Agenda Item 13

REVIEW OF LOCAL GROWTH FUND MONITORING ARRANGEMENTS

Report of Derbyshire County Council's Improvement and Scrutiny Committee - Resources

December 2017

Cllr Tony Kemp (Chair)
Cllr Stuart Swann
Cllr George Wharmby
Cllr Barry Bingham
Cllr Clive Moesby

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Background information

The Local Growth Fund (LGF) is government funding awarded to Local Enterprise Partnerships (LEPs) for projects that benefit the local area and economy. In the D2N2 area (Derby City, Derbyshire, Nottingham City and Nottinghamshire) the Local Growth Fund amounts to a £250m programme which runs from 2015/16 to 2020/21. Through this investment programme strategic infrastructure projects, which could not be undertaken without grant support, receive part funding. The primary aim is to unlock investment from local public and private sector partners and to jointly fund projects that will drive local economic growth.

The administration of the LGF is overseen by the Infrastructure and Investment Board (IIB) on behalf of the D2N2 LEP Board. The IIB meets monthly to approve funding and monitor progress of project delivery and spend. Derbyshire County Council is the Accountable body on behalf of the LEP for the LGF.

The LGF programme is now in its third year and some projects have been completed and are now moving into the delivery of outputs stage, namely the delivery of jobs, homes and learners. However a small number of projects have missed their output targets. At the end of quarter 4 2016/17, the IIB was informed that in the case of six projects, outcomes had been delayed. Not only is this a concern in terms of progressing the economic strategy for the region but also it results in the programme having a cash flow underspend.

The LGF programme was underspent in 2016/17 and another underspend is predicted for 2017/18. This presents a challenge because the Department for Communities and Local Government (DCLG) requires that the annual grant allocation is fully spent. In the previous year (2016/17) the DCLG allowed use of the Section 31 grant monies to be used for Derbyshire County Council capital spend projects that are not LGF projects. The arrangement is that the money that should have been used for these non-LGF projects will subsequently be returned to the LGF programme at an appropriate time. This flexibility has been welcomed by the IIB and it is anticipated that it will be utilised again this financial year, however there is a pressing need to ensure that robust measures are in place to minimise missed outputs and grant underspends in the future years.

Scope of the review

This review examined the current procedures and systems around decision making and the monitoring of LGF outputs and spending. It 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 in-line with value for money principles.

Approach to the review

The approach to the review was to conduct a series of interviews (with people engaged at different stages of the project monitoring and decision making process), to examine key documentation and to observe an IIB meeting. The working group met with following position holders:

- Accountable Body's D2N2 Project Monitoring Officer,
- Economy and Regeneration Service Director - Derbyshire County Council
- Chief Executive - D2N2 LEP
- Chair of D2N2 Officers group
- Derbyshire County Council IIB Member

Further information about the individuals who participated in the review and details about the approach are given in Appendix 1. The position of the D2N2 Programme Manager was vacant when the round of interviews were undertaken so the working group did not have an opportunity to interview this key position holder.

During the interview sessions, questions initially focussed on the robustness and timing of the project monitoring information submitted to the IIB, the mechanisms in place to capture this information and opportunities to mitigate potential project delays. As the discussions progressed working group members explored more strategic issues such as the initial selection of LGF projects, the balance between applying sanctions and ensuring that local growth is delivered and the IIB's collective attitude to risk.

Key findings

The Key findings arising from the review are outlined below:

- The D2N2 LGF Local Assurance Framework sets out a co-ordinated and streamlined approach for reviewing business cases to ensure project suitability and for identifying, understanding and managing risk associated with proposed schemes. It is a comprehensive and clearly articulated document.

- Following a detailed "walk through", led by the Project Monitoring Officer, the working group found the following procedural arrangements to be routinely and robustly applied:

    a. Independent assessment of project proposals prior to schemes being included in the Growth Deal.

b. Checks to ensure that business cases are accurate and complete prior to being submitted to the IIB.

c. Offer letters clearly stating that financial and output performance will be monitored on an ongoing basis and setting out the responsibility of the promoter to comply with the requirement to return monitoring information, quarterly to the Project Monitoring Officer.

d. Tracking of monitoring returns and business cases and the sending of reminders. The systems in place for recording submissions and returns from promoters and ensuring that the information is accurate and complete were found to be exemplary.

e. Checks to ensure grants paid to promoters have been fully spent and can be evidenced with invoices.

f. Detailed project monitoring documentation for each project ensuring that statements are evidenced and consistent with stated benefits.

g. Summaries of available monitoring data supplied to the IIB.

h. Detailed project updates regarding High Risk Projects submitted to the IIB.

