Public

Agenda Item 8

D2N2 Investment Board Cover Sheet – 7th January 2020

Document Classification	Restricted ☐	Controlled ☐	Public ■

Meeting and Date	7th January 2020		
Subject	Audit Services Review of Local Growth Fund 2018/19		
Author	S Mason	Total no of sheets	3

Papers are provided for:	Approval ☐	Discussion ☐	Information ■

Summary and Recommendation(s)
This paper provides a summary of findings following the Audit Services review of the Local Growth Fund 2018/19. The Investment Board are requested note the paper for information.

DERBYSHIRE County Council

Derby
Derbyshire
Nottingham
Nottinghamshire

Public

D2N2 INVESTMENT BOARD

7th January 2020

Audit Services Review of Local Growth Fund 2018-19

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.

This Audit Services review focuses solely on the administration and management of the D2N2 Local Growth Fund (LGF) throughout the 2018/19 financial year. Although recent changes to the LEP's governance structure have been implemented with a significant increase in Derbyshire County Council's responsibilities to the LEP acknowledged, these changes had not come into effect during the review period.

The Public Accounts Committee published a report in July 2019 voicing concerns that *'local scrutiny and accountability arrangements are not strong enough considering the significant sums of public funding that LEPs manage.'* Steps taken in recognition of these widespread criticisms include the publication of the 'Strengthened Local Enterprise Partnerships' document by the Ministry of Housing, Communities and Local Government (MHCLG) in July 2018. This document outlines findings of the Government's recent policy review and sets out changes to Government commitments alongside procedural updates which must be implemented by LEPs. Although many requirements were not scheduled for implementation until April 2019 and were therefore outside the scope of this 2018/19 review, it was evident that a significant number of these measures had already been actively addressed.

Reflective of further concerns raised by the Public Accounts Committee review published in July 2019 of an overarching underspend exceeding £1.1 billion across all LEP's at the end of 2017/18, the D2N2 LGF remains underspent by nearly £29 million at the end of 2018/19. This significant underspend along with low output progression was recognized in the Annual Performance Review which categorised the LEP's LGF delivery as requiring improvement. Although clear steps are now being taken to address these deficiencies such as the development of an increasingly robust project pipeline, over-commitments of funds in the coming years and enhanced monitoring requirements through the Improvement Plan, it is of note that the anticipated overspend for 2018/19 diminished from £37 million to just £13 million throughout the year. This significant variation between budgeted and realised expenditure is indicative of the inherent risks such as unavoidable delays or project slippage, however this trend cannot continue. Close management and monitoring of project progress, output delivery, expenditure profiles and pipeline is vital in delivering projects on time and within budget.

The IIB (Infrastructure and Investment Board) received regular and consistent reports on budget, output delivery and programme performance. In general terms the quality and content of these reports was considered good with the information clearly and accurately portrayed. However, testing identified a limited number of occasions where reporting of issues to the IIB could have been more transparently recorded such as the agreed re-profiling of funding for the Silk Mill and the output delays by Our City Our River and Harworth Access Road. It was also recognized that in-year budget reports presented to the IIB have been streamlined with details of individual project's current and cumulative expenditure no longer included as was the custom in previous years. It was advised that this this level of detail was superfluous whilst IIB members remained happy with overall programme spend. This explanation was accepted given there had been no detrimental implications and the information is retained independently by the Senior Accountant and Project Monitoring Officer.

Detailed reviews were undertaken on five randomly sampled projects approved and funded during 2018/19 to ensure compliance with the scheme. From this detailed review it was apparent that for Vesuvius, the only privately maintained project examined, the expenditure verification exercise required quarterly by the LGF principles document had not been completed for one of the quarters. In addition, despite issuing funding for N2 Town Centres in quarter one of 2018/19, no quarterly monitoring returns were submitted until quarter three, as it was explained by the promoter that no expenditure had been incurred. However, detailed review of the quarterly returns submitted evidenced that expenditure was, in fact, incurred as early as June 2018.

A number of areas of good practice have been identified and of the eight recommendations raised during the previous review, five were considered to have been adequately implemented indicating commitments to the Audit process and a desire to improve the control environment wherever possible.

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

- The funding projections for 2019/20 and 2020/21 continue to be closely monitored and adhered to wherever possible to avoid repetition of the disparity between projected funding amounts and the actual funding awarded during 2018/19. Although safeguards are in place to try and mitigate this risk, due to the uncertain future of the Programme the implication of underspending funding allocations are currently unknown.

- Output targets continue to be closely monitored and reported upon to the IB (or equivalent) with increased pressure on individual projects as required. For those projects falling significantly behind in achieving agreed output targets, delivery schedules may need to be realigned and presented to the Board for approval.

Carl Hardman

Assistant Director of Finance (Audit)

Accountable Body

Derbyshire County Council

DERBYSHIRE County Council

Derby Derbyshire Nottingham Nottinghamshire

Public

Annex A – D2N2 Responses to findings

Audit Finding	Reason for the issue	Mitigation for the issue	Mitigation complete?
"Testing identified a limited number of occasions where reporting of issues to the IIB could have been more transparently recorded such as the agreed re-profiling of funding for the Silk Mill and the output delays by Our City Our River and Harworth Access Road."	The change to the Silk Mill projected was verbally stated to the Investment Board in March 2019 but was not minuted. The output delays to the Our City Our River project and Harworth Access Road were both recorded within the quarterly monitoring papers presented to the Investment Board but were not explicitly stated.	The audit finding has been noted and full compliance with the change request process is continuing to take place.	Mitigation has been put in place and will continue to be carried out.
"It was apparent that for Vesuvius, the only privately maintained project examined, the expenditure verification exercise required quarterly by the LGF principles document had not been completed for one of the quarters."	All private sector projects must demonstrate 40% of their expenditure twice annually, in this instance 25% of expenditure was monitored which is the level which all public sector projects are monitored to.	Once identified by DCC's audit, the issue was rectified and the remaining 15% of expenditure has been recorded and accounted for. The issue was flagged immediately to the private sector sponsor who adhered to the request and has provided 40% of expenditure since this reporting period	The mitigation is complete.

Audit Finding	Reason for the issue	Mitigation for the issue	Mitigation complete?
“Despite issuing funding for N2 Town Centres in quarter one of 2018/19, no quarterly monitoring returns were submitted until quarter three, as it was explained by the promoter that no expenditure had been incurred”	The project promoter had not established full monitoring systems by the Q1/Q2 return deadlines, when Q3 was requested the new system had been implemented and the correct returns were recorded.	New agreed monitoring systems were put in to place with the project promoter and all returns have been up to date since the Q3 Return.	Mitigation is complete but will be continually monitored going forward.