Growth Unit that will take place at the end of October 2017 in order to allow release of the funding shortly after. City region partners will be using this mid-year review to seek to amend our assessment criteria to additional economic outcomes beyond jobs and homes.

The table below summarises the current progress towards achievement of each KPI.

Key Performance Indicator	Progress Towards Achievement
<b>KPI 1</b> - 75% of these posts will be filled by end June. Remaining posts will either be recruited internally or externally appointed by end September.	The business plan for the Delivery Directorate has been agreed. Job Evaluation of posts is ongoing. We are on track to appoint 75% of posts from existing staff by the end of June.
<b>KPI 2</b> - At least 10 appointments will be made, and a decision taken on how to cover remaining gaps (including possible appointment of a strategic partner to provide consultancy support), by end of July. Strategic partner (or equivalent) will be appointed by end of September.	Recruitment of a resource pool to support WY+TF has commenced with district partners. We are on track to make initial appointments by end July.
<b>KPI 3</b> - WYCA and LAs, with the HCA where appropriate, will identify by end June the additional capacity required to accelerate the delivery of housing and regeneration projects (and associated housing and employment outputs). Arrangements to address the identified capacity gap will be in place by end of September.	Discussions are ongoing with Directors of Development, required capacity will be identified in June. Further consideration is required to agree how this capacity gap will be addressed.
<b>KPI 4</b> - An additional £26m of growth deal projects will be fully approved and ready to	This includes the following projects expected to progress to

<p>move in to delivery* by end September, increasing the total value to £273.71m (53%) of the programme.</p>	<p>Decision Point 5 by end September: Business Growth Programme £9m, Strategic Inward Investment Fund £12.45m and Digital Sector Soft Landing Scheme £1m, Railway Station Car Parks £13.73m. <b>Total £36.18m</b></p>
<p><b>KPI 5</b> – 5 additional projects will commence by end September 2017 and 6 projects will be completed during Quarters 1 &amp; 2.</p>	<p><b>Projects which are due to commence are:</b> Hebden Bridge and Fitzwilliam Rail Station Car Parks, Strategic Inward Investment Fund, Digital Soft Landing Scheme, Business Growth Programme <b>Project due to complete are:</b> Leeds Printworks, Wakefield College, Selby College, Bradford College, Wakefield Eastern Relief Road and Aire Valley Park and Ride All eleven projects are on track to commence / complete as expected.</p>
<p><b>KPI 6</b> - 250 further jobs will delivered by end September 2017, bringing the lifetime total so far to 2,850.</p>	<p>Achievement of this KPI is expected to be realised by the Business Growth Programme, Access to Capital Grants and the Resource Efficiency Fund</p>
<p><b>KPI 7</b> - A further £20m LGF will be defrayed by end September and the LEP/WYCA will confirm progress at the mid-year review towards the £100m planned expenditure for 2017/18 (139% of GD1-3 allocation).</p>	<p>Currently working through spend profiles with sponsors. Although there are delivery risks, acceleration of schemes is being looked at and it is expected that targets will be met.</p>

### Investment Committee Workshop

2.5 A second Investment Committee members and officers workshop took place on 18 May 2017. The workshop:

- Concluded that it provided an excellent forum in which to share the priorities of LCR district partners and WYCA and raise awareness of proposed / ongoing projects;
- Agreed to hold an annual workshop to include a meeting and site visit(s);

- Agreed the development of marketing materials setting out the priorities of the City Region;
- Agreed a medium term resource plan to be developed aimed at addressing skills shortages;
- Agree to collate a resource pack that pulls together the handouts / key information for partners as presented at the workshop.

### Lifetime Expenditure Profile

2.6 The Cities and Local Growth Unit in consideration of the performance of the Leeds City Region Growth Deal has sought reassurance on when the balance of funding, paid by the Government to WYCA in 2015/16 and 2016/17, would be spent. In September 2016 the Investment Committee agreed a revised profile of expenditure for the Programme (based on GD rounds 1 and 2 award). Below is a further revised profile which now includes the additional Growth Deal 3 allocation, this takes into consideration a realistic profile based on risk and details when current underspend on annual payments will be utilised.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
	(£m)						
<b>Growth Deal Income</b>	£68.26	£127.66	£72.23	£74.35	£73.51	£100.34	£516.35
<b>Estimated GD Expenditure</b>	£38.02*	£84.77*	£100.15	£112.00	£114.14	£67.27	£516.35
<b>Difference</b>	£30.24	£42.89	-£27.92	-£37.65	-£40.63	£33.07	
<b>Balance</b>	£30.24	£73.13	£45.21	£7.56	-£33.07	£0.00	
* Actual							

