

PRIVATE AND CONFIDENTIAL

Appendix 1

SWANSEA BAY CITY DEAL

Report Issued to:

Chris Moore, Swansea Bay City Deal Section 151 Officer

Report Copied to:

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Auditor:

Justin Blewitt, Senior Auditor

Rationale for Audit:

Annual Risk Based Review

Internal Audit Report No:	19110 (2019-20)
Assurance Rating	Moderate
Fieldwork Completed	28 February 2020
Draft Report	05 March 2020
Management Comments	17 August 2020
Final Report Issued	28 September 2020

¹ Delay between Final Report Issued and Management Comments was due to report being taken to Programme Board (taken on 24 September 2020)

Introduction and Objectives

An audit review of the Swansea Bay City Deal (SBCD) has been carried out as agreed by the Swansea Bay City Deal Joint Committee. The audit aims to provide assurance that the Swansea Bay City Deal has adequate governance, internal control, risk management and financial management arrangements in place, which are operating effectively and assisting it to achieve its objectives.

Audit Scope

Governance:	<ul style="list-style-type: none">• Follow Up of SBCD Internal Review of Governance Arrangements & Independent Review (by Actica)• Legal Agreement & Policy Framework• Organisation Structure
Financial Management:	<ul style="list-style-type: none">• Core Funding & Grant Funding
Risk Management:	<ul style="list-style-type: none">• Risk Appetite & Risk Management Methodology
Internal Control:	<ul style="list-style-type: none">• Project Management, Monitoring & Deliverability

Methodology

<ul style="list-style-type: none">• Review of supporting documentation
<ul style="list-style-type: none">• Review of ledger and systems
<ul style="list-style-type: none">• Interviews with relevant officers
<ul style="list-style-type: none">• Sample testing

Executive Summary

The Swansea Bay City Deal (SBCD) is now in a much better position to drive the programme forward. Good progress has been made in implementing the recommendations of the internal and independent reviews (including the appointment of a Programme Director, division of statutory functions, and creation of a Portfolio Management Office {PMO} structure). Further improvements to the governance and risk management arrangements, the prompt appointment of the PMO team, and approval of business cases to Green Book standard, will ensure the programme continues to progress and funds continue to flow to the region. With continued progress, this should provide further assurance on the arrangements in place going forward.

Financial performance has been within budget for each year to date (and is forecast to be within budget for 2019-20), resulting in a surplus of £172,797 at the end of 2019-20 (without use of the 1.5% top slice of grant). There is a need to ensure all partner contributions are received in full, funding agreements are signed as soon as possible (to allow funds to be passed to Authorities), the funding allocation method is formally approved by the Joint Committee, and a decision made on how to deal with any interest earned on grant funding received.

Risk management arrangements are in place but there is an opportunity to strengthen these further with a clear and consistent risk management methodology. As projects now start to progress, it is important that regular progress monitoring reports are submitted to the PMO, Programme Board, Economic Strategy Board (ESB) and Joint Committee to ensure delivery is on track, key milestones and targets are being met, and any issues impeding delivery are identified and reported. To ensure continued good publicity and support for the programme, it is important to ensure processes are in place going forward to monitor and report on the delivery of expected outputs/benefits, to clearly evidence achievement of the original project and programme objectives and value added to the region by the SBCD.

It should be noted that the first tranche of funding (£18million) has only recently been received, and that the PMO and majority of projects are very much still in their infancy; as such there is currently very little to review in terms of central expenditure and project monitoring.

GOVERNANCE

The majority of recommendations made in the Swansea Bay City Deal Internal Review and the Swansea Bay City Deal Independent Review by Actica have been completed in full or good progress has been made. A small number of actions are ongoing (mainly on hold awaiting Programme Director input once he commences in post) and require further work to ensure they are fully addressed (refer to Appendix A and B).

A Programme Director has been appointed (commencing March 2020) and a draft Portfolio Management Office (PMO) structure has been produced. However, the role of PMO has not yet been documented and only 3 appointments have been made to date (including the Programme Director). Assurance was given that these will be addressed once the Programme Director is in post to allow them to have input. It is important that posts are appointed and the role of the PMO is documented as soon as possible to enable the PMO to carry out its role effectively going forward as projects require approval and the deal progresses.

