

ERDF Innovation Bridge Financial Risks and Mitigation

Summary of key financial information and the impact on CBC

Key financial information

		Financial Year			
		2016/2017	2017/2018	2018/2019	TOTAL
Total Expenditure	This is the total expenditure across the project and includes the match as detailed below.	£920,448.60	£1,425,739.76	£1,549,877.41	£3,896,065.77
ERDF grant at 50%	ERDF will provide 50% of all eligible expenditure which is claimed back on evidence of the expenditure per period (normally per quarter).	£460,224.30	£712,869.88	£774,938.71	£1,948,032.88
CBC Match (as staff time)	We are providing a small amount of staff time as match for the project - the evidence of this is provided to DCLG in the form of timesheets and associated costs	£2,693.07	£2,693.07	£2,693.07	£8,079.21
University Match (as staff time)	The universities are providing the main delivery of activity to businesses - including a diagnostic to understand needs and the research time with academics to provide the innovation support. A proportion of the time spent on the project by the universities will be provided as match - in terms of staff time spent on the project.	£90,372.28	£107,473.96	£101,844.19	£299,690.43
Overheads match (based on 15% of salaries)	ERDF allows a standard 15% (of the total salaries figure) to be used as an overheads match. This is a standard simplified rate.	£65,443.61	£75,378.66	£74,440.98	£215,263.24
Private Match (Provided by participating businesses as part of the grant)	This is the 70% match provided to the innovation grant by the businesses taking on a grant and contributes to our overall match figure.	£228,000.00	£557,785.71	£639,214.29	£1,425,000.00
Total Match	This works out across the lifetime of the project to cover the 50% of the project expenditure which is not covered by the 50% contribution from ERDF.	£386,508.95	£743,331.40	£818,192.52	£1,948,032.87

CBC Cash Flow (required per year to cash flow the project))	This is the annual figure which is required by the project from CBC to cash flow the project - due to the fact that the private match from the grants won't align exactly with other expenditure. Therefore, in year 1, CBC will be required to provide £73,715 cash flow to the project which will be recovered in year 2 and year 3.				
		£73,715.35	-£30,461.52	-£43,253.81	£0.01

Financial Year					
<u>Income</u>	-	2016/2017	2017/2018	2018/2019	Total
ERDF Income Grants (provided at 50% of eligible expenditure)	ERDF will provide 50% of all eligible expenditure which is claimed back on evidence of the expenditure per period (normally per quarter).				
		£460,224.30	£712,869.88	£774,938.71	£1,948,032.88
Total Income		£460,224.30	£712,869.88	£774,938.71	£1,948,032.88
<u>Expenditure</u>	-				
CBC Staff Costs	The amount of project cash actually spent on staff salaries excluding the time match provided by CBC as listed above.				
		£132,356.71	£141,584.76	£154,099.48	£428,040.94
Other Revenue	All other items of expenditure - including marketing, travel costs, project evaluation				
		£93,000.00	£51,000.00	£66,000.00	£210,000.00
University Staff Costs	The amount of project cash actually spent on university staff salaries excluding the time match provided by the universities as listed above.				
		£210,868.65	£250,772.58	£237,636.44	£699,277.67
SME Grants	The amount of project cash actually spent on the business grants - excluding the 70% private sector match provided by the businesses themselves as listed above.				
		£97,714.29	£239,051.02	£273,948.98	£610,714.29
Total Spend in cash		£533,939.64	£682,408.35	£731,684.89	£1,948,032.89
Cash flow implication for CBC	As described above	-£73,715.35	£30,461.52	£43,253.81	-£0.01

Identified risks for the Council and proposed mitigation (this forms part of the full risk assessment carried out as part of the application process)

Risks Description	Owner	Probability	Impact	Mitigation
Project slippage due to delay in start date/funding or project failure due to programme underperformance leading to reduced funding or termination of funding.	Project Sponsor	Medium	High	<p>Close liaison with DCLG to ensure realisation of start date. Re-profiling to reflect any project slippage.</p> <p>Close monitoring of the project with gateway reviews of the project against forecasts to ensure action is taken should the project slip.</p> <p>This will be monitored through the steering group of the project and an action plan will be followed at various gateways should the programme not be performing. Actions to include mitigation, remedial or ultimately termination if all options exhausted.</p>
Private sector leverage via grant programme does not generate enough match funding (forecast at £1.4M of match funding over the three years).	Project Sponsor	Medium	High	<p>In the cash flow forecast, grants are not predicted to start until Q3 of the project. This is to recognise that there will be a lag time from project start, to clients completing the initial phase of the project, to the first clients taking up the grant.</p> <p>Close monitoring will track the progress of the grant element of the project against forecasts. Gateways will be established in the project – for example at the end of Quarter 3 to assess progress and ensure action is taken should the grant programme slip behind progress.</p> <p>This will be monitored through the steering group of the project and an action plan will be followed at various gateways should the grant programme not be performing.</p> <p>Mitigating actions in this case include promotion of larger capital grants or many smaller grants to respond to market conditions and</p>

