



Glasgow City Region - City Deal

Cabinet

Report by Director of Regional Economic Growth

Contact: Paul Murphy 0141 287 5053

Item 10

12th December 2017

South Lanarkshire Council – Virement Request

Purpose of Report

To present to the Cabinet a request from South Lanarkshire Council to vire £2.6m from Cathkin Relief Road to Greenhills Road/A726 Strathaven Road Corridor Improvement Projects.

Recommendations

The Cabinet is asked to approve the request from South Lanarkshire Council to vire £2.6m from the Cathkin Relief Road project to the Greenhills Road / A726 Strathaven Road Corridor Improvement project.

Introduction

1. To present to the Cabinet a request from South Lanarkshire Council to vire £2.6m from Cathkin Relief Road to Greenhills Road/A726 Strathaven Road Corridor Improvement Projects. The request was considered by the Chief Executives' Group on 1st November 2017 when it was agreed to recommend that the Cabinet approve the request.

Virement Process

2. Previous papers circulated at the finance group on revised cashflows and revisions to in year grant allocations have brought up some debate around the ability to retain a reduced project cost within the Member Authority. The points below have been extracted from the Assurance Framework and detail that Member Authorities are allowed to offset this against the overall allocation and against their 14% contribution.
3. Section 7 of the Assurance Framework governs the City Deal grant funding and disbursement rules.

7.1.3. The initial allocation of Grant to individual Member Authorities has been calculated as a percentage of a Member Authority's expenditure on approved projects, based on the August 2014 list of projects agreed in principle by Cabinet in Appendix 4 (net of monies allocated to Regional projects). This will mean Member Authorities will be due 86% capital grant and will be liable to provide 14% Member Authority funding on the non- regional projects subject to the provisions of paragraphs 7.1.6 and 7.1.7 below.

7.1.6 Savings on overall project cost can be retained by Member Authorities subject to capital grant being no more than 100% of project cost. An amended Grant offer will be agreed by the Cabinet where this situation arises.

7.1.7 Where third party contributions are received grant levels will be capped at 100% of net cost to the Member Authority.

4. Each member authority has a total project cost from the original list (August 2014) which was then used in the calculation of GVA. As projects are approved and go onto operational delivery there may be under/overspends appearing in the financial projections of the projects.
5. The Assurance Framework states the following in respect of changes in project costs:-

7.3 Project Cost Variance

7.3.1 Where the cost of individual projects being delivered by the same Member Authority changes significantly then it will be possible for the Member Authority to seek Cabinet approval for an amended

grant award. However, this will only be possible after an assessment of the full impact on the project outcomes by the PMO and any decision is at the sole discretion of the Cabinet taking account of the overall Programme Business Case.

Findings

6. As the programme develops the costs for individual projects will change and the finance group has considered the implications of this in terms of the reporting of this through the Member Authority reports and when Cabinet approval requires to be sought. Appendix 1 works through various scenarios for a Member Authority with three projects and these principles were agreed by Cabinet in 12th December 2016.

South Lanarkshire Proposal

7. The proposal from South Lanarkshire Council is set out in Appendix 2. This request has been considered and agreed by Finance Strategy Group after taking into account the principles on project costs virement previously agreed by Cabinet on 12th December 2016. This was subject to the addition of wording in the report that any further increase in costs is met by South Lanarkshire Council and this has now been included within the text in Appendix 2.

Recommendations

8. The Cabinet is asked to approve the request from South Lanarkshire Council to vire £2.6m from the Cathkin Relief Road project to the Greenhills Road / A726 Strathaven Road Corridor Improvement project.

Appendix 1 – Principles of Project Financial Change

City Deal - Changes to Project Budgets Approved August 2014

In the table below for ease of calculation we will apply the rules to Member Authority A who has three projects. Each project costs £100m.

		Original Project Cost	Original Grant Funding	Scenario 1 Project Cost	Scenario 2 Project Cost	Scenario 2 Grant Funding	Scenario 3 Project Cost	Scenario 3 Grant Funding	
	Project A	100	86	120	87	86	80	80	
	Project B	100	86	100	100	86	100	86	
	Project C	100	86	100	100	86	100	86	
	TOTAL	300	258	320	287	258	280	252	
		Original Project Cost	Original Grant Funding	Scenario 4 Project Cost	Scenario 5 Project Cost	Scenario 5 Grant Funding	Scenario 6 Project Cost	Scenario 6 Grant Funding	Scenario 6 after Virement Approved
	Project A	100	86	90	87	86	80	80	80
	Project B	100	86	100	100	86	100	86	86
	Project C	100	86	100	113	86	120	86	92
	TOTAL	300	258	290	300	258	300	252	258
IMPACTS ON PREVIOUSLY REPORTED POSITION					FURTHER FUNDING OPTIONS				
	Scenarios	Grant Allocation to LAs	Project Monitoring	Overall City Deal Programme Estimate	Funding Responsibility within MA	Cabinet Approval Project Change	Cabinet Approval Amend Grant		
1.	Increase in cost estimate for individual Project	No change £258m	Increase project spend by £20m, £320m	Increase by £20m, £320m	Increase in cost is the responsibility of the Council	In the first instance this lies with the Council. However could request an increase from Cabinet if seeking City Deal funding.	if approved		
2.	Decrease (<14%) in estimate for individual Project. (same outcomes/outputs delivered)	No change £258m	Decrease project spend by £13m	Decrease by £13m £287m	Reduction in cost is saving to the Council	Not required as revised project cost still within 86% allocation	Not required		
3.	Decrease (> 14%) in estimate for individual Project. (same outcomes/outputs delivered) Estimate 20%	Decrease by £6m to £252m	Decrease project spend by £20m	Decrease by £20m £280m	Reduction in cost and in grant available to the Council	No scope for retention of the excess grantsince grant covers 100% of the project cost	Change grant allocation		
4.	Decrease in estimate for individual Project. Reduced outcomes/outputs delivered	Review required by PMO for report to CAB							
5.	Decrease in estimate for individual Project plus increase in cost estimate for individual project within the same LA within 14% (and no changes to the outputs)	No automatic right but could make case to Cabinet	Increase and decrease individual project spends	Decrease project A spend by 13m and increase project C by £13m. No change overall for Member Authority	Reduction in cost is saving to the Council, but increased cost is a cost to the Member Authority	Requires Cabinet approval for formal virement of project costs (Section 7.3.1) only for the increase in cost element if seeking to vire between projects to give revised project costs	Formal approval may be required if looking to vire project costs		
6.	Decrease in estimate for individual Project plus increase in cost estimate for individual project within the same LA outwith 14%	No automatic right but could make case to Cabinet	Increase and decrease individual project spends	Decrease project A spend by 20m and increase project C by £20m. No change overall for Member Authority	Reduction in cost is saving to the Council, but increased cost is a cost to the Member Authority	Requires Cabinet approval for formal virement, but would be restrcted to overall grant. If virement approved at cabinet the additional £6k could be vired between projects.	Formal approval required		