2.7 It should be noted that this profile does not match the Dashboard in **Appendix B**. This is because the above profile is based on currently approved projects (at Decision Point 5) whereas the Dashboard includes estimates of pipeline spend that cannot be verified until the Full Business Case and Finalised Costs have been approved. If these projects come forward as forecast the Programme will spend earlier and will be subject to an earlier borrowing requirement. The £100.15m profiled for 2017/18 is in accordance with expenditure agreed with delivery partners for each project.

## 3. Growth Deal Expenditure and Delivery

### Final Outturn 2016/17

3.1 The final outturn spend on the Growth Deal 2016/17 is detailed below (note this is subject to confirmation in the WYCA statutory financial accounts).

		2016/17	
		Target Expenditure	Final Outturn Estimate
Priority 1 Growing Business		£11.62m	£12.27m
Priority 2 Skills Capital		£29.40m	£30.12m
Priority 3 Clean Energy and Economic Resilience		£1.30m	£0.87m
Priority 4a Housing and Regeneration		£4.34m	£5.52m
Priority 4b WYTF	In delivery	£32.28m	£21.94m
	Pipeline		£5.58m
Priority 4c Flood Resilience		£7.80m	£7.79m
WYCA Delivery Costs non transport (staffing and management costs which are not project specific)			£0.68m
<b>Total</b>		<b>£86.75m</b>	<b>£84.77m</b>

- 3.2 The final outturn of £84.77m represents achievement of 98% of profiled spend. A considerable amount of work has been undertaken both within WYCA, district councils and other external partners to achieve this position.

### **Project Progress and Risk Assessment 2017/18**

- 3.3 The Dashboard Report which details forecast and actual expenditure on each project is attached as **Appendix B** along with the WY+TF Pipeline which is **Appendix C**. At its last meeting the Investment Committee agreed that the RAG rating would be assessed using the following criteria:

- % forecast outturn against annual allocation
- % actual expenditure against quarterly spend profile
- risk of not achieving full expenditure of annual allocation (this will take in to consideration the amount of annual allocation included in the final quarter as expenditure heavily weighted in the last quarter of the year represents a significant risk of underspend)

- 3.4 It is now proposed that a further criteria should be added. Some of the expenditure forecast by project sponsors within this financial year is subject to approval of Outline and / or Final Business Case. Target dates for submission and consideration of these have or are due to be agreed. Where target dates are not achieved this puts at risk the ability to achieve expenditure within the year. It is proposed the achievement of agreed submission deadlines should be taken into consideration when assessing pipeline projects.

- 3.5 Individual programme managers within WYCA will now assess the RAG rating based on the above criteria in consultation with the individual delivery partners. The above criteria are utilised to assess the level of risk of each project achieving its target expenditure.

### **Overall Programme Risk**

- 3.6 The main risk to the Programme is the failure to achieve the £100.15m profiled expenditure for 2017/18. This risk is carefully monitored through ongoing review of individual projects and RAG rating of each one. The key areas of risk of achieving expenditure can be summarised as follows:

- New projects in the pipeline which are subject to approval (either of the full business at decision point 5 or development costs at decision point 2) in 2017/18: total £32.9m. At 33% of total forecast spend this represents the greatest risk to the programme. This must be assessed as a Red risk, mitigation involves ongoing support and additional capacity ensuring that projects are brought forward in accordance with agreed timetables.
- Slippage of projects currently in delivery e.g. Leeds College of Building. The majority of these projects will only be identified as the Programme progresses. The main mitigation will be to accelerate expenditure on other projects wherever possible.
- Projects where funding is approved but where legal agreement is not yet signed e.g. Huddersfield Incubation and Innovation Programme. Minimal risk to the overall Programme, whilst this is a Red risk for the project it is only an Amber risk for the Programme.
- Projects which are approved but where a decision on match funding is awaited before the project(s) can commence e.g. Energy Accelerator, this relates to very few projects and is a Green rated risk.