The recent reviews of the Swansea Bay City Deal highlighted that one Authority was carrying out too many functions. In May 2019, the Joint Committee agreed the division of statutory functions between the 4 Local Authorities and it was agreed that these services would be provided as a "benefit in kind". However, in reality, the costs associated with each function (absorbed by Local Authorities) are not equitable, and a proposal is being taken to Joint Committee in the next few months for these costs to be funded out of the deal from the next financial year in order to address the inequity.

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RECOMMENDATION

The role of the Portfolio Management Office needs to be documented, and posts need to be filled as soon as possible, to allow them to carry out their role effectively of analysing business cases prior to approval and monitoring project delivery.

Grade: Critical

MANAGEMENT RESPONSE

The role of the PMO is detailed within the Programme Business Case.

Four new posts have been agreed (JC – 11 June 2020) to be recruited into the PMO and are currently being advertised.

Responsible Officer

Jonathan Burnes

Timescale for Action

31 December 2020

GOVERNANCE

Further work is required to enhance the improvements to governance which have already been made. The risk management methodology and risk appetite have not yet been set (currently being reviewed), and the arrangements for counter fraud, due diligence and anti-money laundering also need to be clarified and documented (e.g. follow Accountable Body procedures or each Authority following their own procedures). Whilst the Joint Committee Agreement makes reference to data protection and confidentiality, a specific information sharing protocol has not been documented. Declarations of interest are in place for Co-opted Members of the Economic Strategy Board (made up of private sector representatives) but not for other Officers & Members, and a register of gifts/hospitality is not currently maintained.

The Joint Committee Agreement sets out the arrangements for Local Authority partners. However, there is no similar agreement for non-Local Authority partners (e.g. Universities and Health Boards) setting out what is expected of them (including any financial contributions) and the actions to be taken if these expectations are not fulfilled (refer to recommendation in Financial Management Section regarding formal agreements with partners who have not signed up as part of the Joint Committee Agreement).

RECOMMENDATION

Governance arrangements need to be strengthened further in terms of documenting the risk management methodology and risk appetite, an information sharing protocol, counter fraud procedures, due diligence and anti-money laundering arrangements, and recording of declarations of interest/gifts and hospitality for all Senior Officers and Members.

Grade: Critical

MANAGEMENT RESPONSE

Anti-money laundering and counter fraud policy currently in development.

A data base of declaration of interests has been compiled for senior members and will be updated annually by the PMO.

Risk management and risk appetite will be documented within the Programme Business Case.

Responsible Officer

Jonathan Burnes

Timescale for Action

31 December 2020

FINANCIAL MANAGEMENT

Of the 8 £50k partner contributions for 2019-20, 2 remain outstanding (£25k outstanding from 2018-19 also). An update was provided at the time of the draft response to state that all 2019-20 contributions have now been received, with just the £25k from 2018-19 remaining outstanding.

Budget setting and forecasts are largely based on estimates (as there has been no previous history to inform these), and assurance was given that the 2020-21 budget would be reported to Joint Committee for approval prior to the start of the financial year (this was delayed due to the COVID-19 crisis and was agreed by Joint Committee on 9 July 2020). Budgets are monitored on a regular basis and it is hoped that there will be a clearer picture of actual expenditure at the end of the financial year which will help inform the budget setting process going forward. The budget will also need to be reviewed with the Programme Director once he commences in post. An update was provided during the draft response stating this was done.

Financial performance has been within budget for each year to date (and is forecast to be within budget for 2019-20), resulting in a surplus of £172,797 at the end of 2019-20 (without use of the 1.5% top slice of grant). The total reserve figure resides at £272,668.

There has been minimal expenditure and transactions to date in relation to the payment of employees, purchases, and compliance with standing orders. Of the transactions that had taken place in 2019-20, only a small number of minor anomalies were noted including a duplicate payment (£32) and an IT purchase (£68.40) where budget holder approval was not evident (retrospective approval was provided during the audit).

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RECOMMENDATION

Formal agreements should be signed with partners who have not signed up as part of the Joint Committee Agreement (i.e. universities and health boards). All contributions due should then be paid or appropriate escalation/action taken.

Grade: Important

MANAGEMENT RESPONSE

PMO will review the role and formal membership of the co-opt members. It should be noted that formal partners have taken an active role in the Joint Committee for the previous two years. All partners have fully paid contributions with the exception of £25k.

