

CABINET MEETING – 4 DECEMBER 2013

EXECUTIVE SUMMARY SHEET – PART I

Title of Report:

Regional Growth Fund Round 4 and Local Pinch Point Fund

Author(s):

Joint report of the Deputy Chief Executive and the Executive Director of Commercial and Corporate Services

Purpose of Report:

To seek Cabinet approval to progress a programme of infrastructure improvements that has secured (subject to final approval) external funding from the Government's Regional Growth Fund (RGF Round 4) and the Department for Transport's Local Pinch Point Fund (LPPF).

Description of Decision:

Cabinet is recommended to:

1. Acknowledge the terms of the RGF Final Grant Offer and the requirement to enter into a funding agreement on this basis;
2. Approve the Council entering into the following project agreements on the basis as set out in this report:
 - With the Highways Agency in relation to the works the Highways Agency are to carry out on the A19 / A1231 junction; and
 - With South Tyneside Metropolitan Borough Council in relation to the works to be carried out on the A19 / A1290 junction.
3. Authorise the Deputy Chief Executive and the Executive Director of Commercial and Corporate Services in consultation with the Cabinet Secretary to take all necessary steps to procure and deliver the planned investments subject, where appropriate, to the approval of the relevant grant awards.

Is the decision consistent with the Budget/Policy Framework? *Yes

If not, Council approval is required to change the Budget/Policy Framework

Suggested reason(s) for Decision:

The decision will enable the Council to secure significant investment in transport infrastructure and business development facilities, part funded by the Department for Transport (DfT), Department for Business, Innovation and Skills (BIS), and Department for Communities and Local Government (DCLG). The programme will enable significant investment in the City and help to deliver economic growth in accordance with the Economic Masterplan.

Delivery of this investment will support future economic development in Sunderland by improving access to strategic development sites that have the potential to attract significant private sector investment and create new jobs. Such improvements would otherwise need to be funded from the limited annual allocations for transport improvements in the Local Transport Plan.

Alternative options to be considered and recommended to be rejected:

The individual schemes that make up this programme have been developed over a period of time in order to contribute to and help deliver the Council's wider strategic and economic objectives. Alternative options for each scheme have been considered and rejected as part of the specification and design processes.

The recent approval of RGF and LPPF, and the possibility of securing ERDF grant, has presented a unique opportunity for the Council and its partners to take forward an ambitious programme of investments within a limited timeframe. There is an option not to accept the grant offers however as resources for some projects are not currently identified in the capital programme this would mean that these important projects would not proceed in the foreseeable future.

Alternative options for progressing the Port business support facilities have been considered and would require the proposals to be either scaled down or delayed pending the identification of other sources of external funding.

Impacts analysed;**Equality****Privacy****Sustainability****Crime and Disorder**

Is this a "Key Decision" as defined in the Constitution? **Yes**

Is it included in the 28 day Notice of Decisions? **Yes**

Scrutiny Committee:

REGIONAL GROWTH FUND ROUND 4AND LOCAL PINCH POINT FUND

JOINT REPORT OF THE DEPUTY CHIEF EXECUTIVE AND THE EXECUTIVE DIRECTOR OF COMMERCIAL AND CORPORATE SERVICES

1. Purpose of the Report

- 1.1 To seek Cabinet approval to progress a programme of infrastructure improvements that has secured (subject to final approval) external funding from the Government's Regional Growth Fund (RGF Round 4) and the Department for Transport's Local Pinch Point Fund (LPPF).
- 1.2 The report also sets out the indicative project costs and funding, and the procurement implications and contracting arrangements that are required to deliver the programme within the required timescale and budget.

2. Description of Decision (Recommendations)

Cabinet is recommended to:

1. Acknowledge the terms of the RGF Final Grant Offer and the requirement to enter into a funding agreement on this basis;
2. Approve the Council entering into the following project agreements on the basis as set out in this report:
 - With the Highways Agency in relation to the works the Highways Agency are to carry out on the A19 / A1231 junction; and
 - With South Tyneside Metropolitan Borough Council in relation to the works to be carried out on the A19 / A1290 junction.
3. Authorise the Deputy Chief Executive and the Executive Director of Commercial and Corporate Services in consultation with the Cabinet Secretary to take all necessary steps to procure and deliver the planned investments subject, where appropriate, to the approval of the relevant grant awards.

