

Report Title	Strategic Investment Fund Overprogramming
Portfolio Holder	Portfolio Holder for Inclusive Economy and Third Sector
Summary of report	The report updates the Combined Authority on progress in investing the Strategic Investment Fund (SIF) and seeks approval to over-programme the Fund.
Is this report exempt?	No
Is this a Key Decision	Y In relation to expenditure or savings, it is likely to result in revenue in excess of £250,000 or capital in excess of £250,000.
Is the report urgent	No
Is this decision to be exempt from call in	No
Local Authorities affected	All Local Authorities;
Impact and implications of this report	
Financial impact	Yes see paragraph 6.1
Delegation (s) sought	None
Supporting the Corporate Plan	A Fairer City Region ✓
	A Stronger City Region ✓
Tick/x as appropriate	A Cleaner City Region ✓
	A Connected City Region ✓
	A Vibrant City Region ✓
Climate Change Implications	Yes see paragraph 6.3
Equality and Diversity implications	Yes see paragraph 6.4
Social Value implications	Yes see paragraph 6.5
Human Resources implications	Yes see paragraph 6.6
Physical Assets implications	Yes see paragraph 6.7
Information Technology implications	No
Legal implications	Yes see paragraph 6.8

Risk and Mitigation	Yes see paragraph 6.9
Privacy implications	No
Communication and consultation implications	Yes see paragraph 6.10
Contact Officer(s)	David Anderson, Interim Assistant Director - Investment and Delivery
Appendices	No –
Background Documents	No –

Liverpool City Region Combined Authority

Friday 3rd March 2023

Report of the Executive Director - Investment and Delivery and the Portfolio Holder for Inclusive Economy and Third Sector

STRATEGIC INVESTMENT FUND OVERPROGRAMMING

1. PURPOSE OF REPORT

- 1.1. The report updates the Combined Authority on progress in investing the Strategic Investment Fund (SIF) and seeks approval for a measured degree of over-programming of the Fund to ensure it can be expended fully over the course of the programme period (April 2021-March 2026).

2. RECOMMENDATIONS

- 2.1. It is recommended that the Liverpool City Region Combined Authority:
- (a) notes this report;
 - (b) notes that in addition to existing projects recent bids for funding have been received from Local Authorities and work is currently in progress to appraise these; and
 - (c) approves the proposed approach to over-programming of the Strategic Investment Fund by up to £60m noting that approval for any additional projects will be subject to the Combined Authority Assurance Framework and Combined Authority approval.

3. BACKGROUND

Economic Development Funding

- 3.1. In respect of general economic development funding which has not been provided for a specific sectoral purpose, the SIF is financed from two separate sources of funding:
- **Gainshare**, which comprises general devolved funding awarded in 5-year tranches of £150m. (The Combined Authority has now received 2 such tranches the latest covering the period April 21-Mar 26); and,
 - The **Getting Building Fund** which was awarded in Summer 2020 to progress construction projects as an economic response to Covid.
- 3.2. The total funding available from these sources is summarised in table 1 below.

Table 1: General Economic Development Funding

Fund	Amount
Gainshare (rounds I and II)	£300m
Getting Building Fund	£26.1
Total	£326.1

- 3.3. The Combined Authority previously had responsibility for Local Growth Funds. These are now fully invested and disbursed.
- 3.4. The Combined Authority manages several other funding streams which contribute to inclusive growth. These are summarised in Table 2 below.

Table 2: Other Funding

Fund	Amount (£m)	Purpose
Brownfield Land	61.0	Housing on Brownfield Land
UK Shared Prosperity Fund	52.84	Themes of: <ul style="list-style-type: none"> • Communities and Place • Supporting local businesses • People and Skills; and • Multiply numeracy programme
City Region Sustainable Transport Settlement	716.2	Transport
Levelling-up Fund	37.5	Transport
Commercial Funds (Chrysalis/UDF and Growing Places)	91.8	Commercial Investments

Current Situation

- 3.5. As shown in Table 1, above the City Region has received a total allocation of £326.1m in general economic development funding. This is divided between revenue funding (which can be used for day-to-day expenditure) and capital funding (for investment in long-term assets). A breakdown of revenue and capital allocations is shown in Table 3 below.

