

REQUEST FOR DIRECTOR DECISION – DD1368

Title: FE Capital Round 1 and technical due diligence and monitoring

Executive Summary:

Subsequent to LEP and IPB approval, this paper sets out the request for approval of 14 projects from Round 1 of the FE Capital Investment Fund with grant award of up to £53.5m including capital expenditure of £39,601,401 plus increase of cost due to pre-agreement inflation and any other allowance recommended by technical advice and the consequent formation of funding agreements with respective Further Education providers. The paper also requests approval for expenditure of up to £627,000 revenue funding to cover costs of technical and specialist due diligence in support of assessment of proposals for future rounds and independent monitoring for the Further Education (FE) Capital Investment Fund.

Decision:

The Executive Director approves through their delegated authority provided under the provisions contained in MD1420:

1. Capital expenditure of up to £53.5m which includes allocations of £39,601,401 plus pre-agreement increase of cost due to inflation and other recommended increases and the consequent formation of funding agreements with respective Further Education providers. Any such increase in allocation will be formally approved by DD under delegation from MD1420.
2. Revenue expenditure of up to £627,000 on technical due diligence and independent monitoring support for the following areas:
 - Up to £350,000 for Independent monitoring surveying;
 - Up to £127,000 for Technical Due diligence including cost consultancy and building advice;
 - Up to £150,000 for architectural and sustainability advice.

which is funded by £600,000 from the FE Capital revenue budget and £27,000 allocated by MD1420 from the Growing Places Fund.

AUTHORISING DIRECTOR

I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities.
It has my approval.

Name: Fiona Fletcher-Smith

Position: Executive Director, Development Enterprise and Environment

Signature:

Date:

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1 The London Enterprise Panel (LEP) has been awarded £55m in 2015/16, an indicative £65m for 2016/17 from Growth Deal 1 and a further indicative £38m from 2017/18 as part of Growth Deal 2 for capital investment in further education colleges and providers. This paper seeks a decision on 15 applications for funding from the 2015/16 provision. This FE Capital Investment Fund is for a programme of capital expenditure on infrastructure which will facilitate the delivery of further education services in London.
- 1.2 In November 2014, IPB approved the proposed approach to allocation of funding through bidding rounds. Following this in January 2015, 16 full applications were received and evaluated by an internal officer panel. At its March meeting, the London Enterprise Panel provided in principle approval for 16 Round 1 projects. Approval was subject to finalisation of specialist due diligence of applications (including cost, building surveying and valuation advice) and understanding any implications for project proposals of reductions to 2015/16 Skills Funding Agency funding allocations which were announced in March. The LEP agreed that the results of this work would be reported to the FE Capital Steering Group who would consider and approve recommendations where any significant issues arise.
- 1.3 The outcome of this work was reported to the FE Capital Steering Group in May 2015 and the recommendation that 15 projects are endorsed for funding was agreed (Part 2 of this Decision includes further information). The below table shows the indicative grant amounts. Please note that there are now 14 projects that seek approval. Further due diligence of one project is now required therefore a separate Director Decision will be sought for this project in due course.

Table 1. Please note amounts are subject to change due to increase of costs due to pre-agreement inflation and any other allowance recommended by technical advice

Project No.	Applicant	FE Capital indicative grant amount
1	Westminster Kingsway College	£700,000
2	College of North West London	£6,500,000
3	Barking & Dagenham College (Priority 1) Construction	£373,000
4	Barnet and Southgate College	£6,088,438
5	West Thames College	£912,578
6	City of Westminster College	£3,666,668
7	South Thames College	£472,499
8	Uxbridge College	£196,000
9	Richmond upon Thames	£16,335,000
10	East London Advanced Technology Training	£86,880
11	Croydon College	£1,500,000
12	Harrow College (Digital)	£100,000
13	Bromley College	£850,214
14	Harrow College (Health)	£1,820,124
Total		£39,601,401

