

ANGUS COUNCIL

POLICY & RESOURCES COMMITTEE - 31 AUGUST 2021

TAY CITIES REGION DEAL – AUDIT

REPORT BY VIVIEN SMITH

DIRECTOR OF STRATEGIC POLICY, TRANSFORMATION & PUBLIC SECTOR REFORM

ABSTRACT

This report seeks to inform the Committee of the recent Audit carried out that sought to review the governance arrangements in place for the Tay Cities Region Deal, following updates to the Tay Cities Management Group and Joint Committee respectively.

1. RECOMMENDATIONS

It is recommended that the Council:

- (i) note the recommendations of the Audit Report carried out by Dundee City Council (appendix 1);

2. ALIGNMENT TO THE ANGUS COMMUNITY PLAN/COUNCIL PLAN

- 2.1 This report contributes to the outcomes contained within the Angus Community Plan and Council Plan, which focus on Economy, People, Place and Our Council.

3. BACKGROUND

- 3.1 In late January 2021, the Tay Cities Project Management Office (PMO) were approached by the Dundee City Council Internal Auditors and KPMG (on behalf of Dundee City Council) to carry out a high-level audit to review the governance arrangements in conjunction with the internal audit services at partner bodies as appropriate.
- 3.2 Following a comprehensive review of Tay Cities documentation, including Management Group and Joint Committee papers, Deal Document, Quarterly Report, the Tay Cities Risk approach, and conversations with selected Partners and PMO Officers, an internal audit report was produced outlining recommendations for the PMO and Tay Cities Partnership to take forward in order to enhance governance procedures..
- 3.3 A copy of the Executive Summary was presented to Dundee City Council Scrutiny Committee Wednesday 23 June. The audit findings and recommendations have been formally reported to the Executive Director of City Development and the Executive Director of Corporate Services by the PMO Manager and appropriate actions agreed to address the matters raised.

4. OUTCOME OF AUDIT

- 4.1 The Internal Audit Report sets out 3 routine recommendations for improvement to support Tay Cities governance. Table 1 outlines the recommendations made and the agreed action to take them forward. Full details of the recommendations are contained at Appendix 1.

Theme		Action	Responsible Officer(s)	Target Completion Date
Tay Cities Governance and Role of Thematic Boards	Enhance the role of the Thematic Boards	Invite lead individuals from each Project / Programme / Fund to the meetings of the TBs at the initial stages of creating business cases, obtaining their input throughout the Decision Pathway, and then providing ongoing updates during the delivery phase – particularly in relation to ongoing progress and risk management.	Tay Cities Deal Programme Manager	31 August 2021
Grant Claims Process	Document the roles and responsibilities of the Project Owners, PMO, Section 95 Officer and both Governments in relation to processing, reviewing and approving grant claims.	<ul style="list-style-type: none"> - Develop a process for challenging, escalating and investigating any exceptions through the appropriate Governance channel. - Review & conduct future checks over the grant claim forms on a sample basis, based on risk - Develop a Claims Assurance Checklist form which highlights any exceptions and variations to the funding requirements with supporting evidence - Review the current finance support to the PMO Programme Manager and S95 Officer 		31 August 2021
Principles of Governance	Introduce a table that sets out the risk reporting requirements for each level of the governance groups	The risk reporting requirements table should include the purpose and frequency. For the Project Boards, this should include the monthly requirement to report by exception on any key changes to project related risks so that the PMO can undertake a regular thematic review of the principal risks and identify any trends that may require escalating to a strategic level.		31 July 2021
	Early engagement with Project / Programme and Fund owners to support Grant Claims	Communicate to all Project / Programme and Fund owners that proactive and early engagement with the PMO is recommended to ensure that Grant Claim Forms and supporting evidence are submitted to the PMO in a timely manner.		31 July 2021
	Reporting schedule for relevant governance groups	Instill a discipline of agreeing a reporting schedule for the relevant governance groups, which includes key information required that is tailored to the needs of that group, and this should be shared in advance with a specific covering paper that states whether there are any actions required or if the documents are for information.		31 July 2021

5. FINANCIAL IMPLICATIONS

5.1 There are no financial implications arising directly from this report.

6. NEXT STEPS

6.1 The PMO will take reasonable steps to progress the action points within the agreed timescales and thereby minimise the risk to which the Council is exposed. The recommendations within the report will be added to Pentana and progress towards implementation will require to be recorded, managed and monitored within the system. The support of the Tay Cities Partnership is requested to ensure that the action points are successfully taken forward.