3. Introduction

- 3.1 In March 2013 the Council applied for a grant of £15.8m from Round 4 of the Government's Regional Growth Fund to fund a programme of investmentsthat support economic growth in the City and the aims of the Economic Masterplan.
- 3.2 The original bid included:
 - A package of transport infrastructure improvements on junctions serving the Enterprise Zone and the Nissan complex;
 - Further development of a section of the Sunderland Strategic Transport Corridor (SSTC) to improve connections between the manufacturing sites to the west of the city and the city centre;
 - The development of business support facilities in the Port area with the aim of capitalising on opportunities offered by key growth sectors such as oil, gas, sub-sea, and renewables.

3.3 Following a successful bidding strategy, funding has been provisionally secured from Government to deliver the economic development improvements outlined above. However, it has become apparent in recent weeks that the second project, SSTC Phase 3a, cannot be delivered within the funding timeframe. The following alternative options to utilise the funding have been submitted to BIS for approval:

- Allocating an additional £1.25m RGF to the Port activities. An application for European Regional Development Fund (ERDF) grant has also been submitted. However, we have been advised by DCLG that the 2007-2013 programme is now over-subscribed and that it is unlikely that recycled funding will become available to support the project. RGF therefore replaces the funding gap created by the lack of ERDF resource available regionally.
- Allocating a further £0.765m towards the Enterprise Zone project to fund preparatory work required to progress the further expansion of manufacturing in the area, building on progress with the Enterprise Zones. This will include a contribution towards further transport modelling works.

3.4 The latest funding contributions are as follows:

- Regional Growth Fund 4 (£12m)
- Local Pinch Point Fund (£1.169m)
- Council funding of £0.501m from its Local Transport Plan Integrated Transport Block allocation for 2014/15.
- Council funding of c. £0.95m from the allocation for Port business support facilities within the approved capital programme and a notional land value contribution of c. £0.2m.

It should be noted that these are provisional figures and that the grant award from RGF is subject to final approval from Government.

3.5 In addition, there is a requirement for project agreements to be drawn up with the Highways Agency and South Tyneside Metropolitan Borough Council in order to deliver specific schemes outlined later in this report.

4. Regional Growth Fund Round 4

4.1 Following the Government announcement on 11 July 2013 that the Sunderland RGF bid had been successful, the Secretary of State for BIS wrote to the Council on 13 September 2013 to indicate that, subject to a series of conditions, a grant of up to £12m would be awarded.

4.2 These conditions include:

- A valuation of the transport benefits associated with the project, and confirmation from Government that the total benefits of each element of the project are acceptable;
- Confirmation that the project does not constitute State aid, including but not limited to information on the procurement process;
- A satisfactory Operational Review by Government of the planned investments and programme management and governance arrangements;
- Final approval from HM Treasury;
- Preparation of an up-to-date Programme Delivery Plan which demonstrates the ability to achieve key milestones and complete the project.

Each of these conditions is being progressed as part of the detailed Programme Delivery Plan that has been submitted to Government.

4.3 The RGF grant award will support:

- transport infrastructure and feasibility works to support the Enterprise Zone (EZ) project (c. £7.908m);
- the business support facilities in the Port of Sunderland (c. £4.092m);
- programme management costs of £0.24m included in the above figures.

4.4 Access to the Enterprise Zone is affected by capacity constraints at key off-site junctions and the limited nature of the existing internal road network, which will become increasingly acute in the future as Nissan continues to expand. A number of measures are proposed to improve access and deliver the necessary capacity at key junctions including:

- improvements to the junctions of the A19 with the A1231, the A690 and A183 (refer to section 5 - Local Pinch Point Fund);
- the junctions of Washington Road (A1290) with Cherry Blossom Way and Nissan; and
- the A1290 junction located in South Tyneside.

These improvements are estimated to cost £8.813m to be funded from £7.143m RGF, £1.169m LPPF, and a Council contribution of £0.501m. In addition, a further £0.765m has been allocated to this project to contribute towards feasibility and design works necessary to support progress towards a further expansion of manufacturing in the area.

4.5 Improvements (c. £1.75m) to the A1290 / A19 junction fall within the South Tyneside local authority boundary and for this reason it will be necessary to enter into a project agreement that will define the basis on which these works will be delivered by South Tyneside Council or their agents. This will ensure that conditions for delivery imposed by RGF are appropriately passed to South Tyneside Metropolitan Borough Council.