Responsible Officer

Jonathan Burnes

Timescale for Action

31 January 2021

FINANCIAL MANAGEMENT

Funding agreements (3 separate agreements) are currently in the process of being drafted by Geldards. The agreement between the Accountable Body and Lead Authorities did not include a small number of items (Schedule 2 – Form of Funding Agreement and the clause allowing the audit of expenditure) and assurance was given that these would be added. An update was provided at the time of the draft response to state that funding agreements had been approved by Joint Committee (11 June 2020) and these items had been included.

Schedule 4 (Terms and conditions of award of funding) is to be inserted in to the agreement for each Authority at the time of signing (e.g. the current terms and conditions will be included for Swansea & Carmarthenshire as their projects have been approved and they will be receiving funding from the initial £18million grant received). There is a risk that compliance with any future terms and conditions (as part of future funding releases) will not be covered by this funding agreement (unless a new funding agreement is signed each time which would not be ideal).

The Joint Committee Agreement states that funding will be allocated based on 1/15 of the allocated sum per project. However, funding is not actually planned to be distributed exactly in accordance with this (due to grant funding not being released on a straight line basis), with Authorities actually getting slightly more than 1/15. The actual methodology used is the “project % of total grant award for the programme” multiplied by the amount of grant funding received in that tranche.

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RECOMMENDATION

Funding agreements should cover the terms and conditions of the current tranche of grant funding and any terms and conditions associated with future funding releases (a clause to this effect could be added to the funding agreements to cover this).

Grade: Important

Funding should be awarded in line with the Joint Committee Agreement (i.e. 1/15 allocation) or the actual funding distribution method should be formally approved by the Joint Committee (the Joint Committee Agreement should be amended when appropriate to reflect the actual funding distribution method).

Grade: Important

MANAGEMENT RESPONSE

This was included within the approved funding agreements (JC 11th June 2020)

The additional money is going to be used to strengthen the service. The 1/15th is only a technicality and likely to change going forward on fluctuation of government grant. The JCA will be amended to direct the award of grant on a proportionate basis over 15 years and not a straight-line 1/15th basis.

Responsible Officer

Chris Moore

Timescale for Action

31 March 2021

FINANCIAL MANAGEMENT

For example, for Swansea City & Waterfront Digital District:

	JCA Methodology	Actual Methodology
Total SBCD Award <i>£241m less 1.5% top slice of grant</i>	£237.39m	£237.39m
Total Project Award <i>£50m less 1.5% top slice of grant</i>	£49.25m	£49.25m
1st tranche of funding <i>£18m less 1.5% top slice of grant</i>	£17.73m	£17.73m
Grant Award from 1st tranche of funding	£3.28m	£3.68m
Method of Calculation	1/15 of total project award <i>(i.e. £49.25m/15)</i>	Project % of Total SBCD Award x 1 st tranche of funding <i>(i.e. {£49.25m/£237.39m} x £17.73m)</i>

No funding has been distributed to Authorities to date as funding agreements are currently being drafted and have not yet been signed. Internal Audit was informed that the £18 million received to date (the Programme Investment Fund) has been pooled in line with Carmarthenshire County Council's approved Treasury Strategy (as the Accountable Body) to optimise the return, and interest will be calculated at an average rate and ring-fenced to the City Deal at year end. Internal Audit was informed that Wales Audit Office are currently reviewing this area.

There has not yet been a decision on how to treat interest earned on the Programme Investment Fund, and it is envisaged that a report submitting options on this will be reported to Joint Committee in the near future.

RECOMMENDATION

A decision on how to treat any interest received on the Programme Investment Fund needs to be made and formally approved by the Joint Committee.

Grade: **Opportunistic**

MANAGEMENT RESPONSE

This was agreed at JC 11/06/2020.

Responsible Officer

Chris Moore

Timescale for Action

Complete

RISK MANAGEMENT

There is not currently a documented risk management methodology/strategy which clearly sets out the process and procedures for recording and reporting key risks, the risk appetite and risk tolerance levels (a risk scoring methodology has been documented). Internal Audit was informed that risk management is currently being reviewed.

A Swansea Bay City Deal Programme Risk Register is in place and is reported to Joint Committee and Joint Scrutiny Committee on a regular basis (a Programme Issue Log setting out the most significant risks for each project accompanies this). Project Leads are responsible for maintaining project risk registers but these do not have to follow a format or methodology consistent with the Programme Risk Register and do not get reported in full (Project Leads would inform the Portfolio Management Office of what they feel are the highest risks).