7. CONSULTATION

7.1 The Chief Executive, Depute Chief Executive, Director of Legal and Democratic Services and the Director of Finance have been consulted in the preparation of this report.

NOTE: The background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) which were relied on to any material extent in preparing the above report are:

Report No 280/17 - Tay Cities Deal - Interim Minute of Agreement – 7 September 2017

Report No 89/19 – Tay Cities Deal – Governance Arrangements – 21 March 2019

Report No 177/19 (Schedule 2) – Tay Cities – 4 June 2019

Report No 120/20 – Tay Cities Region Deal – 19 March 2020

Report No 249/20 – Tay Cities Region Deal – 19 October 2020

Report No 95/21 - Information Report for the Period October 2020 – March 2021

Report No 106/21 – Tay Cities region Deal – Project Acceleration – 18th March 2021

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1. INTERNAL AUDIT REPORT 2020/26 – Dundee City Council

INTERNAL AUDIT REPORT 2020/26

EXECUTIVE SUMMARY

Client	Corporate
Subject	Tay Cities Deal

Introduction

The Tay Cities Region Deal (“the Deal”) is a programme of investment to deliver economic growth across the region. The Tay Cities partnership comprises Dundee City, Angus, Perth and Kinross and Fife councils; the Higher and Further Education sectors; the business sector; the region’s third sector interface bodies; Scottish Enterprise and Skills Development Scotland.

The Scottish and UK governments have each agreed to invest up to £150 million in the Deal. This investment has the potential to secure over 6,000 quality jobs and generate £400 million of investment over 15 years. It will enable the region to “empower and promote inclusion”, “innovate and internationalise” and “connect”. The Deal was signed on 17 December 2020.

The Deal’s governance arrangements enable decisions to be taken in an open and transparent way, for the whole of the Tay Cities region. The Joint Committee, established by local authority partners in 2017, is the ultimate regional decision-making body for the Deal. This is supported by the Tay Cities Management Group, Finance Directors Group and five Thematic Boards (TBs), more specifically Skills, Transport, Digital, Culture and Tourism and Innovative and International.

The Council is the Accountable Body and Lead Authority for the Deal. All grant funding from Government is channelled through the Accountable Body and it has the authority to hold to account any members of the bodies within the governance structure or projects, should they present a risk to the overall programme. It is important that established governance structures are designed and operating as intended at this stage of the Deal to ensure effective, timely decision making. The Programme Management Office (PMO) is a team of officers currently employed by Dundee City Council as the Lead Authority to coordinate the operational tasks needed to implement the delivery of the Deal, although other officers may be seconded from other partnership areas. The Programme Manager is appointed by the Management Group and works under its direction. In particular, the PMO has the role of facilitating the scrutinising of proposed business cases, reporting to the Joint Committee and assessing and monitoring progress.

Scope and Objectives

Review of governance arrangements in place for the Tay Cities Region Deal.

Conclusion

The principal conclusion drawn from this review is that whilst there is basically a sound system of control there are some areas where it is viewed improvements can be made.

The main areas commented upon in the report are as follows:

The Deal was formally signed in December 2020 and the internal audit took place towards the end of the financial year 2020-21 so it is recognised that the delivery of the Deal remains in relative infancy. Through all stakeholder discussions held it has been noted that there has been consistent and positive feedback regarding the overall governance arrangements in place, and particularly in relation to the role played by the PMO in its approach and responsiveness.

There are some routine areas for consideration that Internal Audit has raised, to further strengthen the governance arrangements in place for the Tay Cities Region Deal including:

- Enhancing the role of the TBs by formalising the requirement for them to engage with the projects earlier. This can be done by inviting lead individuals from each Project / Programme / Fund to the meetings of the TBs at the initial stages of creating business cases, obtaining their input throughout the Decision Pathway, and then providing ongoing updates during the delivery and monitoring phase.

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Conclusion (Cont'd)
<ul style="list-style-type: none">□ Documenting the roles and responsibilities of the Project Owners, PMO, Section 95 Officer and Governments in relation to processing, reviewing and approval of grant claims, including the process for challenging, escalating and investigating any exceptions.
Management Response to the Audit Report
The audit findings and recommendations were formally reported to the Executive Director of City Development and the Executive Director of Corporate Services and appropriate action agreed to address the matters raised.