- 3.7 Profiled spend on the Growth Deal for 2017/18 is in accordance with expenditure per project which has been agreed with delivery partners. The monitoring for 2017/18 will commence with the first review of expenditure and progress up to May 2017.

### **Outputs and Achievements**

- 3.8 The Leeds City Region Growth Deal Programme is now entering its third year of delivery and a number of major projects have either reached completion or will do so in the over the next six months. These include:
- **Wakefield Eastern Relief Road** – the first major WY+TF transport project to be completed, opened on 27 April 2017

- **Aire Valley Park and Ride** – the second major transport project will be complete and opened this month.
- Four skills capital projects are due to be formally opened by October: **Selby College, Bradford College, Leeds City College Printworks and Wakefield College**.
- A number of station car park extensions are due to commence on site over the summer with **South Elmsall** already on site and due to open in June.

3.9 The Growth Deal rounds 1 and 2 has two main output targets to achieve: creation of 10,000 jobs and building 2,000 new homes. Each project within the Growth Deal must contribute to achievement of these outputs. The table below details the forecast timetable for achievement of these outputs based on the approved projects within the programme:

Jobs created or safeguarded	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/25	Total
Priority 1	225	2,304	663	639	344	317	0	4,492
Priority 2	0	0	5	2	6	24	0	37
Priority 3	0	0	0	1	2	2	10	15
Priority 4 H&R	0	0	100	515	1,787	1,412	300	4,114
Priority 4 WYTF	0	0	1,928	7,143	534	6,110	18,067	33,782
Priority 4 EcRes	0	75	250	175	22,500	0	0	23,000
<b>Total</b>	<b>225</b>	<b>2,379</b>	<b>2,946</b>	<b>8,475</b>	<b>25,173</b>	<b>7,865</b>	<b>18,377</b>	<b>65,439</b>
New homes created	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/25	Total
Priority 4 H&R	0	0	8	88	250	829	911	2,086
Priority 4 WYTF	0	0	0	350	96	2,951	10,058	13,455
<b>Total</b>	<b>0</b>	<b>0</b>	<b>8</b>	<b>438</b>	<b>346</b>	<b>3,780</b>	<b>10,969</b>	<b>15,541</b>

3.10 Some projects can demonstrate direct achievement of outputs, to date the Business Growth Programme has created 2,600 jobs (in accordance with the Growth Deal definition). However a number of the projects within the programme will, by their nature, only achieve these outputs indirectly. An example of this is that transport projects will not create sustainable jobs or new homes themselves but will instead open up areas where new jobs and homes will be created. In order to be able to claim these outputs all LEP's have to identify Growth Deal impact sites which are to be mutually agreed with the Government. Note: It is likely that there is some double counting in the figures above as some will be achieved directly and others indirectly, this issue will need to be addressed and will be considered in consultation with partner organisations once the impact areas are agreed.

- 3.13 The opportunity afforded through the agreement of the impact sites will be used to engage in further discussions with the Government to consider a wider acknowledgement of the outputs achieved by the Programme.

### **2019/20 Independent Evaluation of the West Yorkshire Plus Transport Fund Investment**

- 3.14 To date, eleven city-regions, including LCR, have agreed devolved funding arrangements with Government. These funds are subject to five-year Gateway Reviews to evaluate whether (and if so, the extent to which) locally determined investments and interventions have had a positive impact on economic growth – which will in turn inform Government decision-making by ministers regarding the allocation of future funding to the individual Localities.
- 3.15 As part of the Growth Deal arrangements, a 2019/20 Independent Evaluation of Gainshare Investment Funds has been agreed with the eleven City Regions. Leeds City Region’s review requirements relate solely to the West Yorkshire plus Transport Fund (WY+TF). Government have stated that subject to the outcome of the first Gateway review in 2019/20, they will provide up to £420m over the period 2021/22 to 2034/2035 for the West Yorkshire plus Transport Fund. This funding will be provided as up to £30m per annum from 2021/22 to 2034/35.
- 3.16 The success of the 2019/20 GD Peer Review is critical for WYCA in that ongoing funding will potentially be withdrawn if we are deemed to have not met the required criteria. It should also be noted that one of the other elements of the City Deal that secured this scale of funding for the WY+TF was a local contribution from the West Yorkshire partner authorities. It has already been previously agreed that part of the transport levy be set aside to create the starting point for funding that will support borrowing but it is expected in the next few years, as the scale of delivery increases, that further funding and borrowing on a more significant scale will be required. Further work is underway to establish the timing and quantum of these requirements against the projected delivery programme.
- 3.17 Consultants SQW have been appointed at a national level to undertake the progress reviews and are working to tight timescales to develop their approaches to reviewing progress at the National and Local levels. Initial work undertaken has recognised that a level of realism is required around what can be reported at Gateway 1 in 2019/20, since it is accepted that much of the spend to date will not be able to demonstrate outcomes by the time of the Gateway. Four key areas of focus flow from this emerging conclusion:
- Progress against stated milestones;
  - The delivery of outputs (and intermediate outcomes);
  - Increased emphasis around the growth in local capacity and cross-area working;
  - The need for data collection in real time.

