

SWANSEA BAY CITY DEAL

Report Issued to:

Chris Moore, Swansea Bay City Deal Section 151 Officer

Report Copied to:

**Jon Burnes, Swansea Bay City Deal Portfolio Director
Richard Arnold, Swansea Bay City Deal Finance Manager
Tracey Meredith, Swansea Bay City Deal Monitoring Officer**

Auditor:

Justin Blewitt, Principal Auditor

Rationale for Audit:

Annual Risk Based Review

Internal Audit Report No:	20031 (2020-21)
Assurance Rating	Substantial
Fieldwork Completed	7 April 2021
Draft Report	8 April 2021
Management Comments	9 April 2021
Proposed Final Report Issued	13 April 2021

Introduction and Objectives

An audit review of the Swansea Bay City Deal (SBCD) has been carried out as part of the 2020-21 Internal Audit Plan, 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 Previous Recommendations• Organisation Structure• Monitoring & Reporting Arrangements
Risk Management:	<ul style="list-style-type: none">• Risk Management
Internal Control:	<ul style="list-style-type: none">• Business Plan Creation & Approval• Project Management• Performance Monitoring & Delivery of Outcomes
Financial Management:	<ul style="list-style-type: none">• Financial Management

Methodology

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

Executive Summary

Good progress has been made since the previous audit review in strengthening existing arrangements. A Portfolio Director has been appointed to provide strategic direction, with a full complement of staff employed within the Portfolio Management Office (PoMO) to provide operational support. Improvements to existing working practices have been embedded within risk management processes, preparation and submission of business cases, with regular progress reporting being provided to respective governance boards.

Due to the recent impact from external influences (e.g. Brexit, Covid-19), there is a risk that private sector funding required for projects may not be secured. The latest analysis illustrates that only £16m out of £592m private sector funding has been formally committed to date (though £534m is recorded as being in advanced engagement). This is to be expected to an extent, with the majority of projects using public sector funding as a catalyst for private sector funding in future years. It would however be prudent to consider this a high risk area, as the success of delivering the Swansea Bay City Deal is reliant on private sector funding.

At the time of the audit, no payments had been made to projects in delivery. Delays have been due to funding agreements not yet having been signed, but assurance was given that these are in the process of being signed imminently, with the expectation that future funding agreements will be signed more promptly. Funding needs to start flowing to projects as soon as possible to maintain momentum. Processes for recording and monitoring outputs, outcomes and impacts have started to develop, but these need to be evolved and become fully embedded to ensure projects (and the portfolio) can evidence achievement of the original objectives and value added. There is still no movement since last year's audit recommendation for non-Local Authority partners to sign up to a formal agreement (i.e. Universities and Health Boards), despite them having a significant role to play in the SBCD, and being directly involved with several projects. Formal agreements with partners will be considered when the PoMO update the JCA in partnership with Swansea Bay City Deal Monitoring Officer and key stakeholders.

FOLLOW UP OF PREVIOUS RECOMMENDATIONS

Of the 7 recommendations made (and accepted) during the previous audit review in 2019-20, 4 have been completed in full, 2 have been partially completed and 1 remains outstanding. These include:

- 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. *Not Complete - the signing of formal agreements with partners who have not signed up as part of the Joint Committee Agreement has not yet been progressed. Internal Audit was informed that all partners, with the exception of one, are paid up to date and are committed to fully pay required contributions.*
- 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. *Partially Complete - the correct funding distribution method has been included in the funding agreements and Internal Audit was informed that the Joint Committee Agreement will be amended imminently.*
- 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. *Partially Complete - Anti-Fraud and Anti-Corruption Strategy has been drafted but has not yet been approved. A new process has been introduced for recording declaration of interests and is being fully embedded at the time of the audit.*

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).

Grade: Important

The Anti-Fraud and Anti-Corruption Strategy should be finalised and formally approved as soon as possible, and the new process for recording declaration of interests should be fully embedded.