- There was evidence that monitoring arrangements are reviewed and enhanced on an ongoing basis in response to emerging issues, and as a result have become more robust over time. A recent example of this is the introduction of a reporting pro-forma for high risk projects which was developed through the D2N2 Officers Group. The purpose of the pro-forma is to ensure consistent reporting to facilitate informed decision making. When projects miss their profiled output target, promoters are now required to use the pro-forma to provide a formal response to the next Board meeting outlining why the project has been delayed and the actions that will be put in place to mitigate the circumstances.

- As previously mentioned above, the responsibility for a promoter to provide accurate and timely monitoring returns is clearly articulated in each offer letter. Despite this however, at times the administration of the LGF has been frustrated by the failure of some promoters to provide the required information on time. In recent months a greater percentage of returns have be submitted on time, but there are still some exceptions and the fact remains that the failure to submit monitoring returns is a breach of contract. Halting a project or clawing back funds when a promoter has failed to submit the necessary paperwork on time is perceived as a disproportionate

response and is likely to be counterproductive but an appropriate intervention to ensure that all returns are accurate and timely needs be agreed and applied.

- The position of the D2N2 Programme Manager has recently been filled but was vacant for a period of 5 months, from June to November 2017. The vacancy placed a strain on the systems and procedures in place for managing and monitoring projects. Whilst recognising the difficulties of recruiting an individual with the correct skill set and experience, in the opinion of the working group such a key position is far too important to be left vacant, given the high monetary value of the projects being managed.

- Similarly a delay in appointing maternity cover for the Accountable Body's Project Monitoring Officer had the potential to create capacity issues. Fortunately however this post has now been filled, although not in time to allow a formal handover period.

- All the witnesses interviewed indicated that capital programmes are by their very nature complex, and whilst robust project management can do much to mitigate risk it is unrealistic to think that risk can be entirely eliminated. Experience has shown that, with complex capital programmes, delays and cost overruns do occur and this highlights the need for the early notification of problems and the identification of the key issues to enable informed and timely action. Delays in the delivery of project outcomes are flagged in the relevant project monitoring report and brought to the attention of the IIB for consideration. However, review witnesses indicated that this is an area where further procedural improvements could be made; for example, it would be beneficial if promoters gave earlier notice of anticipated or potential delays, and the IIB might similarly wish to initiate robust corrective action earlier.

- Following on from the point above, regarding the complexity of capital programmes and the potential for delays, a number of witnesses expressed a view that greater flexibility in the spending profile of the LGF and the ability to carryover funds to the next financial year would be desirable.

- The pressure of having to spend the LGF allocation within the same financial year and concerns about how failure to do so might impact on future funding, influences how the IIB prioritises eligible projects. With an inferred imperative to deliver outcomes quickly, more long term projects

with the potential to deliver far reaching economic growth can be overlooked.

- In anticipation of future LGF bidding rounds (or similar) the LEP is working with partners to develop a “pipeline” of projects so that proposed schemes can be progressed with minimal delay. It is anticipated that this approach will alleviate some of the pressure associated with meeting agreed spending profiles.

- Despite any such measures, it is evident to any with experience in major projects that to complete even a supposedly “oven-ready” scheme within 12 months will always be challenging. It is imperative that conversations with government about the nature and timescale of LGF funding are continued as the present arrangements may not deliver best value for money.

- The completion of an infrastructure project, such as a new junction to improve access to a brownfield site, doesn’t automatically lead to the delivery of homes or jobs. It can take years for economic development projects to achieve their impacts. This creates a challenge for the IIB as it is not immediately possible to demonstrate the impact of the projects that it has funded.

