

Meeting:	Coast to Capital Board Meeting no. 40
Date:	4 July 2018
Report Title:	Addressing the Independent Scrutiny Report Recommendations
Report by:	Anthony Middleton
Item No:	Item 3a
Part:	A

Recommendation:

- 1 To note a new protocol for managing high risk projects, in response to the recommendations of the Independent Scrutiny review by Karen Dukes.
- 2 To agree full delegation to the Investment Committee of all project oversight responsibilities, with escalation to the Board only for decisions to withdraw funding.

1. Introduction

Following the independent review of our assurance framework earlier in the year, we committed to:

- Documenting our accredited routine project monitoring processes fully within our Assurance Framework.
- A new written process within the new assurance framework for High Risk Project Monitoring.
- A clear documented decision making process following High Risk Project 'deep dives'.
- Statement of principles for how any future capital funding, including from recycled LGF funds, would be allocated.

This paper concludes this work and attached are the proposed draft assurance framework extracts. These reflect considerations received following consultation with the Investment Committee and key delivery partners.

2. Detail

Annex A and B detail the proposed text and each element is briefly summarised below:

2.1 Documenting our accredited routine project monitoring process

Section 1 of Annex A details the accredited routine monitoring reviews that we undertake as part of our day to day monitoring of projects. In general, the Coast to Capital team undertakes Level 1 and 2 reviews, progressively involving a more in depth audit of a particular project. Level 3 reviews are generally three day detailed project audits that are typically conducted on projects identified as RED or RED/AMBER risk at Levels 1 or 2. The attached protocol remits to the Investment Committee and / or CEO as appropriate, the authority for the commissioning of Level 3 reviews as part of oversight of high risk projects.

Later this year our complete Assurance Framework will be revised to reflect any new

governance arrangements required across the LEP, following on from the national LEP review, which will also include further proposals around our governance structure and Committee Term of Reference.

Annex A also details the various levels of project governance together with the management information reports that the Board will in future receive.

Section 2, 3 & 4 of the Annex details the oversight, scrutiny and governance accountability structures including the role of the Investment Committee and the Board relating to both reporting and decision making.

2.2 Process for High Risk Project Monitoring & Decision Making protocol

Section 5 of the Annex details the role of the Investment Committee and Board in engaging in decision making on projects that are deemed high risk and are at risk of not delivering agreed objectives including expenditure profiles and contracted outputs. In summary, when projects reach a high risk rating (RED or RED/AMBER) the Investment Committee will be invited to formally agree one or more of the below actions :

1. Decide that project can proceed under close monitoring
2. Agree a 'watch and wait' period based upon suitable delivery body assurances
3. Write to Government requesting an extension of time for draw down of funding and then following the Government response, choose either action 1, 2 or 4.
4. Recommend to the Board to withdraw and re-allocate funding to other SEP priority projects.

The Annex provides that the Investment Committee should have full autonomy in overseeing this work. This will allow adequate time to scrutinise complex projects. All Board members are able to attend the Investment Committee. If the Investment Committee concludes that funding should be withdrawn from any project, it will notify the Board in writing. There will be a period of 14 days to allow Board members to scrutinise the evidence base which the Investment Committee has gathered, prior to the Board giving its written opinion on the recommendation.

The Annex sets out the three 'key' lines of enquiry (KLOEs) questions, which the Investment Committee will follow in order to build an evidence base for its recommendations. The Investment Committee has the discretion to commission a 'deep dive' working group if it concludes that insufficient evidence is forthcoming from delivery partners to inform its work.

The Board will continue to be fully informed and at each meeting the Board will now receive in the Chief Executive Report; Projects Dashboard, High Risk Project Report, Full Risk Register and Individual High Risk Profile Sheets.

2.3 Process for Allocation of Future Funding including Recycled LGF Funding

Annex B to this report details the proposed methodology and governance for future decision making in the allocation of either new or recycled capital funding for projects. These would be in line with the new Strategic Economic Plan, with a targeted commissioning based approach using limited sector based competitions, using the established Coast to Capital scoring process.

Annex A

Project Monitoring

1. General Project Monitoring

Local Growth Fund projects are monitored using a suite of tools developed from the Local Partnerships Internal Assurance toolkit. Coast to Capital is now a fully accredited and trained operator of this toolkit, able to conduct various levels of project assurance review. All Local Growth Fund projects within the Coast to Capital portfolio will receive a number of reviews during their delivery lifecycle, and details of the various types of project review (drawn from the toolkit) are listed below.

