

D2N2 Infrastructure Investment Board (IIB) Cover Sheet – December 2018

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Meeting and Date	Thursday 20 th December 2018		
Subject	Audit Services Review of Local Growth Fund 2017/18		
Author	C Hardman	Total no of sheets	3

Papers are provided for:	Approval <input type="checkbox"/>	Discussion <input type="checkbox"/>	Information <input checked="" type="checkbox"/>
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Summary and Recommendation(s)
<p>The Audit Services Memorandum identifies the key issues arising from the Internal Audit review of the D2N2 Local Enterprise Partnership (LEP) Local Growth Fund (LGF) processes and procedures and the services provided by Derbyshire County Council through the Service Level Agreement.</p> <p>The IIB are asked to note the paper</p>

D2N2 INFRASTRUCTURE AND INVESTMENT BOARD (IIB)

20 December 2018

Audit Services Review of Local Growth Fund 2017/18

The Audit Services Memorandum identifies the key issues arising from the Internal Audit review of the D2N2 Local Enterprise Partnership (LEP) Local Growth Fund (LGF) processes and procedures and the services provided by Derbyshire County Council through the Service Level Agreement.

Since their establishment in 2010, Local Enterprise Partnerships have been integral to economic growth across England. In July 2018, the Ministry of Housing, Communities and Local Government issued a document entitled “*Strengthened Local Enterprise Partnerships*”. This sets out a plan for reform, to ensure LEPs continue to drive growth and remain credible organisations locally and nationally. It provides LEPs with defined roles and responsibilities, and provides clarity on activities and objectives to deliver on the ambitions of the Government’s Industrial Strategy. Work is currently underway to respond to these challenges.

Governance and transparency remain an area of risk and recent adverse, national publicity supports the need to bring transparency and clarity to the decision making process through appropriate disclosures and recording of interests. This was emphasised by the publication in October 2017 of the “*Review of Local Enterprise Partnership Governance and Transparency*” report, referred to as the “*Ney Review*”. The “*Ney Review*” was reported to the Infrastructure and Investment Board (IIB) on 24 November 2017 to draw its key findings to the attention of all members of the Board. It was also resolved that the Chair and LEP Chief Executive must be stronger in ensuring declarations are made to the Board. Declarations of interest are now a standing agenda item for each IIB meeting.

A Code of Conduct for Board members was approved by the IIB on 29 March 2018. The Local Assurance Framework was revised and updated and approved by the Infrastructure and Investment Board during 2017 to ensure it reflects current good practice and standards, and maintains high levels of governance and transparency. The IIB also commissioned an independent review of its LGF Monitoring Arrangements by the Authority’s Improvement and Scrutiny Committee which was reported back to the Board in December 2017. This review considered whether the measures in place are sufficiently robust to ensure that output targets are delivered within the stated timeframes and that resources are spent with regularity, propriety and are in accordance with value for money principles. The recommendations from the review are subject to ongoing review and implementation.

The D2N2 LEP received a total of £66.39m in LGF funding for 2017/18, an increase of £10.99m on the £55.4m awarded during 2016/17. During 2016/17, the £10.75m

underspend of the LGF allocation was temporarily transferred to support the Accountable Body's capital programme. Despite active steps being taken throughout 2017/18, a further underspending of £31.52m was temporarily transferred to the Accountable Body's capital programme. Therefore, in excess of £40m is temporarily being held by the Accountable Body which will be released back to the LEP when it is required to support approved projects. This trend cannot continue and although elements of the underspend have materialised due to unavoidable delays and slippage in projects, close management and monitoring of project progress, output delivery, expenditure profiles and pipeline is vital in delivering projects on time and within budget.

There have been improvements to the monitoring information reported to the IIB, with regular programme update reporting setting out updates on high risk projects and reporting of output delivery using a RAG rating. However, the IIB continues to face challenging decisions with the adverse impact of slippage in respect of a number of projects which, in turn, results in a failure to deliver agreed outputs and deploy funding in accordance with project profiles. The monitoring of the projects through the quarterly reporting process is a vital part of the process and it is essential that the quarterly monitoring returns for all projects are delivered accurately and on time. The IIB is also considering the use of sanctions for failure to deliver outputs and information in accordance with grant agreements. The slippage in delivering anticipated milestones for a number of projects may be indicative of a lack of capacity and technical resources within the project promoters' organisations to fully develop projects in readiness for the business case submission. The IIB has sought to address this by creating a project capacity support fund utilising £200,000 from interest accrued from investment of the surplus LGF capital fund. Take up of this offer has been limited to date.

One of the key responsibilities placed on the Authority as Accountable Body is to "examine and monitor the use of money disbursed under agreements with organisations who provide programme / commissions approved by the LEP". Instances were noted when the agreed level of expenditure testing on quarterly returns had not been achieved and the level of verification was insufficient to confirm the expenditure reported by the promoter had, in fact, been incurred on the project which was being supported by LGF grant.

A number of areas of good practice have been identified and nine of the previous eleven Audit recommendations have been implemented which demonstrates a commitment to the Audit process and to deliver improvements in the control environment. One recommendation which relates to the review of sanctions used by the IIB where promoters fail to provide satisfactory information is under consideration and will be included in the revised Local Assurance Framework.

The Audit Services review raised eight recommendations, two of which are considered to be 'high' priority and include the need to ensure:-

- clear plans are in place to spend the 2018/19 LGF allocation in full as well as previous years' underspends. This should be supported by robust

- governance through the IIB regarding project profile change proposals which request a change in finance draw down;
- that in addition to the monitoring exercise undertaken by the Senior Accountant and Project Monitoring Officer - D2N2, the consequences for those promoters who continually fail to submit adequately completed and timely quarterly monitoring returns is reviewed by the Infrastructure and Investment Board. Consideration should be given to sanctions available to the Board in order to achieve widespread compliance with reporting requirements and ensure that all potential underspends are identified promptly.

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