4.6 The full proposal for the Port business support facilities covers the following elements:

- Unitised transit and cargo/asset storage facility for the import, export and storage of cargoes and assets for oil and gas, offshore renewable energy and subsea engineering;
- Business accommodation (Endurance House) – refurbishment of existing premises for use by Port-based businesses;
- Programme management / administration.

Total estimated costs are £5.242m, comprising £4.092m RGF (provisional award) and £1.15m SCC (of which £0.2m is a notional land contribution and therefore subject to independent valuation). The Council's contribution of £0.95m is included within the approved capital programme for Port infrastructure works. Other external sources of funding will continue to be explored to contribute towards the overall proposals.

- 4.7 The final business cases for the elements set out in paragraph 4.6, and their subsequent procurement and delivery, will be subject to approval by the Port Board. In addition, the drawdown of RGF grant and potentially other external funding secured are subject to the Council agreeing a satisfactory state aid analysis with BIS and other funding bodies.
- 4.8 According to the terms of the Conditional Grant Offer letter all infrastructure works funded by RGF must be defrayed by March 2015 (subject to ongoing negotiation) which will result in challenging timescales for the design, procurement and delivery of elements funded from this source. It will be necessary for the Council to enter into a funding agreement with Government in relation to the works to be carried out with funding provided by RGF.

5. Local Pinch Point Fund

- 5.1 The Secretary of State for Transport announced on 31 May 2013 that the Council's application through the Local Pinch Point Fund had been successful. On 28 August 2013, the Department for Transport (DfT) wrote to the Council to confirm that ministers had agreed to grant the scheme funding approval.
- 5.2 As part of this approval, the DfT will provide funding of £1.169 million in 2014/15 towards an estimated total scheme cost of £1.67 million. The Council will therefore be expected to make a local contribution of £0.501 million towards the cost of this scheme.
- 5.3 In addition, as is the normal approach taken by the DfT, the Council will be solely responsible for any expenditure over and above the DfT's maximum funding contribution, which will be paid as a capital grant under Section 31 of the Local Government Act 2003.
- 5.4 The projects to be part funded by the Local Pinch Point Fund consist of improvements to the junctions of the A19 Trunk Road with:
- A690, Durham Road (£0.87 million)
 - A183, Chester Road (£0.8 million)
- 5.5 In addition, the Highways Agency successfully bid separately for funding through the Local Pinch Point Fund for improvements to the junction of the A19 with A1231 (Wessington Way). This scheme will be delivered by the Highways Agency.
- 5.6 Improvements to all of the above junctions include installation of replacement traffic signals on each roundabout to ease congestion at peak times using ICT based applications.

6. Reasons for the Decision

- 6.1 The decision will enable the Council to secure significant investment in transport infrastructure and business support facilities, part funded by the Government. The programme will enable significant investment in the city and help to deliver economic growth in accordance with the Economic Masterplan.
- 6.2 Delivery of this investment will support future economic development in Sunderland by improving access to strategic development sites that have the potential to create jobs. Such improvements would otherwise need to be funded from the limited annual allocations for transport improvements in the Local Transport Plan.

7. Alternative Options

- 7.1 The individual schemes that make up this programme have been developed over a period of time in order to contribute to and help deliver the Council's wider strategic and economic objectives. Alternative options for each scheme have been considered and rejected as part of the specification and design processes.
- 7.2 The recent approval of RGF and LPPF has presented a unique opportunity for the Council and its partners to take forward an ambitious programme of investments within a limited timeframe. There is an option not to accept the grant offers, however, as resources for some projects are not currently identified in the capital programme this would probably mean that these important projects would not proceed in the foreseeable future.
- 7.3 Alternative options for progressing the Port business support facilities have been considered and would require the proposals to be either scaled down or delayed pending the identification of other sources of external funding.