- 1.4 The Steering Group, the LEP and IPB have also agreed that any increase in project cost where this is recommended by FE Capital Specialist consultants is to be funded by FE Capital grant only as opposed to funded by the applicant given the budgetary pressures experienced by the sector and that project cost may be increased for pre-agreement inflation due to the delay to funding decision and this will be funded by FE Capital grant only. This means that project funding allocations are subject to small increases, up to funding available for commitment at this time (£53.5m).
- 1.5 At the June 2015 IPB, the stage 1 and 2 were approved.
- 1.6 Round 1 projects have been discussed with BIS as will all future projects through reporting and monitoring. However, there is no requirement for Government approval as funding has been delegated to the GLA. There is also a Memorandum of Understanding with the SFA and through this officers are made aware of potential mergers and closures.
- 1.7 The below table shows how payment will be profiled for the Round 1 projects. Please note FE Capital Request are subject to change, following recommendation that budgetary pressures experienced by the sector and that any pre-agreement increase in inflation allowance resulting from delay to funding decision will be funded by FE Capital grant only. Changes will be confirmed with costs consultants, approved through DD and fixed in the Funding Agreements (i.e. the currently unallocated £13.9m is not a project contingency).

Table 2

	2015/16 £000	2016/17 £000	2017/18 £000	Total £000
FE Capital Grant allocation for Round 1	15,161	17,906	6,534	39,601

- 1.8 The FE Capital Funds provided by Government are capital only and as such there is a revenue requirement to support delivery of the programme. MD1420 approved in principle £147,000 from the Growing Places Fund budget to support specialist due diligence costs of the programme. DD1307 provides full approval for £120,000 and approval is sought by way of this Director Decision for the balance of £27,000.
- 1.9 It is proposed that expenditure of up to £627,000 is approved for further and enhanced specialist due diligence services and independent monitoring services. Currently, cost consultants, building surveyors and valuation consultants are employed to support due diligence and approval for £127k is requested (in addition to the £120,000 already approved) to support further costs of cost consultants and building advice. It is proposed that architectural and sustainability services are also procured to advise on the extent to which the proposals address design quality and sustainability in relation to the core priorities and intended outputs and benefits of the FE Capital Investment Fund. Approval is sought for £150,000 to support these costs for due diligence of Round 2 and future rounds. Independent monitoring surveyor services are sought to provide appropriate assurance that the requirements of the funding agreement are met with regards to build time, cost, and quality. The cost of IMS services for the life of the fund is anticipated to be approximately £350,000.

2. Objectives and expected outcomes

- 2.1 The London Enterprise Panel's Growth Deal for London established a comprehensive request to HM Government to invest in the Further Education (FE) estate in London.
- 2.2 The Prospectus, launched in November 2014, invited applications to deliver against the LEP's Jobs and Growth Plan priorities as well as the following priorities and objectives specific to the FE Capital Investment Fund:
- a. Renewal, rationalisation and modernisation of the FE estate
 - b. Creation of space which is versatile, fit for purpose, transformational and tolerant to change
 - c. Proposals that help to meet the ambitions of the Mayor's Smart London Plan or which support LEP priority areas
 - d. Proposals focused on progression to the highest levels of vocational study
 - e. Proposals that demonstrate collaboration with schools, other education providers and employers
- 2.3 The approximate outcomes delivered per year as facilitated by the investment are summarised below. Table 3 quantifies the outputs in the first financial year following completion of all Round 1 projects (2017/18).