- Having a LGF cash flow underspend is not unique to D2N2, it is an issue common to many LGF programmes. The National Audit Office in their publication on Local Enterprise Partnerships (published in March 2016) reported that of the £7.3 billion of the Local Growth fund allocated (as at March 2016) there was an underspend of £85 million.

- To date the IIB has not imposed sanctions or initiated financial clawback on projects that have been delayed. It appears that maintaining a balance between applying sanctions and ensuring that local growth is delivered is, perhaps understandably, something that that Board has found challenging. It is clear that clawing back funds when a potentially transformational infrastructure project has commenced, and then been delayed, could be financially catastrophic for a district or borough council promoter with a small base budget.

- Promoter organisations need employees with good commercial awareness, well developed negotiation skills and considerable project management experience to coordinate complex infrastructure schemes and broker dynamic development agreements. It can be difficult for smaller district councils to attract and recruit individuals with the necessary experience

and skill set and this can lead to insufficient capacity to drive a project forward at the required pace. It can also prevent councils from submitting bids to the LGF (in the first place) resulting in an unequal distribution of growth fund initiatives across the county.

- The Review of Local Enterprise Partnership Governance and Transparency (conducted by Mary Ney in October 2017) was considered at the D2N2 IIB meeting held on 24 November 2017. The recommendations were noted, particularly in regard to declarations of interest, and an undertaking was made to amend the Local Assurance Framework once the anticipated changes to the National Assurance Framework are published.

Recommendations

With the intention of strengthening how the LGF is administered within the D2N2 area and ensuring that value for money is achieved, it is recommended that:

1. The IIB acknowledges that the systems for receiving and collating monitoring returns are robust and routinely applied by the Accountable Body.

2. Individual Board Members add their full support to the project monitoring arrangements by ensuring that officers acting on behalf of the organisations they represent comply with the requirements in time.

3. The IIB agrees the action that will be taken if a promoter consistently submits late or inaccurate returns, and in the event of this occurring applies the agreed actions.

4. Adequate arrangements are put in place (by the relevant organisation) to ensure that in the event of capacity issues created by staff vacancies (at the Accountable Body or the D2N2 team) the situation is quickly resolved.

5. The IIB review their approach to sanctions (for projects not achieving their stated milestones) and in doing so consider the likely thresholds for their deployment. A key question to answer is whether sanctions would be imposed as a preventive measure or to address failure.

6. The IIB explores the feasibility of revising the project proposal assessment criteria so that there is a requirement for promoters to have substantial agreements with developers in place before funding is

released. This would mitigate against the slow delivery of outcomes and provide greater certainty of the project objectives being met within a specified timeframe.

7. The IIB considers opportunities to put more capacity into the system by offering support to promoters (in the form of experienced project managers and negotiators to work alongside them) to drive forward agreements with developers.

8. The D2N2 LEP continues to make representations to government about the benefits of increasing the flexibility of the LGF spending profile and the ability to carryover funds to the next financial year.

Appendix 1

Review Working Group Members

Cllr Tony Kemp (Chair)
Cllr Stuart Swann
Cllr George Wharmby
Cllr Clive Moesby
Cllr Barry Bingham

Meeting Dates and Witnesses

Date	Witnesses
21/9/2017	**Sarah Wainwright** DCC Project monitoring Officer (on behalf of D2N2 Officers Group) **Jo Battye** DCC Service Director - Economy & Regeneration
18/10/2017	**David Ralph** D2N2 Chief Executive **Sarah Wainwright** DCC Project monitoring Officer (on behalf of D2N2 Officers Group)
20/11/2017	**Mike Ashworth** Chair of D2N2 Officers Group, and DCC Strategic Director – Economy, Transport & Environment **Cllr Tony King** IIB Member representing DCC, and Cabinet Member for Economic Development and Regeneration

Observation of IIB meeting

Date	Observer
24/11/2017	**Cllr Barry Bingham** (accompanied by Roz Savage – Improvement & Scrutiny Officer)

Documents Reviewed

D2N2 Local Growth Fund Local Assurance Framework
D2N2 Infrastructure and Investment Board Terms of Reference
Examples of value for money project appraisals
A sample of IIB agenda papers and minutes
Pro-forma for projects at high risk