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1.	Governance Structures and the Role of the Thematic Boards
	<p>Finding</p> <p>Stakeholders across the Deal’s governance structure were interviewed as part of the audit fieldwork, including those who have previously attended, or currently attend, the following groups: Finance Director’s Group (“FDG”), Thematic Boards (“TBs”), Management Group (“MG”) and the Joint Committee (“JC”). The Project Management Office (“PMO”), which supports the Governance groups has been praised by all stakeholders interviewed for its robust approach to programme and project management, and its responsiveness in managing the various governance elements of the Deal. Over and above the documented governance structure in the Deal, the UK and Scottish Governments also provide strong oversight and the PMO is required to provide regular progress reporting and manage financial claims from projects.</p> <p>A four-stage “Decision Pathway” is outlined in the Deal, which illustrates how a Strategic Outline Case (“SOC”) is developed in stage one, progressing to an Outline Business Case (“OBC”) and Full Business Case (“FBC”) in the second and third stages, respectively. The fourth and final stage relates to the implementation, review and evaluation of the drawdown of funds.</p> <p>One of the roles of the TBs is to review each stage of the business case as it is developed by Project / Programme / Fund owners, provide feedback to them and recommendations to the MG for their approval. The MG is comprised of Directors from the region’s four local authorities (delegated to the role by their respective Chief Executives), representatives from various regional partners, the Section 95 Officer from the Lead Authority (Dundee City Council) and the PMO.</p> <p>The MG supports the JC, and the JC is the most senior governance group comprising 12 elected members appointed by the Constituent Councils, with the remaining six members from the other governance groups and nominees of other regional partners.</p> <p>A strong relationship has been developed with both Governments. They have worked with the partnership, in particular having regular meetings with the S95 Officer, Chair of the MG and PMO Manager in 20/21 to develop and secure the Deal. They also both have standing open invitations to attend and present at meetings within the Partnerships Governance Structure. These have included the FDG, MG and JC. It is understood that the Governments have indicated they will no longer attend the JC meetings from January 2021 as this meeting is political in nature. A standing invitation to both Governments remains to attend the FDG and MG meetings. They are currently invited to speak to the MG at their April and October 2021 meetings and have been invited to, and presented at, Project and Programme Roadshows and events set up by the PMO. Interaction with Governments is further maintained through weekly meetings which are scheduled with the PMO and ad hoc meetings as required with the MG Chair and Section 95 Officer.</p> <p>As part of the audit testing, evidence of the review and approvals of OBCs and FBCs by the MG and JC was obtained to verify that the governance structures were operating as designed for the following projects: Eden Campus, Hospitalfield (within the Regional Culture and Tourism Investment Programme), International Barley Hub and Advanced Plant Growth Centre. These projects were selected as they have all gone through the majority of the Decision Pathway and, additionally, Eden Campus and Hospitalfield had started to drawdown funds. There were no deficiencies identified in the review and approval process of the OBCs or FBCs, conducted by the MG and JC. Good practices were, however, identified including the use of templates by the TBs to ensure there is a consistent approach to reporting, to allow suitable scrutiny of business cases.</p> <p>A common theme emerging from the stakeholder interviews was that the role of the TBs could be further enhanced by involving them earlier in the process to help shape, challenge and scrutinise the business cases. It is understood that this is, however, positioned in the context of the Deal having only been signed in December 2020, with the additional challenge of ensuring funds could be drawn down on certain approved projects before the financial year end.</p>

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1.	Governance Structures and the Role of the Thematic Boards (Cont'd)	
	Finding (Cont'd)	
	<p>This was illustrated through two of the stakeholder interviews, which both noted independently that the low turnaround times to review and provide recommendations to the MG was not conducive to comprehensive scrutiny. It is recognised that this was a result of the tight timeframes and there were exceptions to the agreed approach. It would be beneficial for the Project / Programme / Fund owners to be invited to attend the TBs more frequently for discussions over progress on individual projects, at business case development stage through to delivery and monitoring.</p> <p>The “Implementation Plan: Tay Cities Region Deal” also details specific project risks and the associated mitigating actions and controls. Of note are those risks associated with missed milestones and variances against the expected funding profile. The absence of early and reinforced involvement in the project business case development so far by the TBs has not allowed suitable oversight over specific risks applicable to each project, or scrutiny against wider objectives, such as those within the Regional Skills Investment Plan. The increased involvement of the Project / Programme / Fund Owners with TBs can also facilitate the assurance that the Section 95 Officer requires over the management of the projects’ finances and timelines. Again, it is acknowledged this has partially resulted from the tight timescales involved.</p> <p>During the review of the terms of reference for the TBs, documented within the Deal document, it was noted that there is a requirement for diversity amongst its representatives and that the Chair must also be a member of the MG. Moreover, representatives are required from other stakeholder groups such as Local Authorities, the Higher Education / Further Education Forum, Enterprise Forum, and Scottish Enterprise.</p>	
	Recommendation	
	<p>The PMO should consider enhancing the role of the TBs by formalising the requirement for them to engage with the projects earlier. This can be done by inviting lead individuals from each Project / Programme / Fund to the meetings of the TBs at the initial stages of creating business cases, obtaining their input throughout the Decision Pathway, and then providing ongoing updates during the delivery phase – particularly in relation to ongoing progress and risk management.</p>	
	Importance (Critical/Significant/Routine)	
	Routine	
	Management Response	
	Agreed (Yes/No)	Target Completion Date Responsible Officer(s)
	Yes	31 August 2021 Tay City Deal Programme Manager
	Additional Comments (optional)	
	<p>The TBs have a key role in the governance and it would be beneficial if they can develop their relationship with the programme and project owners.</p> <p>The recommendation will be completed in conjunction with the Thematic Board chairs and the PMO.</p>	