Table 3: Revenue/ Capital

Funding Source	Revenue	Capital
Gainshare (Rounds 1 & 2)	106.5	193.5
Getting Building Fund	-	26.1
Total	106.5	219.6

3.6. The status of these funds is explained below.

4. REVENUE FUNDING

4.1. The primary source of SIF Revenue comes from the revenue element of Gainshare. In addition, (as explained in the Combined Authority report of 14 October 2022 it is proposed that profits realised from the Chrysalis Fund should be added to the available revenue funding.

4.2. Revenue funds are used for 3 main purposes:

- To support economic development projects with a need for ongoing running costs.
- To fund 'pre-development costs' for potential future projects.
- To support (in part) Combined Authority management and running costs.

4.3. The current position in respect of the allocation of SIF Revenue is set out in the table four below. It should be noted that an adjustment has been made to take account of projects falling into the next gainshare window i.e., post 31 March 2026.

Table 4: Breakdown of allocated and committed revenue expenditure

Source of Funds	Amount (£m)
Gainshare Revenue	106.5
Chrysalis Profits available to be reinvested	3.3
Total Amount Available for Investment	109.8
Allocated	
Budgeted for CA Costs	32.2
Budgeted for Pre-Development	6.9
Approved Projects (including projects considered by the CA on 14 October).	65.0
Amounts in above falling after current gainshare period (Mar 26)	(1.8)
Committed Funds in current Investment Period	102.3
Uncommitted Funds Remaining	7.6

4.4. While uncommitted revenue funding amounts to £7.6m, £4.8m is proposed to fund the gap in funding of the Ways to Work Programme, an employment support programme that operates across the six Local Authorities and is currently funded by the European Regional Development Fund (ERDF). This funding comes to an end

in September 2023 and there will be a funding gap between then and April 2024 when the people and skills element of the UK Shared Prosperity Fund (UKSPF) will come on stream. The proposal to fund the gap between September 2023 and March 2024 is the subject of a separate CA report.

5. CAPITAL

5.1. The current budget position in respect of available capital funding is shown in Table 5 below.

Table 5 Allocation and Commitment of Capital Funding (rounds I and II)

Source of Funds	Amount (£m)
Capital Funds	219.6
Funds returned or anticipated to be returned in near term	8.8
Total Amount Available for Investment	228.3
Funds allocated to date	
Committed by the CA towards projects which have been approved.	231.5
Funding Remaining	(3.2)

5.2. The Combined Authority has previously adopted an approach of overprogramming of capital funds, noting that:

- There can be a significant interlude between projects being approved and funding being disbursed because of programme slippage.
- Some projects may not require the full amount of funding allocated to them or may secure some alternative sources of funding.

5.3. In the Gainshare period round 1, the Combined Authority over committed projects by a total of £60m. This level of over commitment was manageable because several large projects have taken longer to deliver than originally forecast. There has been 'optimism bias' on some delivery timescales and spending for several projects partially slip into the next gainshare round. The inclusion of several large complex projects in the current gainshare round is like round one and to ensure that funding is fully spent within the programme period it is therefore recommended that the Combined Authority approves, in principle, overprogramming of up to £60m in the current gainshare period. This will allow additional projects to be progressed to support economic development in the City Region in cases where there is a good prospect of early deliverability. All new applications to the SIF will, of course, continue to be properly appraised on the strength of each business case and prioritised based on their strategic fit with Combined Authority objectives, impact, and deliverability.

5.4. It can be confirmed that before any new project is considered for funding it will be subject to the Combined Authority's usual assurance framework approach, including formal approval by the Combined Authority.

5.5. In line with its Investment Strategy, the Combined Authority has sought to generate a financial return on its investment in projects, where this can be achieved alongside delivering benefit to the wider economy and supporting strategic objectives. Any financial return will be used to fund future investments, providing further economic benefits to the Liverpool City Region. For property and economic infrastructure projects, the Combined Authority will commonly incorporate mechanisms into its funding arrangements that allow it to share in any increase in land value or profit that the project may generate (often referred to as “overage”). In this financial year to date, the Combined Authority has achieved capital returns of £3,221,000 on its investments through these arrangements. All of these returns were received from private sector companies, and represent additionality in terms of public benefit, as the relevant investments were approved purely on the basis of the economic benefits they would deliver with no expectation of financial return.