- 3.18 The principles of a National Framework have been developed by SQW, and have been widely discussed and agreed by the eleven authorities involved on an 'in principle' sign-off basis. A summary is included at **Appendix D** to the report.
- 3.19 Following agreement of the National Framework, SQW will work with the LCR to develop a local Monitoring & Evaluation framework for the Transport Fund. The aim is to complete this work by early autumn. This 'Locality Framework' will be a critical document for WYCA and its LCR partners, and will be brought back to Investment Committee for consideration.
- 3.20 After the first Gateway in 2019-20, the independent impact assessment panel will continue to monitor the progress of the City Region on the delivery of the locally agreed pipeline of schemes against the dimensions of scope, budget and timing, and against other agreed targets. Monitoring will be aligned as far as possible with regular, wider Growth Deal monitoring and evaluation arrangements and reporting cycles.

#### **4. Growth Deal Budget**

- 4.1 In 2016 WYCA and the Sheffield City Region CA each agreed to allocate £2.5m for a Finance Yorkshire Extension Fund to support SME growth, via debt and equity finance, across the two city regions until the new Northern Powerhouse Investment Fund (NPIF) became fully operational. In July 2016, the Combined Authority agreed to the £2.5m allocation from the Growth Deal programme on the clear proviso that any funding not invested with SMEs prior to the launch of NPIF would be returned to WYCA. The Extension Fund commenced investment activity in early 2017 and closed at the end of March 2017 at which point NPIF was fully operational. The Extension Fund did not take up the full amount of available funding, in practice it provided debt finance to five businesses in Leeds City Region at a collective cost of £511,500. This will leverage £2.55m of private investment and create 19 new jobs. The investments will be monitored by WYCA staff over the coming months. The NPIF has now commenced so £511.5k represents the final cost of this project to the Growth Deal.
- 4.2 At the time of the approval the source of the Growth Deal funding for the Extension Fund was not clearly stated. In order to clarify the accommodation of the project within the Growth Deal programme it is proposed that it should be included within the allocation of the Access to Capital Grants programme which totals £15.7m. The Finance Yorkshire Extension Fund represents a clear strategic fit to Access to Capital Grants which provides finance for a number of separate projects that support businesses to access capital finance, these include: grant support for supply chain development, finance for business start-ups and grant funding to support business innovation.

#### **5. Financial Implications**

- 5.1 As set out in the report.

## **6. Legal Implications**

6.1 There are none arising directly from this report.

## **7. Staffing Implications**

7.1 There are none arising directly from this report.

## **8. Recommendations**

8.1 That the Investment Committee endorses the proposed KPI's for 2017/18 detailed in Appendix A.

8.2 That the Investment Committee endorses the revised spending profile for 2017/18 in paragraph 2.6.

8.3 That the Investment Committee notes the final outturn estimate of £84.77m for 2016/17.

8.4 That the Investment Committee endorses the inclusion of an additional criteria to be taken into consideration when considering the RAG rating of pipeline projects: achievement of target dates for submission of Outline and Final Business Cases.

8.5 That the Investment Committee notes the methodology for defining impact areas and therefore establishing the outputs for the Programme.

8.6 That the Investment Committee notes the progress relating to the 2019/20 review.

8.7 That the Investment Committee support the proposal to specifically allocate the Finance Yorkshire Extension Fund £511,500 (already approved) from within the Access to Capital Grants programme.

## **9. Background Documents**

9.1 None.