Ideally, the Portfolio Management Office would be provided with the full project risk registers on a periodic basis as they may have alternative opinions on what the highest risks are to feed into the Programme Issue Log and Programme Risk Register (in an ideal scenario the project risk registers would all be in a consistent format and follow the same methodology as the Programme Risk Register to allow ease of comparison and escalation).

RECOMMENDATION

Refer to recommendation in Governance Section regarding governance arrangements.

MANAGEMENT RESPONSE

Not applicable

Responsible Officer

Not applicable

Timescale for Action

Not applicable

INTERNAL CONTROL

Business cases (following the 5 case business case model) are documented for each project setting out the need, aims, objectives, benefits, project plans, and key milestones. An overarching Implementation Plan and Monitoring & Evaluation Plan (currently at draft and will be subject to review by consultants to develop it further) are in place and good progress has been made recently, with 2 business cases approved, 1 submitted to Governments for approval, 1 approved by the Joint Committee ready for submission to Governments, and plans in place for the submission of the remaining business cases.

Project delivery lies with the Lead Authorities and the process for monitoring progress is documented in the Joint Committee Agreement. This involves Project Leads submitting quarterly progress reports (showing progress against key milestones and targets) to the Portfolio Management Office (PMO), Programme Board, Economic Strategy Board (ESB) and Joint Committee prior to submission to Governments. This process has not yet formally commenced as the completion of signed funding agreements have been awaited. Once projects are complete, it is important to ensure processes are also in place to monitor the delivery of expected outputs/benefits to evidence the achievement of original objectives and value added to the region by the Swansea Bay City Deal.

As mentioned in the Risk Management section, Project Risk Registers are maintained and project leads relay key risks to the Portfolio Management Office (PMO) for reporting to Joint Committee. This process would be improved if risk registers were shared in full to allow the PMO and Joint Committee to make their own assessment of risks and mitigating actions. The full risk register and issue log is compiled by the PMO and shared with the JC & JSC.

RECOMMENDATION

Progress monitoring reports (showing progress against milestones and targets) should commence as soon as possible to ensure project delivery is monitored and any potential issues are identified and reported on a regular basis.

Grade: Critical

MANAGEMENT RESPONSE

Monitoring and evaluation plan now developed and implemented (Approved JC – 9th July 2020).

Issue log and risk register has been in operation and reported on a regular basis and managed at project level.

Responsible Officer

Jonathan Burnes

Timescale for Action

Complete

Ongoing Recommendations from Swansea Bay City Deal Independent Review (Actica)

RECOMMENDATION	CURRENT STATUS
<p>The Regional Office should be designated as a Portfolio Management Office, leavening their skills with experienced Portfolio/Programme/Project Management (P3M) specialists.</p>	<p>The Regional Office has now been designated as a Portfolio Management Office (PMO) and the Joint Committee Agreement (JCA) has been amended. However, Schedule 15 of the JCA (Role of the Portfolio Management Office) has not yet been completed - awaiting input from the new Programme Director once they commence in post. Similarly, appointments to the PMO have not yet taken place as awaiting input from the Programme Director. The Programme Director will review the PMO structure and budget once in post to confirm it is fit for purpose.</p>
<p>The City Team should (with the support of the Welsh Government Assurance Hub and IPA as necessary) put in place a best practice Integrated Assurance and Approval Plan (IAAP) for the Portfolio. All parties should specifically consider the OGC Gateway™ Review process as a key part of that plan.</p>	<p>Now following the OGC Gateway Review process. A draft Integrated Assurance and Approval Plan (IAAP) has been produced. A meeting was held with Welsh Government recently to review this and a further meeting is planned (after some additional work has been carried out to ensure this reflects project level as well as programme level). Update at time of draft response: The meeting happened on 17th Feb, Regional meetings were undertaken in May to communicate the gateway process to project management teams.</p>
<p>The SBCD should be managed as a Portfolio not as a set of predetermined and immutable projects.</p>	<p>A number of projects have been reviewed and updated to ensure continued relevance to the City Deal portfolio. Once in place, the Programme Director and PMO (with the assistance of consultants) will carry out a stock take of the current programme to ensure a portfolio approach.</p>

Ongoing Recommendations from Swansea Bay City Deal Internal Review of Governance Arrangements