Table 3

Output/Outcome		2017/18
1	No. of learners supported (inc. 16-18 Sixth Form, specialist vocational, Adult classroom vocational)	17,000
2	Cost savings - Energy Efficiency(£)	£557k
3	No. of students progressing to Jobs in new skills	1000
4	No. of Apprenticeship Starts (inc. 16-18yrs old, 19+, High Level Apprenticeship Starts)	2000
5	No. of 16-14 NEET engaged	700
6	No. of LLDDs supported	800
7	No of new SME's/Businesses supported	400

3. Equality comments

- 3.1 All projects will be developed and delivered in compliance with relevant Codes of Practice and in line with the requirements of the public sector equalities duty.
- 3.2 Projects have been required to submit the institution's equal opportunities policy as part of the Detailed Application process.
- 3.3 Responses to equality requirements raised in the due diligence process have been approved by the GLA Diversity and Social Policy team.
- 3.4 The FE Capital Investment Fund seeks to address issues of modernisation and rationalisation of FE Estate. In doing so, specific equality benefits include;
- a. Increase in accessibility of college estate (measured in m²)
 - b. Increase in opportunity for Learners with Learning Difficulties and Disabilities to be engaged and retained in vocational and academic study.

- c. Increase in course provision, enabling more learners per annum.
- d. Increase in apprenticeships and traineeships, allowing students from deprived areas an economic incentive when obtaining a qualification.

4. Other considerations

a) key risks and issues

- 4.1 Funding required to deliver preferred projects exceeds that available. In order to mitigate the risk that the FE Capital Fund is unable to fund all preferred projects, a two stage approval process has been developed. Projects have been required to submit detailed applications to test costs, deliverability and to undertake detailed due diligence, tested by independent consultants where appropriate. Any queries resulting from due diligence have been raised with the project and a resolution or mitigation has been provided. Where necessary, officers have analysed match funding proposals to ensure that funding is available or can be obtained. Furthermore, appropriate break clauses will be included in the Funding Agreement to allow for the eventuality that certain projects are unable to obtain the required match funding. In addition, pre-agreement inflationary project cost increase is allowed to mitigate impact resulting from a delay into the GLA's approvals process.
- 4.2 Projects are not deliverable. Detailed Applications have been scored on the basis of detailed information on deliverability and affordability, including assessment by independent due diligence consultants. Any queries resulting from due diligence have been raised with the project and a resolution or mitigation has been provided. In addition, the proposed procurement of an Independent Monitoring Surveyor services will provide appropriate assurance that the requirements of the funding agreement are met with regards to build time, cost, and quality before a project is able to drawdown funds.
- 4.3 Proposed projects do not deliver outputs. All bids have been assessed against this criterion initially at the Expression of Interest and furthermore for robustness of the output and outcome data at the Detailed Application Stage, including understanding the implications of recent SFA budget cuts from projects. However, there is a risk of further cuts to future budgets which may have implications on the outputs/outcomes that projects can deliver further. To mitigate this, bidders have been asked to present plans that are flexible and tolerant to change, which are assessed by internal evaluators and specialist consultants

b) links to Mayoral strategies and priorities

- 4.4 Applications received have been assessed on their alignment to the Mayor's Smart London Plan, Economic Development Strategy and links to the London Plan. In addition, applications have been assessed on the ability to meet the ambitions of the LEP Jobs and Growth Plan in the following criterion;
 - skills and employment: to ensure that Londoners have the skills to compete for and sustain London's jobs;
 - micro, small and medium sized enterprises: to support and grow London's businesses;
 - digital creative, science and technology: for the capital to be recognised globally as a world leading hub for science, technology and innovation – creating new jobs and growth; and
 - Infrastructure: to keep London moving and functioning.

c) Impact assessments and consultations.

- 4.5 A Memorandum of Understanding (MOU) between the GLA and SFA has now been signed. This MOU will provide an extra level of assurance by verifying financial statements and providing information that the GLA may not otherwise receive.

- 4.6 The FE Capital Survey has commenced and is expected to be completed in mid-July. This will provide an evidence base to identify opportunities and support the decision making process for the programme. This survey will support providers and the LEP in identifying any key opportunities for rationalisation and will also explore potential developments around specialisation within the sector.