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2.	Grant Claim Process
	<p>Finding</p> <p>To draw down funds, projects must complete and submit a “Grant Claim Form” to the PMO. This captures all the necessary information required by the PMO to verify the grant preconditions, eligibility and approvals for the claim. Key documents include a valid grant offer letter, listing and analysis of transactions, and other supporting evidence such as invoices. All evidence is reviewed and challenged as appropriate by the Finance PMO. Currently, there is a dedicated individual within the PMO who processes the Grant Claim Forms before they are checked and approved by the PMO Programme Manager ahead of being presented to the Council’s Section 95 Officer for final approval. This process enables segregation of duties over the preparation and review of the claims.</p> <p>The above information forms the basis of subsequent claims made by the PMO to the Scottish Government, on a quarterly basis. If the claim is successful, the funds are received by the Council as Accountable Body, before distributing it to the projects.</p> <p>There had only been two claims made to the Scottish Government from the PMO at the time of the audit fieldwork. The Grant Claim Forms submitted by the projects and subsequent claims made to the Government by the PMO were reviewed as part of the audit fieldwork and no deficiencies in the operation of the process as designed were noted. It is recognised, however, that as more projects seek to make claims over the coming months and years, a single individual within the PMO may not be enough to process all claims on time. This is currently mitigated by the availability of other members of staff from the PMO as well as officers from the Council’s Corporate Finance Service to assist.</p> <p>The grant claim process is supported by the “Grant Claim Procedure” and “Eligible Expenditure Guidance” which is available to all claimants, and the latter explains what constitutes capital or revenue expenditure. In addition, the FDG has oversight of the projects and any claims made by partners in the Deal must go through the necessary financial controls and scrutiny of their own organisation, including mandatory sign off by the local Finance Director. This further mitigates the risk that claims are not sufficiently backed up and eligible but should also provide additional assurance that there is local scrutiny.</p> <p>The claims process, that sets out the key steps required in processing a claim, was presented to and agreed by the FDG and the MG in February and March 2020 respectively. At the time of the audit fieldwork, however, the roles and responsibilities of the Project Owners, the PMO, the Section 95 Officer and both Governments, specifically in relation to the processing, review and approval of grant claim forms, had not been documented. It is important that there is clear accountability and responsibility for checking grant claims, undertaking challenge and investigation over individual invoicing and what the routes are for formal escalation. This will ensure that there is suitable transparency for the Project Teams and the PMO, but also that the MG and JC have clear understanding of where accountability lies.</p> <p>The PMO proactively engages with projects early on to obtain and anticipate the information required for the claims to Government, which reduces the clerical burden near the submission deadline each quarter. This engagement also provides the necessary support and guidance for organisations, which may not have sophisticated or mature financial systems and processes to produce the information required quickly.</p>

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2.	Grant Claim Process (Cont'd)	
	Recommendation	
	<p>The PMO should document the roles and responsibilities of the Project Owners, PMO, Section 95 Officer and the Governments in relation to processing, reviewing and approving grant claims. This should include the process for challenging, escalating and investigating any exceptions. This is with the aim of augmenting and ensuring compliance with the existing "Grant Claim Procedure" and "Eligible Expenditure Guidance" and should be agreed through the appropriate Governance channel.</p> <p>Furthermore, the PMO Finance Manager should review and conduct future checks over the grant claim forms on a sample basis, based on risk. This will ensure more effective management of the claims process.</p>	
	Importance (Critical/Significant/Routine)	
	Routine	
	Management Response	
	Agreed (Yes/No)	Target Completion Date Responsible Officer(s)
	Yes	31 August 2021 PMO Project Manager (CS)
	<p>Additional Comments (optional)</p> <p>A Claims Assurance Checklist form which highlights any exceptions and variations to the funding requirements with supporting evidence that can be presented to the Accountable Body Finance Manager, PMO Manager and S95 Officer to inform their review and approval will be developed.</p> <p>A review of the current finance support to the PMO Programme Manager and S95 will be undertaken.</p>	