				<p>levels of match provided.</p> <p>Grants have been conservatively estimated based on research through the previous programme.</p>
<p>High levels of grant interest not translating into applications; other grant offers are more attractive; or grant applications slow to develop – longer than the forecast three month turn around time.</p>	<p>Programme Manager</p>	<p>Medium</p>	<p>High</p>	<p>Additional support to assist in application process and refine marketing to ensure business with greater application rates are targeted.</p> <p>Ensure that the mapping of other products is understood and the Innovation Bridge product as a USP that is relevant to the market.</p> <p>Ensure engagement in grant offer and communication plan for all staff and businesses. Review the progress with grant applications quarterly to ensure early intervention if this is the case to address why the delay is happening and change the process if necessary.</p>
<p>Outputs not achieved leading to a reduction in funding</p>	<p>Programme Sponsor</p>	<p>Low</p>	<p>High</p>	<p>Marketing and engagement plan with associated ERDF budget to ensure programme is widely marketed and businesses engaged. Close relationships with LEPs and local business providers to support referrals and marketing. Gateway reviews will be undertaken of performance against outputs with mitigating actions agreed at Steering Group.</p>
<p>Lack of robust financial and claim systems would put CBC at risk of not being able to properly monitor or evidence claims leading to incorrect claims, clawback or failure to deliver.</p>	<p>Programme Manager</p>	<p>Medium</p>	<p>High</p>	<p>As the lead body CBC will put in place systems and contracts to ensure this risk is mitigated. The programme will be closely managed, ensuring failure to deliver or incorrect claims are identified quickly and project managed effectively.</p> <p>Systems and protocols from the previous ERDF project are being further developed with the Finance Team to ensure match funding can be properly evidenced and claimed, and that expenditure is ERDF</p>

				eligible. In addition, an External Funding Finance Manager (funded by ERDF) within the corporate finance team will ensure financial implications are monitored and embedded within the council.
ERDF claims are in arrears and DCLG withhold a final payment at the end (usually 10%) until the final claim has been verified.	Programme Manager	High	Low	A full cash flow forecast for the programme has been completed which highlights any financial pressures on the Council. Any ERDF claims which are awaiting payment would be treated as an accrual rather than a pressure. The European finance manager will be responsible for the management of the budget.
Lack of robust protocols and contracts would put CBC at risk of not meeting funding requirements or the risk of partners underperforming leading to clawback.	Programme Manager	Low	High	Service level agreements with University delivery partners will be approved by legal services and such agreement will be consistent with the content of the Council's bid and terms of the grant funding agreement,. If a clawback situation arises due to a failure of a partner, we will ensure it is passed to the correct deviating delivery partner through a formal Service Level Agreement.
Risk of non-compliance with State Aid rules.	Programme Manager	Low	High	Protocols for state aid criteria will be developed in consultation with legal services. Each beneficiary will sign a declaration form to confirm that receipt of funding does not exceed the de minimus threshold for state aid.
Risk of IT systems not being robust leading to difficulties in monitoring performance and evidence.	Programme Manager	Medium	Low	A Management Information System accessed by all external delivery partners will be procured to manage the programme. This system and access will need to be stable, comply with data protection and allow for meaningful data to be analysed ensuring the smooth monitoring of delivery and performance. A budget has been established in the project to support this delivery and discussions will take place with ICT

				to ensure the system is fully compliant with our security and other requirements.
Risk of data protection and information security if not robustly dealt with.	Programme Manager	Low	High	Management Information System must comply with data protection. Protocols and forms to be developed in line with data protection and information security requirements. Staff training on all aspects.
Risk of clawback if we cannot demonstrate compliance to the ERDF auditors.	Programme Manager	Medium	High	<p>Work closely with DCLG to establish monitoring requirements. Implement Management Information System to provide monitoring of delivery and performance. Robust performance monitoring and evidence checks will be undertaken by the Programme Manager, Contract Management Officers and External Funding Finance Manager. Issues will be discussed at Steering Group meetings to ensure criteria is met. CBC internal Audit Team will provide guidance and peer review/audits. Procurement guidance to ensure ERDF procurement requirements are complied with.</p> <p>Provision has been made in the Business Investment reserves budget to cover potential clawback.</p>
Failure in timely recruitment or issues in finding appropriate skills set for new roles	Programme Manager	Medium	Medium	Early development of Job Descriptions, close working with HR to undertake early recruitment. Targeted marketing to partners, networks and other HR channels. Internal staff resources to be provided as intermediate solution if delay occurs. Key core skills essential but internal training if skills set cannot be found.
Funding for the fixed term new posts for CBC would be at risk or would be withdrawn completely if the grant funding doesn't come	Project Sponsor	Medium	High	As highlighted above, the grant element of the project has been conservatively estimated. The other funding for the project comes from ERDF itself and match funding provided by the university partners. The partners are sharing in the risk through a service level

forward or the programme terminates early.				<p>agreement and the project is based on a successful pilot which has overachieved on targets. There is confidence that the project will deliver its outputs. However, the quarterly gateways will ensure that this progress is monitored closely and that mitigation is put in place if the grant is not performing.</p> <p>Adequate provision has been made in the Business Investment reserves budget to cover any redundancy payments for staff contracted wholly to deliver the ERDF programme.</p>
There is reputational risk to CBC if the programmes fail to deliver and we fail to claim the fully allocated amounts of ESIF.	Project Sponsor	Low	Medium	<p>The risks of underspend and clawback can be successfully mitigated through robust monitoring of funding claims and ensuring compliance with the ESIF regulations. Any possible reputational risks will be monitored and highlighted to the Director of Regeneration and Business.</p>
ESIF allocations to SEMLEP, GCGP, NALEP (and the wider UK) have been made in Euros at a fixed Exchange Rate. There is a risk that the overall allocations may vary over time in line with exchange rate fluctuations.	Project Sponsor	High	Low	<p>This is being managed by the LEPs committing to funds at an early stage of the programme in sterling and they will take account of any exchange rate fluctuations by varying uncommitted funding.</p>