5. Financial comments

- 5.1 Government grant funding of £55 million has been received by the GLA for the FE Capital programme and there is a capital budget of £53.5 million and revenue budget of £1.5 million. The total value of round 1 grant bids recommended for approval as capital expenditure in this decision is £39.6 million and although the amounts are not known at this stage, the remaining headroom will be available for any increases in project cost allowances recommended by specialist consultants or inflation up to the total budget of £53.5 million. Costs in respect of the latter will be modelled once consultants' final input has been received and changes approved formally by DD before funding agreements are signed.
- 5.2 The total estimated cost of these projects is £125.6 million so match funding of £86.0 million is to be provided and this will need to be confirmed as part of the funding agreements with individual colleges which are to include break clauses in the event that this is not made available. Expenditure will be incurred over a number of years and the aggregate indicative profile of this will also be confirmed once funding agreements are concluded. Further comments on financial risks are included in part 2 of this decision.
- 5.3 The proposed revenue expenditure of £627,000 for due diligence and independent monitoring support will be funded £600,000 from the £1.5 million FE Capital revenue budget and £27,000 from the GPF revenue budget. Indicative Government funding for the FE Capital programme runs up to 2020-21 and this revenue expenditure and the remaining unallocated revenue budget will therefore need to be utilised over the whole of this period.

6. Legal comments

- 6.1 The foregoing sections of this report indicate that:
- 6.1.1 the proposals in respect of which the Director's approval is sought may be considered to fall within the GLA's powers to do such things as are facilitative of or conducive to the economic and social development in Greater London;
- 6.1.2 in formulating the proposals in respect of which a decision is sought officers have complied with the GLA's related statutory duties to:
- a) Pay due regard to the principle that there should be equality of opportunity for all people;
 - b) Consider how the proposals will promote the health of persons, health inequalities between persons and to contribute towards achievement of sustainable development in the United Kingdom; and
 - c) Consult with the appropriate bodies.
- 6.2 Section 1 above indicates that the contribution of funding amounts to the provision of grant funding and not payment for works, supplies or services. Officers must ensure that:

- a) the funding is distributed fairly, transparently, in accordance with the GLA's equalities and in manner which affords value for money in accordance with the Contracts and Funding Code; and
 - b) appropriate funding agreements are put in place between and executed by the GLA and the recipients of the funding before any commitment to fund is made.
- 6.3 All services required shall be procured by Transport for London Procurement (who will determine the detail of the procurement strategy to be adopted) in accordance with the GLA's Contracts and Funding Code.
- 6.4 Officers shall ensure that they liaise with legal Services in the preparation and execution of all contracts for services being procured

7. Planned delivery approach and next steps

- 7.1 All services are to be competitively procured (in accordance with the GLA's Contracts and Funding Code) from an existing available framework on a call-off basis and services required will be appropriate to the scale, complexity and risk associated with each project. The services of technical due diligence (including cost consultancy and building advice) and monitoring services are to be tendered as one contract. A further contract will be tendered for architectural and sustainability advice.
- 7.2 The GLA will enter into grant agreement with the FE Capital provider for each project. Individual projects will be required to monitor and report their progress on a monthly and quarterly basis and each will be required to complete an evaluation at following completion.

Activity	Timeline
Enter into Funding agreement	July 2015
Announcement	July 2015
Delivery	July 2015 – March 2018

Appendices and supporting papers: none

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary.

Note: This form (Part 1) will either be published within one working day after approval or on the defer date.

Part 1 Deferral:**Is the publication of Part 1 of this approval to be deferred? NO**

If YES, for what reason:

Until what date: (a date is required if deferring)

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – YES

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

Anna Morell has drafted this report in accordance with GLA procedures and confirms that:

✓

Assistant Director/Head of Service:

Debbie Jackson has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Financial and Legal advice:

The Finance and Legal teams have commented on this proposal, and this decision reflects their comments.

✓

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature

Date