Grade: Important

MANAGEMENT RESPONSE

The JCA update will commence in April 2021. Consideration will be given to non-LA partners being part of the JCA as part of the update. Partners who are lead deliverers are signed up to deliver the outputs and outcomes as stipulated in the Funding Agreements. The policies will be finalised and approved by the SBCD governance in Q1 2021/22.

Declarations of interest process and templates are now fully embedded. Anti-Fraud Strategy is awaiting feedback from Audit in PCC on principles of the policy and will be put through Governance Boards for formal approval in Q1.

Responsible Officer

Jonathan Burnes

Timescale for Action

30 June 2021 (end of Q1 2021-22)

RISK MANAGEMENT

A Risk Management Strategy is in place which sets out the Swansea Bay City Deal policy and procedures for risk management. A Covid-19 Impact Assessment has also been produced to capture risks associated with the pandemic.

A Swansea Bay City Deal Portfolio Risk Register is in place, with 26 risks recorded, 2 of which have a high revised risk rating. The scoring of risks was not always consistent with standard risk management scoring techniques, with one instance of the revised score being higher than the inherent score. Some risk scores were noted as having decreased significantly, with both the probability and impact decreasing following controls being put in place (usually controls would only affect the score of one of these rather than both). Internal Audit was informed that the risk scores recorded are revised scores (the rating at the current time) as opposed to the standard process of a residual score (the rating after controls have been implemented).

Individual project/programme risk registers are in place and it was pleasing to see that these all now follow the same template as the Portfolio Risk Register ensuring a more consistent approach and allowing escalation/de-escalation of risks to happen more fluidly.

The Portfolio Risk Register is reported to Joint Committee quarterly, along with a summary of the key risks for each project, and there is a clear process for the escalation of risks. This process has only recently been introduced and no risks have yet been escalated from project/programme to Portfolio level. Internal Audit was also informed that to further strengthen the process, a member of the PoMO now sits on each of the established Programme/Project Boards, to allow them first sight of any risks that require future escalation.

RECOMMENDATION

The risk scoring methodology should be reviewed to clearly identify the inherent (prior to the implementation of controls) and residual (after the implementation of controls) risk scores.

Grade: Important

MANAGEMENT RESPONSE

Noted and agreed. The portfolio risk register now incorporates the residual risk score. The PoMO will conduct an annual review of the portfolio risk register in Q1/2 2021/22 with the aim to refresh the risk definitions and remove any legacy narrative. The refresh will also ensure that residual risk ratings are in line with the inherent risk score.

Responsible Officer

Jonathan Burnes

Timescale for Action

30 Sept 2021 (end of Q2 2021-22)

PERFORMANCE MONITORING & DELIVERY OF OUTCOMES

An overarching Portfolio & Project Delivery Gantt chart is in place setting out key milestones in terms of timescales for delivery of the individual projects and overarching portfolio. Business cases also include key milestones with planned timescales. Progress against key milestones is monitored by Project Leads and the PoMO, with updates provided to each of the governance boards as part of quarterly monitoring reports and highlight reports. These show the key achievements to date and key activities planned with clear links back to the business cases. The PoMO are currently in the process of identifying P3M tooling software for project plans which will ensure a consistent approach, and will enhance the visibility and reporting of fully comprehensive Gantt charts. This is planned to be in place by Q1/Q2 of the 2021-22 financial year.

A Portfolio Investment Appraisal has been documented which sets out the financial targets and estimated expenditure for all projects over the duration of the Swansea Bay City Deal. Financial performance for individual projects is monitored but is currently only reported to the Programme Board. There would be merit in reporting financial details to other governance boards (e.g. Joint Scrutiny Committee) on a regular basis to allow projects to be fully scrutinised, and Internal Audit was informed that the possibility of introducing this going forward would be discussed.