6. IMPACT AND IMPLICATIONS

6.1. Financial

The proposed level of overprogramming for which approval is sought is manageable for three main reasons:

- Any contingent forward commitments or liabilities should be capable of being absorbed into the next round of gainshare funding.
- UDF and Chrysalis and commercial investments continue to provide funding released from loans to earlier projects and there should continue to be a flow of overage payments from some projects.
- If the Combined Authority were ever to be “wound up” by Government any residual contingent liabilities would pass to the appropriate successor bodies.

As previously stated, it can be confirmed that before a funding commitment is made to any new or additional project, the decision to proceed will be made subject to the Combined Authority’s usual assurance framework including formal approval by the Combined Authority.

In the current environment of high inflation and, by recent standards, relatively high interest rates it will be important to maintain a watchful eye over cost pressures and construction related inflation impacting upon existing approved SIF projects. Whilst liability for cost related risks lies with project sponsors, it may be prudent to retain a generic contingency budget in reserve. External work has been commissioned on construction inflation impacts and while the decision sought seeks to support up to £60m over programming, in principle, it may be that a lower figure becomes necessary should inflationary pressures require greater prudence.

6.2. Supporting the Corporate Plan

The SIF promotes and supports a range of projects that contribute to the aims of the Combined Authority’s Corporate Plan as listed below and more specifically to the strategic goals of the plan for prosperity.

6.3 Climate Change

This report has no direct impact in respect of Climate Change; however, the SIF will continue to support projects which contribute positively to mitigating climate change impacts such as measures to accelerate decarbonisation and promote renewable energy and climate change implications are considered as part of all such projects.

6.4 Equality and Diversity

This report has no direct impact in respect of equality and diversity issues. However, the SIF has positively supported projects in the past that directly address equality and diversity issues and the implications for equality and diversity will continue always to be considered in all applications for funding.

6.5 Social Value

The SIF actively takes Social Value into consideration as project business cases are being appraised and considered. The CA is currently developing its approach to maximising opportunities for social value across the board and, as a fresh prioritisation exercise is carried out on the SIF and a new investment strategy for investment is developed, more explicit criteria for considering social value in new investment proposals will be produced to sit alongside the existing Fund criteria.

6.6 Human Resources

The SIF is managed by a dedicated staff team in Investment and Delivery including officers with relevant expertise in property, financial investment management and business case appraisal. At present there is no requirement for additional HR resource within the team to accommodate the management of additional projects which are likely to come forward through a decision to manage some overprogramming of the fund.

6.7 Physical Assets

There are no new physical assets resulting from the decision sought in this paper. However, if new projects come forward because of overprogramming these could lead to the creation of new assets in public ownership or control.

6.8 Legal

Any new projects arising from overprogramming will continue to be managed through appropriate Grant Funding Awards and related legal agreements as is standard practice at present. Legal agreements will include provisions to enable a financial return on investment where appropriate.

6.9 Risks and Mitigation

A decision, in principle, to over commit up to £60m can be managed through a combination of delaying formal commitments until there is clarity on the quantum of the next round of gainshare; careful cashflow management and putting in place a temporary halt to new applications in the unlikely event that all existing commitments suddenly accelerate in terms of the timing of their delivery. There will be a close liaison between Investment and delivery, the PMO (Programme Management Office) function and Finance to ensure a responsibly managed programme. Tightening up future funding appraisal work through a robust approach to consideration of deliverability at the outset will also help to avoid the need for a high degree of over programming.

6.10 Communication and Consultation

There will be a need for communication with Constituent Councils and other applicant bodies

7. CONCLUSION

- 7.1.** This paper has provided an update on the status of the SIF and the related position on available revenue and capital funding. Approval in principle for over-programming of up to £60m is sought to enable the SIF to accommodate consideration of suitable new projects that meet the fund criteria of strategic fit, impact, and deliverability. The Combined Authority will be kept informed on a regular basis of progress in project delivery and fund expenditure.

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