Initial Project Review	On allocating funding to new projects, and when a funding agreement has been approved, an Initial Project Review will take place. This will allow Coast to Capital to gain insight into the project delivery plan prior to commencement on site.	Undertaken on new projects awarded funding in receipt of funding agreement
Level 1 Project Review	Every project within the Local Growth Fund portfolio will have a Level 1 Project Review throughout the duration of its lifecycle. This is equivalent to the Local Partnerships 'Swift Sure Review' and will highlight whether the scope of the project has changed, current project progress, any risks, delays or challenges, and an overview of financials/ project budget, including a detailed risk assessment. Coast to Capital will incorporate site visits with this review in order to help monitor key outputs as promised within the funding agreement. The review would usually take up to Half a Day on site with the delivery body.	Undertaken on all live projects once a year, or more frequent if required. Level 1 Report will be signed off by the Growth Deal Project Manager, and information will feed into RAG assessment that will be signed off at the Investment Committee.
Level 2 Project Review	Projects that flag up areas of concern as a result of the Level 1 Review determining a project risk rating of RED or RED/AMBER, will undergo a Level 2 Project Review. This will be a more in depth review of the project, to get a clearer understanding of the area's which are seen as higher risk. This Review will lead to recommendations being made to the Delivery Body to attempt to get the project back on track, and prevent it from needing a further Deep Dive Review. Coast to Capital may ask	Undertaken on projects that have had a Level 1 review but more information is required to validate risk rating. Level 2 Report will be signed off by the COO, and information will feed into RAG assessment that will be signed off at the Investment Committee.

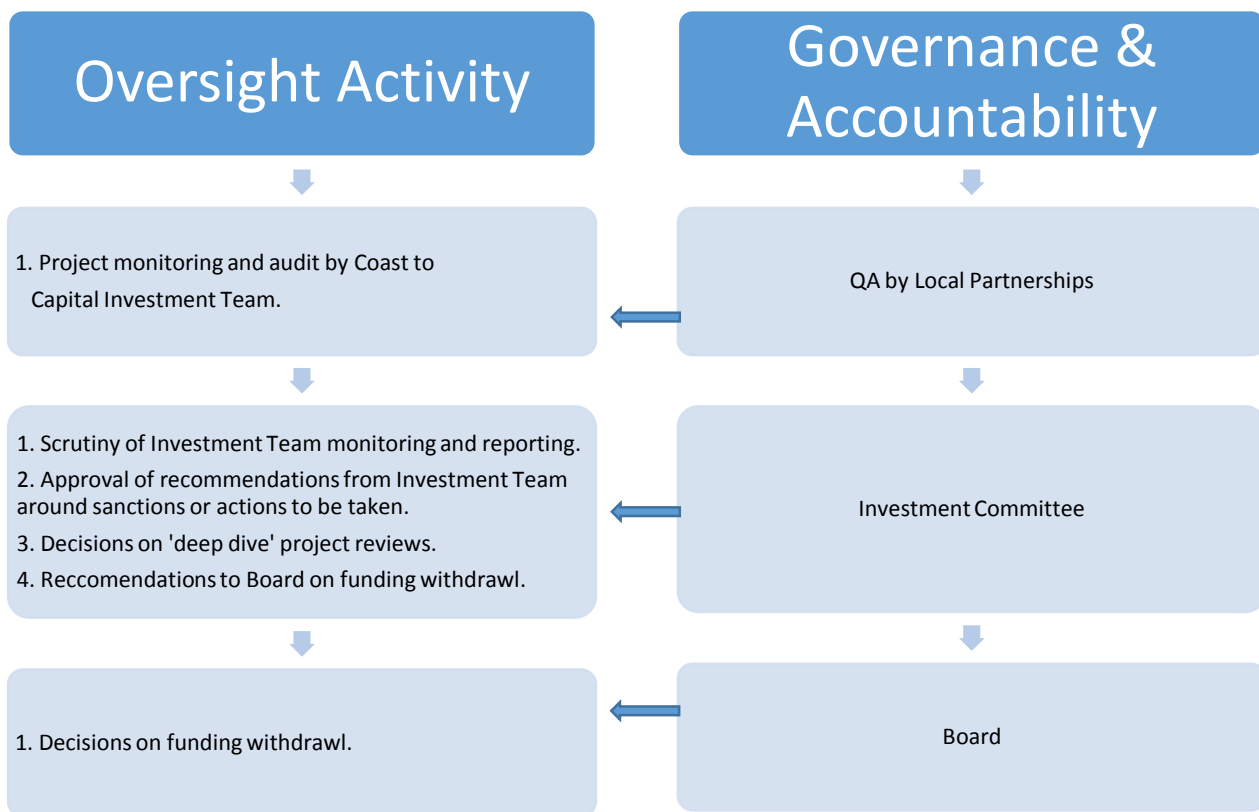
	Local Partnerships to assist with this type of review, along with a member of the Investment team. This review would take between half a day to a full day.	
Level 3 Project Review	If the Level 2 project review is unable to resolve or get an in-depth understanding around the risk areas, then a further Level 3 Project Review will be undertaken. This will be similar to a full Gateway Audit, and Coast to Capital would ask Local Partnerships to independently lead on this review. Such a review would normally take between 2-3 days, and would involve a series of meetings/interviews with key stakeholders from the Delivery Body who has involvement in the Project. Level 3 Project Reviews will be commissioned by agreement of the Coast to Capital CEO or Investment Committee.	Undertaken after Level 1 & 2 reviews, where in depth validation of information is required to accurately assess risk rating, or undertaken if circumstances arise to warrant urgent detailed review. Undertaken by order of CEO or Investment Committee. Information will feed into RAG assessment and recommendation that would be signed off by the Investment Committee.
Closure Project Review	On Project completion, Coast to Capital will undergo one final project review, to ensure that the scope of the project as per the original Business Case and Funding agreement has been fully delivered. This will include checking outputs and ensuring that LGF and Match funding have been fully reported. If all areas have been satisfied, the project will be reported to MHCLG as completed.	Undertaken on all projects at their completion by Investment Team

