

# ABERDEEN CITY REGION DEAL:

Powering Tomorrow's World

<b>Report Name</b>	<b>ACRD Funding Update with UK/SG</b>
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<b>Date of Meeting</b>	24 <sup>th</sup> July 2020
<b>Governance</b>	City Region Deal Joint Committee

<b>1:</b>	<b>Purpose of the Report</b>
<p>At February's Joint Committee, Officers advised the Joint Committee that there had been various communications with the UK/SG regarding the Deal's funding, including:</p> <ul style="list-style-type: none"><li>• Roll-over of funding risks and mitigation</li><li>• Proposals on how financial governance can support cashflow</li><li>• To submit an updated Profile of Spend (Appendix A)</li><li>• To submit opportunities to accelerate spend this financial year</li><li>• Verbal update for Deals to capitalise resource where possible</li></ul> <p>This report outlines the progress to date along with recommendations moving forward.</p>	

<b>2:</b>	<b>Recommendations for Action</b>
<p>It is recommended that the Joint Committee:</p> <ol style="list-style-type: none"><li>Agree the options 'Cashflow Options for all projects' outlined in Section 3.1.v</li><li>Agree with the proposed solution to Scottish Government, outlined in Section 3.2, 'Proposals for improved Financial Governance', of an annual payment of the sum set out in the Grant Letter at the start of each financial year.</li></ol>	

### **3.1: ACRD Funding**

The following note in italics, is split into 3 sections:

**(i) Scottish Government has given written confirmation to the Chief Officer that “the total deal funding is a commitment that will not be renegeed on”**

At the BioHub Checkpoint Review it was reported that roll-over of funding was not guaranteed. The Deputy Director, Regional Economic Development has replied to the Chief Officer, City Growth and a copy of the note is provided below:

(i) Whilst it is reassuring to receive confirmation of the committed funding for the deal, it should not come as a surprise and therefore this is noted but not seen as new information. *“As discussed by phone, a rollover of funding between years is possible – the total deal funding is a commitment that will not be renegeed on.*

**(ii) There is a risk that if projects do not spend as profiled then this could have implications on when future years funding can be drawn down from SG**

It is of more concern to note that the management of funds across years does not attract the same commitment. At this stage, the availability of funding must be assumed over the life of the deal, as per the statement at (i) above, but the timing of this funding could create cashflow issues for partners.

*However, the SG has incorporated the originally agreed programme financial profiles within future year capital plans. Therefore, we encourage you to try where possible to spend in the planned financial year, managing any fluctuations within original programme financial profiles across the deal term, as any underspend that is pushed into future years will have to be issued in a manner that is affordable for SG across the whole deal landscape. As such we cannot guarantee that an underspend can be reallocated to a year of your choice and may have to be spread across several future years. Regional partners ought to be aware that any alterations to the profile may need to be managed by them in the first instance.*

*A joint government letter is being issued to all deals in delivery seeking information on financial profiles in order to understand the impact Covid 19 has had. A response to this letter with revised programme financial profiles would be greatly appreciated so that an SG assessment of Covid related impacts on future year financial implications can be undertaken and appropriate response made.*

(iii) The sections of the note from the Deputy Director under (i) and (ii) are not synchronised from a financial management perspective, but the next part of the note reopens the possibility of a revised payment profile to assist cashflow. This is something we have been discussing for some time.

*In terms of moving from quarterly payments in arrears to avoid cash flow issues for the Hubs, please send a specific proposal for each Hub, setting out the rationale for moving to a new payment frequency and approach and what you believe this should be. We would be happy to consider your proposals.”*

**(iv) Impact on BioHub**

If BioHub is able to sign a full construction contract, and can commence activity on site in July, then the cashflow risk to future years funding is minimal. However, additional funding for BioHub is still required. In addition, there is a wider risk for all Deal projects who may spend less than profiled and a question on how Aberdeen City Region Deal should cashflow projects if funding is not available in the year required.

**(v) Cashflow proposals for all Projects**

The following proposals are intended to deal with cashflow issues within agreed project costs and not cost overruns.

- Aberdeenshire Council, as Finance Lead for the Deal has agreed to provide temporary cash flow for City Region Deal projects if required. Therefore, the financial facility exists for BioHub if they can proceed as planned this year.
- To progress with the SG proposal as noted above under (iii) and provide information to support a new payment frequency and approach.

**3.2 Proposals for improved Financial Governance**

Under the current Grant Offer Letter conditions, Scottish Government reimburse Aberdeenshire Council after the conclusion of each quarter based on claims submitted for projects for each of the three months, except for OGTC who are paid in advance.

This creates a cashflow issue as claims for BioHub and Food Hub, for example, are expected by the Partner to be paid monthly as they do not have an overdraft facility. Aberdeenshire Council have so far managed the issue via internal solutions and have been paying Hub claims when received. However, once the Hub project cashflows increase this will prove to be problematic to the Council.

One solution would be amending the Grant conditions and offer monthly reimbursement by the Governments.

A second solution could be an annual payment of the sum set out in the Grant Letter at the start of each financial year.

**3.3 Revised Financial Profile**

Appendix A was submitted to UK/SG as requested in July 2020 and forms part of the submissions that are required under the Grant Offer Letter conditions. The total forecast spend by Governments/Councils are updated as the financial year progresses. The undernoted table shows that the forecast for 2020/21 has increased by £246,000 or 0.7% for the year. Although the forecast for BioHub shows an increase of £1.319 million for the year, the Digital Theme forecast has been reduced by £1.235 million to reflect payments for Full Fibre that were originally thought to be payable this financial year but will more likely fall due in 2021/22. The Transportation Links to South Harbour has also been reduced as it is unlikely that the design works will commence this financial year.

<b>3:</b>	Summary of Key Information
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ACRD Planned Expenditure 2020/21	Forecast Apr-20	Forecast Jun-20	Variance
Project	£,000	£,000	£,000
Oil & Gas Technology Centre	26,700	26,700	0
Bio-Therapeutics Hub for Innovation	2,555	3,874	1,319*
Food Hub for Innovation	1,203	1,205	2
Digital Theme	3,950	2,715	(1,235)
Strategic Transport Appraisal	410	660	250
Transportation Links to South Harbour	240	150	(90)
<b>Sub-Total</b>	<b>35,058</b>	<b>35,304</b>	<b>246</b>

### 3.4 Accelerated Spend

\*The £1,319m variance on the BioHub is dependent on BioHub being in a position to sign a full construction contract, and commencing activity on site in July.

The table includes:

- £250,000 approved at Programme Board for accelerated transport projects to address COVID19 recovery.

### 3.5 Capitalise Resource

The Scottish Government asked Deals to look at capitalising resources to ensure management of the Deal resource is secured. In effect the staff resources deployed by each Council could be included or capitalised within each project. To do this a management fee would need to be taken from each project. The Programme Board agreed that as the project budgets were allocated; this was not reasonable at this stage of the Deal. Both Council's would continue to fund these positions and ask that this is included as in-kind contributions to the City Deal.

<b>4:</b>	Finance and Risk
There is a financial risk to the Deal Partners that if funding cannot automatically be rolled over to a year of the project's choice then the Regional Deal Partners would need to manage and mitigate any delays, cost increases and impact on benefits.	