8. Financial Implications

- 8.1 There is a requirement to provide a local contribution alongside the Local Pinch Point Fund for improvements to the junctions of the A19 Trunk Road with the A183 and the A690. The DfT will provide funding of £1.169 m in 2014/15 towards an estimated total scheme cost of £1.67 million, leaving the council to fund a local contribution £0.501m. This will be met from the Local Transport Plan Integrated Transport Block for 2014/15.
- 8.2 The Council's contribution towards the business support facilities is currently estimated at £1.15m. This comprises a notional land value contribution of £0.2m and £0.95m identified within the approved capital programme for Port infrastructure works. Additional Council resources may be required in the event that the external funding being sought is not achieved.
- 8.3 The transport infrastructure improvements funded by both RGF and the LPPF include the provision of several new traffic signals installations. These will incur ongoing annual revenue requirements to cover the cost of maintenance and energy. The cost pressure will be considered as part of the Medium Term Financial Strategy.
- 8.4 The revenue implications arising through the business support facilities will be met by the Port through the additional income that these facilities will provide.

9. Procurement

- 9.1 The most appropriate procurement strategy has been identified for each scheme. This is set out in Paragraph 9.3. The specific works or services to be procured include:
- Highways design and infrastructure works;
 - Site investigation and specialist design services;
 - Investment in business accommodation and refurbishment, including fit-out;
 - Investment in associated site infrastructure works; and
 - Professional fees

9.2 Reducing procurement timescales by using appropriate public sector frameworks for tendering exercises will be explored in order to meet the delivery timeframe for RGF. The method of procurement for the transport infrastructure improvements and business support facilities will also be dependent upon the value of the works in each case. In order to ensure compliance with Public Procurement Legislation and the Council's Procurement Procedure Rules, Corporate Procurement and the Law and Governance Teams will be consulted throughout the project.

9.3 The proposed procurement strategy for the two projects is as follows:

- **Enterprise Zone transport infrastructure** - it is proposed that these will be designed and delivered in-house by the Council's Street Scene Team. The planned infrastructure works to the A19 / A1290 / Downhill Lane junction are located within South Tyneside. South Tyneside Council will therefore be responsible for the procurement and delivery of these works as the local highway authority in discussion with the Highways Agency. In addition, the preparatory work required to support the further expansion of manufacturing in the area is proposed to be commissioned using existing public sector frameworks or through competitive tendering.
- **Port business facilities** – it is proposed that these works will be carried out through a competitive procurement process in accordance with the appropriate procurement legislation and the Council's Procurement Procedure Rules. However the final decision on the procurement and delivery of the Port projects will be made by the Port Board as part of the consideration of the final business cases for these projects.

10. Risk Analysis

- 10.1 A detailed risk register has been produced for each key project within the programme. Each register will be reviewed and updated on a quarterly basis by the relevant project group and will form an integral part of the project management process.
- 10.2 Some risks at programme level are beyond the direct control of the Council. For example, works may be delayed because others have not been able to deliver their elements of work on time, causing a consequent increase in costs. Adverse weather conditions will also impact on programme delivery. The cost estimate will therefore be reviewed on a regular basis.
- 10.3 The successful implementation of the programme is subject to the terms and conditions of the grant offer letters, including potential clawback of grant if these conditions cannot be satisfied. In addition, the final award of RGF in respect of the Port investment is subject to a satisfactory analysis of state aid by the Council and Government. This work is ongoing and the findings will be presented to the Port Board as part of the consideration of the business cases.
- 10.4 The timetable for the delivery of the proposed works is extremely tight. Delivery of the 2 key projects must take place between December 2013 and March 2015, unless advised otherwise by Government. The Council has been advised that full defrayal of RGF grant must be achieved by March 2015. However, this is subject to confirmation with Government, bearing in mind that the standard period for retentions is 12 months after practical completion of works.

11. Relevant Consultations

- 11.1 Liaison and consultation has taken place with the Highways Agency in relation to possible implications of the scheme for the A19 Trunk Road, at the junctions with the A183, A690, A1231 and A1290 during the development of the projects set out in this report. Feedback from this consultation was broadly supportive of the proposals, although the Highways Agency expressed a desire to see the control of traffic movements joining the A19.
- 11.2 Nissan has been consulted on the transport improvements in the area and communications will be ongoing to ensure that the works are progressed effectively and do not impact on operations in the locality.

12. Project Management Methodology

- 12.1 Project management of the transport infrastructure and business support improvements set out in this report will be undertaken in accordance with the Council's document "Framework for Successful Projects – Sunderland City Council Methodology".

13. List of Appendices

None

14. Background Papers

None