2 Project Oversight Governance

Once a project has been awarded funding and a funding agreement has been signed, the project then moves into the delivery and monitoring phase. The Coast to Capital Investment Committee has the executive responsibility for overseeing project delivery including; considering project and programme status, monitoring and project risk assessment. It will also establish deep dive working groups if necessary and decide any sanctions to be applied (see below).

The Board receive recommendations from the Investment Committee around High Risk Projects that require their funding to be withdrawn and make decisions on this sanction.

The diagram below shows the process by which project oversight activity is developed and the respective governance and oversight structure for this:



3 Project Management Risk Assessment Reporting & Scrutiny

The project risk assessment process follows the RAG rating guidance for LEPs that was distributed by MHCLG. The Investment Committee scrutinises and validates risk ratings and reviews project progress, before approving recommendations on actions to be taken.

4 Projects Dashboard

A project dashboard is produced and updated quarterly for the Board which provides overall programme oversight in a simple visual representation of progress across all projects regardless of risk rating. This is based upon a number of data feeds:

1. Routine quarterly delivery body data returns and claim forms.
2. Results of routine project monitoring exercises and Level 1 & 2 reviews by the Coast to Capital team.
3. New information on project progress or delivery becoming available.
4. Project data sheets.

5 High Risk Projects Reporting

High risk projects are reported to the Investment Committee through the High Risk Projects Report, including details of the basis for risk assessment calculation. High risk projects are so deemed if their aggregate risk rating is either RED or RED/AMBER, as determined through the use of the MHCLG risk assessment system.

When a project reaches this status the Investment Committee will be invited to formally agree actions and recommendations. The Committee can take a range of actions in such situations:

Either:

1. Decide that project can proceed under close monitoring.
2. Agree a 'watch and wait' period based upon suitable delivery body assurances.
3. Write to Government requesting an extension of time for draw down of funding and then choose either action 1, 2 or 4.
4. Recommend to the Board to withdraw and re-allocate funding to other SEP priority projects.

In relation to action four above, the Chair of the Investment Committee will notify the Chairman and all Board members in writing when a project reaches this stage, seeking Board approval to proceed. Board members will have fourteen days to scrutinise the evidence which has been gathered by Investment Committee to support this recommendation. Consent will be sought from Board members in writing prior to proceeding to implement this decision.

Before deciding to take any of the above actions the Investment Committee will gain sufficient evidence to be able to confidently answer three 'key' lines of enquiry (KLOEs) questions, which are detailed within the decision making protocol below. In order to answer these questions the Investment Committee may choose to:

1. Decide that it has sufficient information to answer the KLOEs and take a decision.
2. Commission a 'deep dive' working group to report back.

The results of (2) above would then be reported back to the Investment Committee to allow one of the four actions listed earlier to be agreed.

The Coast to Capital Investment team will always work with delivery bodies to assist them to reduce project risks and to continue to support approved schemes, through providing any assistance. However, where such assistance cannot be confirmed, Coast to Capital has a duty to deliver value for money, approved outputs and overall programme expenditure in accordance with its commitment to Government.

Where projects are at risk of undermining this duty, Coast to Capital's risk assessment ratings will trigger the Investment Committee to examine what steps can be taken to assist delivery bodies to bring projects back on track. However, in the event that this cannot be achieved and the Investment Committee determines that the 'key' lines of enquiry below cannot be satisfied, it will recommend to the Board withdrawal of funding from projects and re-allocate it in accordance with the latest Strategic Economic Plan priorities.