Appendix 2: Submission from South Lanarkshire Council

Cathkin Relief Road and Greenhills Road / A726 Strathaven Road Corridor Improvement projects

Purpose of the Report

To provide an update on the financial status of the Cathkin Relief Road and Greenhills Road / A726 Strathaven Road Corridor Improvement projects and to seek approval to vire funding from one project to the other.

Recommendations

It is recommended that Cabinet:

- 1) Note the financial position with regards both projects; and
- 2) Approve virement of £2.6m from the Cathkin Relief Road to the Greenhills Road / A726 Strathaven Road Corridor Improvement project.

Main Report

Greenhills Road / A726 Strathaven Road Corridor Improvement

The Greenhills Road / A726 Strathaven Road Corridor Improvement project involves the widening, to dual carriageway, of the existing A726 from Calderglen Country Park to the Torrance Roundabout and Greenhills Road from the Torrance Roundabout westwards to the new access to Langlands Strategic Industrial Development Site.

The Outline Business Case for the Greenhills Road / A726 Strathaven Road Corridor Improvement project was approved at Cabinet in October 2016. Work is underway to develop and finalise the Full Business Case and it is expected this will be considered by Cabinet in early 2018, following the securing of the necessary land and completion of the tender exercise.

Subject to the approval of the Full Business Case the project is expected to commence in the summer of 2018 with main spend programmed to occur across financial years 2018/19 and 2019/20.

The original estimated cost of the Greenhills Road / A726 Strathaven Road Corridor Improvement project was £23.1m, however the current predicted cost of the project has increased. This is due to inflationary pressures, an increase in land costs, an increased scope of construction work (e.g. accommodation works, retaining structures, landscaping) and increased public utility costs.

Although the project cost has been refined and informed through the design process, a level of financial risk remains around a number of areas, including weather impacts during construction, public utility diversions and compensation to third parties in relation to impacts as a result of the scheme. If the final cost of this project is confirmed to be greater than the new allocation available, any shortfall in funding will be met by the Council.

Cathkin Relief Road

The Cathkin Relief Road project is largely complete and has seen the construction of a new 7.3m wide road between the junctions of Cathkin Bypass/Burnside Road and Fernhill Road/Croftfoot Road/Blairbeth Road. In addition new footways, cycle routes and landscaped amenity areas have been constructed immediately adjacent to the new road.

The main element of the project, the road itself, opened in February 2017. The focus is now on progressing enhancements to nearby infrastructure to lock in the benefits on neighbouring streets, improve recreational areas and introduce improved public transport and cycling infrastructure. These enhancements have been defined as complementary works and are expected to be completed towards the end of 2017/18 and into 2018/19.

The cost of the Cathkin Relief Road project was expected to be £21.6m, however, the outturn is now expected to be in the region of £16m, a reduction of £5.6m. This is made up of project savings of just over £3.0m which were previously intimated to the Project Management Office (PMO) in October 2016, and also further cost savings of £2.6m identified through a review of the remaining complementary works at Cathkin, sought as a result of the budget pressures identified at Greenhills. The original £3m savings identified have been retained by South Lanarkshire Council, this equates to the Council's 14% contribution to this project. The £2.6m savings now identified through the review of complementary works are funded by City Deal Grant.

Proposed Virement of City Deal Grant

Given the predicted cost of the Greenhills Road / A726 Strathaven Road Corridor Improvement project has increased it is proposed to vire the £2.6m savings identified from the Cathkin Relief Road project.

Available funding for the Greenhills Road / A726 Strathaven Road Corridor Improvement project will therefore increase to £25.7m.

The estimated project cost for Greenhills Road / A726 Strathaven Road Corridor will be further refined and informed through the completion of the tender process and set out fully in the Full Business Case to be considered by Cabinet next year. The preparation of this FBC is well underway. As agreed, the FBC will comply with 'HM Treasury Green Book' guidance and the latest Glasgow City Region City Deal Assurance Framework. A review of the OBC is currently taking place to ensure that the previously approved OBC also meets all 'Green Book' requirements.

The Greenhills FBC will interrogate all of the expected outputs, outcomes and community benefits set out in the OBC, thereby ensuring that City Deal funds are spent in the most efficient way, maximise value for money and fully deliver benefits to the City Region.

The outputs and outcomes generated by Cathkin Relief Road continue to be monitored and assessed and will be a focus of activity in the Gateway Review 1 process. No reduction in the benefits generated by the project is expected.