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3.	Principles of Governance
	Finding
	<p>As the governance processes mature and evolve, consideration should be given to establishing further principles of good governance over the following:</p> <ul style="list-style-type: none">□ Risk management: The PMO currently reports risk at a Strategic and Programme level to the MG. The Implementation Plan, which is one of the key Deal Documents for each Project (agreed by the partnership and both Governments) sets out the top project risks and is refreshed on an annual basis (a requirement of the Deal document). The PMO monitors and reports any changes to these risks. The Deal Document sets out a commitment between the partnership and both Governments to develop an agreed Risk Register approach. An approach has been developed by the PMO and was presented and approved by the MG in January 2021. This approach is currently with both Governments for review and is due to be agreed by the end of June before being shared across the governance groups and the Projects / Programmes / Fund owners. The approach that has been developed identifies primary risk categories and allocates a clear risk owner e.g. TB, MG, PMO. <p>Each Project/ Programme/ Fund Owner holds its own risk register and it is the responsibility of that owner to manage its own risks. As part of the development of the risk register approach, the PMO intends to request an update on the key risks, from each project through an implementation plan template (on a quarterly basis). Any exceptions will be reported by project owners between these periods through the change control process that is being developed. The PMO will collate the key risks and identify and assess them in order to identify themes, which can be used to inform the Deal-level risk register, update the overall Implementation Plan, and form the basis of future reporting. It is noted that the approach regarding how this will be done is currently being considered.</p> <ul style="list-style-type: none">□ Financial governance: The Grant Offer Letter sets out a number of financial reporting commitments for the Partnership. These include a monthly financial forecast, a biannual Term Forecast, quarterly performance reports and an Annual Report submitted to the Governments for review. In addition, the S95 Officer is asked to complete a statement of compliance annually. To support this, information will be required from each Project / Programme / Fund within the partnership. The information will be collated and where possible, due to scheduling, either shared with or presented to, the governance groups. During discussions with the PMO regarding the Grant Claim Forms, the current process is to proactively reach out to the Project Owners to obtain advance information for upcoming claims, but also to provide guidance and assistance as required (as discussed above). This is an area of good practice that can be continued but will be resource dependent.□ Progress reporting: This should be formalised with papers prepared and submitted to each of the governance groups in a timely manner in advance of their meetings so that members can review the documents properly and have chance to prepare. We note from conversations with the PMO that the updates provided to each governance group, such as the TBs, MG and JC, are currently conducted through the use of a dashboard and a slide deck. It is good practice to develop the progress updates, tailored specifically for the audience, and share them in advance so as to give the relevant members time to adequately prepare. Presentations and the use of dashboards should be used to support any documents submitted to the governance groups, rather than taking their place as the primary method for providing updates.

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3.	Principles of Governance (Cont'd)	
	Recommendation	
	<p>The PMO should consider:</p> <ul style="list-style-type: none"> i. Introducing a table that sets out the risk reporting requirements for each level of the governance groups which should include the purpose and frequency. For the Project Boards, this should include the monthly requirement to report by exception on any key changes to project related risks so that the PMO can undertake a regular thematic review of the principal risks and identify any trends that may require escalating to a strategic level. ii. Communicating to all Project / Programme and Fund owners that proactive and early engagement with the PMO is recommended to ensure that Grant Claim Forms and supporting evidence are submitted to the PMO in a timely manner. iii. Instilling a discipline of agreeing a reporting schedule for the relevant governance groups, which includes key information required that is tailored to the needs of that group, and this should be shared in advance with a specific covering paper that states whether there are any actions required or if the documents are for information. 	
	Importance (Critical/Significant/Routine)	
	Routine	
	Management Response	
	Agreed (Yes/No)	Target Completion Date Responsible Officer(s)
	Yes	<ul style="list-style-type: none"> i. 31 July 2021 i. PMO Project Manager (AD) ii. 31 July 2021 ii. PMO Project Manager (CS) iii. 31 July 2021 iii. PMO Project Manager (CS)
	Additional Comments (optional)	