'Deep dive' working groups will specifically focus on what assistance Coast to Capital can give to reduce project risk ratings and this may include recommendations that the Investment Committee write formally to Government to request specific dispensations to allow projects to continue. Where such assistance cannot be confirmed and all options have been exhausted to remediate the 'key' lines of enquiry detailed below, the Investment Committee may recommend to the Board to withdraw

funding on projects. The decision making protocol below outlines the steps that the Coast to Capital will follow when projects are risk rated RED or RED/AMBER.

Prior to any decision to recommend withdrawal of funding on a project, the delivery body concerned will be invited to make representation to the Investment Committee.

In relation to funding withdrawal, the Board has the ultimate authority to take any decision that it wishes in relation to high risk projects.

**High Risk, Local Growth Fund Projects, Decision Making Protocol –
Applies to all Projects with or without Business Cases.**

**Investment Committee undertakes initial review of RED and RED/AMBER rated projects based upon the quarterly Local Growth Fund High Risk projects report with accompanying detail.
Investment Committee then follows the below listed 'key' lines of enquiry.**



The Investment Committee may choose to establish a specific 'deep dive' project working group to enable it to be informed sufficiently to make a decision, if it feels that it does not initially have sufficient information to answer the 'key' lines of enquiry detailed below.

INVESTMENT COMMITTEE or 'DEEP DIVE' REVIEW GROUP ESTABLISHES ANSWERS TO THE FOLLOWING 'KEY' LINES OF ENQUIRY AS RELEVANT:

KLOE. QUESTION 1 (For Approved Projects without Business Cases) :

Will, in the view of the Investment Committee or 'deep dive' review group, the Business Case for the project be forthcoming for approval, allowing sufficient subsequent time for the project to draw down funding before March 2021 ?

YES – Investment Committee decides project can proceed under close monitoring with suitable delivery body assurances. Investment Committee may choose to 'watch & wait' with further report back.

No – Investment Committee recommends to the Board to withdraw and re-allocate funding to other projects in accordance with SEP priorities.

NB. Prior to taking the above decision, the Investment Committee may choose to write to Government requesting carry forward of funding beyond 2021. If Government agree this, funding will not be withdrawn and the project will be closely monitored and continue. If Government do not agree – funding will be withdrawn.

KLOE. QUESTION 2 :

Are the project outputs and/or value for money expected to be materially different in a negative direction from those stated within the original Strategic Economic Plan, Business Case or funding application?

No – Investment Committee decides project can proceed under close monitoring with suitable delivery body assurances. Investment Committee may choose to 'watch & wait' with further report back.

Yes – Investment Committee recommends to the Board to withdraw and re-allocate funding to other projects in accordance with SEP priorities.

KLOE. QUESTION 3 :

Is the project expenditure draw down profile deemed to be highly likely to drift into the next spending period even if flexibility funding has been provided ?

Yes – Specific dispensation from Government will be sought and if this cannot be obtained and remediation applied to draw down funding, the Investment Committee will recommend to the Board to withdraw funding or part funding.

No – Investment Committee decides project can proceed under close monitoring with suitable delivery body assurances. Investment Committee may choose to 'watch & wait' with further report back.

If at any stage the Investment Committee are unable to agree a conclusion on any of the above KLOEs they will defer decision making to a forthcoming meeting.

Annex B

A Commissioning Led Approach to Funding Distribution

Coast to Capital's Strategic Economic Plan sets out the priority areas of need for investment across our region, to ensure our economy and lifestyle offer remains competitive.

Future Government funding that we may receive, will be channelled toward our regional priorities. Allocations will be made, based upon successful funding applications from delivery bodies with successful track records operating in the particular funding discipline area, relating to the application call. This approach is more aligned to strategic commissioning but retains the necessary competition to ensure that we achieve best value for money.

When a funding round is launched, established delivery bodies with expertise in the discipline of the application call, will initially be invited to submit a capability statement. This will be assessed through a pre-qualification exercise that will examine:

- 1 Evidenced track record in the particular field.
- 2 References
- 3 Capability
- 4 Capacity
- 5 Financial stability
- 6 Covenant strength
- 7 Business strategy

The assessment of capability will be undertaken through an independent panel chaired by an Investment Committee member nominated by the Investment Committee. The panel will also contain a range of voluntary specialists drawn from across the region who will undertake a scoring of each capability statement.

The Investment Committee will then consider the average scores and determine the final panel of delivery bodies (3 to 4 in number), who will then be invited to make their full applications to be considered at a later date, by the Committee. The Committee will score applications against a series of criteria determined by the Investment Committee and published prior to the invite to submit final proposals.

Following scoring, the Investment Committee will make recommendations to the Board as to who to appoint to deliver the project.