RECOMMENDATION	CURRENT STATUS
<p>Redistribution of roles and functions to ensure an equitable balance across the SBCD Partnership, each acting as a check and balance for the other.</p>	<p>Roles and functions have been redistributed across the partnership (Pembrokeshire-Audit, Swansea-Monitoring Officer & Democratic Services, Neath Port Talbot-Scrutiny, Carmarthenshire-Accountable Body, Employing Authority & Section 151 Officer). However, these are currently given as benefits in kind which is not equitable as the services provided by each Authority are at different levels. It is proposed to bring these back into the budget to address this inequity. Update at time of draft response: These will be re-included from financial year 20/21 forward (JC - 11/07/2020).</p>
<p>The local approach to the delivery of the SBCD projects needs to take account of the interdependencies across the Programme. Consideration should also be given to contingency plans if Government funding is withdrawn at a later date.</p>	<p>A number of projects have been reviewed and updated to ensure continued relevance to the City Deal portfolio. Once in place, the Programme Director and PMO (with the assistance of consultants) will carry out a stock take of the current programme to ensure a portfolio approach.</p> <p>There are no contingency plans in place if Government funding is withdrawn as it is felt that the Government have committed to the funding and the risk is with the Authorities (which was agreed at the outset) and will be fed into the funding agreements.</p> <p>Update at time of draft response: Financial obligations sit with Local Authorities, therefore should Government funding be withdrawn it would fall to the Local Authority to support the funding gap. Also there are clauses within the JCA and the Grant T&C refer to support with remedy to any adverse event a project is exposed to. Clawback will only be triggered as a last resort.</p>

RECOMMENDATION	CURRENT STATUS
<p>The Joint Committee, as a conduit for regeneration of the Region, needs to further establish its own identity in terms of overarching standard operating principles, values and expected practice. Key areas for consideration are highlighted within the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016 for such a Partnership and include:</p> <ul style="list-style-type: none"> • Agreed risk appetite of the Partnership • Agreed risk management methodology; • Establishing the ethical values and framework; • Counter fraud, corruption & bribery procedures; • Due diligence and anti-money laundering arrangements; • Programme/project management methodology; and • Overarching record of declarations of interest and offers of gifts and hospitality by all Officers and Members. 	<p>Risk management methodology and risk appetite not yet been set – this is under review at the moment. Arrangements for counter fraud, due diligence and anti-money laundering also need to be clarified and documented (e.g. follow Accountable Body procedures or each Authority following their own procedures). Declarations of interests are in place for Co-Opted Members of the Economic Strategy Board but not for all Senior Officers and Members. No record of gifts and hospitality.</p>

ASSURANCE RATINGS

Level of Assurance	Description	Standard Circulation
Substantial	There are no or few weaknesses in the adequacy and/or effectiveness of the governance, internal control, risk management and financial management arrangements, and they would either be unlikely to occur or their impact is not likely to affect the achievement of the SBCD objectives.	Finance Manager/ Section 151 Officer/Monitoring Officer Programme Board/Joint Committee
Moderate	There are some weaknesses in the adequacy and/or effectiveness of the governance, internal control, risk management and financial management arrangements, but these are unlikely to have a significant effect on the achievement of the SBCD objectives.	Finance Manager/ Section 151 Officer/Monitoring Officer Programme Board/Joint Committee
Limited	There are a number of weaknesses in the adequacy and/or effectiveness of the governance, internal control, risk management and financial management arrangements, which, in aggregate, could have a significant effect on the achievement of the SBCD Objectives.	Finance Manager/ Section 151 Officer/Monitoring Officer Programme Board/Joint Committee

RECOMMENDATION GRADING

Seriousness	Action Required
Critical	High risk that requires prompt strategic or operational action.
Important	Medium risk that requires strategic or operational action.
Opportunistic	Potential to strengthen the service by taking advantage of a situation

Low level findings will be reported during the exit interview.

LIMITATIONS IN ASSURANCE

It should be noted that full testing was not undertaken as part of this audit review, therefore the results should be considered in this context.

ACKNOWLEDGEMENT

We would like to take this opportunity to thank all staff involved for their co-operation during the audit review.

CONTACT DETAILS

If the Internal Audit Service can be of any further assistance please contact:

- Matthew Holder, Audit, Risk & Counter Fraud Manager
- Jo Hendy, Chief Audit, Risk & Information Officer