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RECOMMENDATION

Not applicable

MANAGEMENT RESPONSE

Not applicable

Responsible Officer

Not applicable

Timescale for Action

Not applicable

PERFORMANCE MONITORING & DELIVERY OF OUTCOMES

A Portfolio & Project Investment Objectives document is in place which summarises the high level overarching objectives for the overall portfolio and the individual projects/programmes. A Benefits Appraisal highlights the detailed key performance targets which are linked to the overarching objectives for each project. This is currently focused on the measurable quantitative benefits and will be developed to include all registered benefits as individual programmes/projects enter delivery. It was agreed at the latest Joint Scrutiny Committee that a draft monitoring document would be created to report on project outputs, outcomes and impact. These will also be monitored via the quarterly monitoring and highlight reports. A Community Benefits register has been approved and implemented and will be further populated as projects/programmes proceed into procurement.

The only project which has had an element of completion to date, and where outcomes can start to be measured, is Yr Egin (Phase 1). A case study and Project Evaluation Review have been completed and these provide detail on performance against expected outcomes for this project.

In terms of learning lessons across the portfolio of projects, Internal Audit was informed that whilst lessons are being learnt, these are not yet being fully documented. Internal Audit was informed that a Lessons Learned log is now being populated at portfolio level by the PoMO and will be cascaded to projects/programmes via a workshop. These will then provide a mechanism for logging and documenting lessons learned across the portfolio.

RECOMMENDATION

The processes for capturing and reporting on the achievement of outputs, outcomes and impacts should continue to be developed and should be fully embedded to set out clear performance targets and help evidence the achievement of the original objectives and value added.

Grade: Critical

MANAGEMENT RESPONSE

A SBCD Portfolio benefits plan will be developed and implemented in Q1/2 2021/22 to complement the existing performance reports (highlight, quarterly and annual reports).

Benefits realisation will be reported on a quarterly basis and form part of the future annual reports.

Responsible Officer

Jonathan Burnes

Timescale for Action

30 June 2021 (end of Q2 2021-22)

FINANCIAL MANAGEMENT

Two tranches of £18million grant funding have been received in 2020-21, taking the total of City Deal drawdown to £54million. There is a risk in terms of private sector funding, given recent external factors (e.g. Brexit, Covid-19 pandemic), which have impacted on the majority of businesses and will inevitably increase the risk of private sector funding not being able to be secured. The latest analysis shows that to date only £16m out of £592m private sector funding has been formally committed (though £534m is recorded as being in advanced engagement). Whilst this is to be expected to an extent, with the majority of projects using public sector funding in the early years to be the catalyst for private sector funding in future years, this is still a significant risk area which needs to be carefully monitored, and appropriate contingency plans considered.

No payments had been made to projects at the time of the audit, and projects that have commenced are currently spending at risk. The delay has been due to getting signed funding agreements in place. Assurance was given that the first agreements are due to be signed imminently. Funding needs to start flowing to projects as soon as possible to maintain momentum and confidence in the Swansea Bay City Deal. There have been a number of issues and delays with signing the first funding agreements, but it is hoped that future funding agreements should be signed more promptly due to these issues being ironed out as part of this initial process.

RECOMMENDATION

The level of Private Sector funding received/committed should be carefully monitored to ensure it remains on track and identify any potential issues at an early stage. Potential contingency plans if private sector funding does not materialise as expected should be considered.

Grade: Critical

MANAGEMENT RESPONSE

Holistically there is no contingency plan for the £600m + for the private investment, however each LA lead and lead deliverer is responsible for their outcomes, outputs and impacts which includes inward investment. This has been identified as a red risk on our portfolio risk register and is also cascaded out to programmes / projects. Mitigations include quarterly financial reporting on the situation, development of a business engagement & commercial framework and programmes / projects delivering on what they set out to achieve. If an issue becomes apparent, then a bespoke mitigation strategy will be developed at that point of time to ensure the continued success of the programme / project.

Payments were released to Local Authorities in March 2021. Payments will now continue in line with the JCA and funding agreements. This has never been identified as a risk by PoMO or Local Authorities.

Responsible Officer

Chris Moore

Timescale for Action

Ongoing (31 Dec 2021 for update)

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.	Section 151 Officer/Portfolio Director/Finance Manager/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.	Section 151 Officer/Portfolio Director/Finance Manager/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.	Section 151 Officer/Portfolio Director/Finance Manager/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