

SWANSEA BAY CITY DEAL 2022-23

Report Issued to:

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Auditor:

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Rationale for Audit:

Annual Risk Based Review

Internal Audit Report No:	22079 (2022-23)
Assurance Rating:	Substantial
Fieldwork Completed:	21 April 2023
Draft Report:	27 April 2023
Management Comments:	05 June 2023
Final Report Issued:	06 June 2023

Introduction and Objectives

Swansea Bay City Deal is an investment of circa £1.2 billion across a portfolio of nine headline programmes and projects, delivering a combined total of 35 individual projects throughout the counties of Swansea, Carmarthenshire, Neath Port Talbot and Pembrokeshire. An audit review of the Swansea Bay City Deal has been carried out as part of the 2022-23 Internal Audit Plan, as agreed by the Swansea Bay City Deal Joint Committee on 02 February 2023.

The audit aims to provide assurance that 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 and Methodology

The scope of the audit review covered the following key areas:

- Governance
 - Follow Up of Previous Recommendations
 - Joint Committee Agreement, Governance Boards & Decision Making
 - Assurance, Monitoring and Evaluation Arrangements
- Internal Control
 - Project Management, Process and Monitoring
 - Impact of Inflation and Construction Price Rises
 - Project Outcomes and Benefit Realisation
- Financial Management
 - Budgetary Control
 - Grant Funding
- Risk Management Arrangements

We took an evidence based approach to our audit review using interviews with staff, review of supporting documentation and sample testing to arrive at our opinion.

This audit review was performed following Internal Audit's standard methodology, in conformance with the Public Sector Internal Audit Standards. It should be noted that all testing undertaken as part of this review was on a sample basis, and therefore the results should be considered in this context. Internal Audit cannot provide absolute assurance of effectiveness.

Executive Summary

Satisfactory governance arrangements continue to be in place for Swansea Bay City Deal. Recommendations from previous Internal Audit reviews have been implemented with action plans developed and monitored to track progress relating to actions arising from Gateway reviews. Risk Management arrangements remain robust, with the Risk Management Strategy last reviewed and approved by the Joint Committee in November 2020.

Assurance, Monitoring and Evaluation Arrangements are in place, and continue to evolve. Assurance arrangements have been strengthened during 2022-23 with Welsh Government approval of the Gateway Assurance Framework received, which provides a framework for the management resourcing and governance of Gateway assurance arrangements for the Swansea Bay City Deal Portfolio, and its constituent programmes, projects and workstreams. The Framework also provides clarity for programme and project Senior Responsible Officers (SROs) and their teams on the assurance arrangements that apply to the Swansea Bay City Deal Portfolio. The introduction of the Joint Assurance Panel underpins the Gateway Assurance Framework by providing oversight of the development and implementation of the arrangements set out which has strengthened and enhanced existing procedures.

A Change Control Procedure has been established, which is owned by the Programme (Portfolio) Board and highlights the changes that result from projects and programmes at Project, Programme and Portfolio level. At the time of the review, only three change notifications had been received during 2022-23 in relation to cost/quality/time of Programmes/Projects, however it is anticipated that the numbers of change notifications will escalate as Programmes/Projects progress through their delivery phases. Dashboards are presented to the Joint Committee on a quarterly basis, providing high level oversight on the progress of Programmes/Projects, with benefit realisation data now collated and included within the datasets presented. It would be advantageous if the dashboard reports were further developed to also include an indication of the financial status of the projects (for example amount of grant drawn-down against profiled spend), providing an overarching summary of each Programme/Project.

There is a clear awareness of the impact of the current financial climate, including inflation and construction price rises within the Portfolio Management Office (PoMO). An assessment of the potential funding gap, due to inflation and construction price rises, was undertaken during 2022-23, with a high level summary provided to the Joint Committee in November 2022, detailing that a £31m forecast funding gap had been identified. The Programme (Portfolio) Board were provided with an enhanced update, including potential mitigating actions. Monitoring of the impact of the current climate could be enhanced by ensuring regular updates to the financial assessment are undertaken, along with monitoring of mitigating actions to ensure they are deliverable and achieve the desired outcome, with results reported to the Governance Boards.

The Joint Committee approved the five-year budget (2020-21 to 2024-25) for the administration and support functions of the Swansea Bay City Deal on 09 July 2020. The Joint Committee approved the 2022-23 budget in June 2022, with the 2022-23 financial year being the final year for receipt of partner contributions. At the time of the audit, a draft budget for 2023-24 had not been prepared or presented for approval, however, Internal Audit were informed that the draft budget for 2023-24 is due to be presented to the next meeting of the Programme (Portfolio) Board, prior to submission to Joint Committee for approval.

Funding Agreements are now in place for all but one of the nine Headline Programmes/Projects. The grant claims process remains in place, however, the loss of the Finance Manager during November 2022 has identified weaknesses with continuity arrangements. A number of issues were identified during testing, relating to grant claim forms not being received in a timely manner from Programmes/Projects to allow grant funding to be distributed by Swansea Bay City Deal, grant claims not being submitted in a consistent format and a payment being made in excess of the payment profile for the 2022-23 financial year. Arrangements should be made to strengthen the grant claim process, ensuring suitable internal controls are in place.

MONITORING ARRANGEMENTS

Monthly and quarterly monitoring reports are prepared and presented to the Joint Committee and the Programme (Portfolio) Board, providing a narrative update of Programme/Project Progress. The Progress/Reporting Dashboard provides Members with a high level summary of the progress of Programmes/Projects, and whether they are on track, along with key data such as the Portfolio Delivery Timeline, Risk Management, and Benefits Realisation data amongst other items. The Total Annual Investment is also submitted to Members. This process is supplemented by Highlight Reports, allowing members a summary update between quarterly reporting periods.

It was noted that there is no direct connection between the financial status of Programmes/Projects and the overall status of Programmes/Projects. Whilst a RAG rating of the financial status is included at a summary level the detail provided relates to overall budgets rather than whether actual spend is in line with budgets, or whether grant drawn-down is in line with the forecasted funding profile. The detailing of parameters would also allow Members to understand the boundaries within each RAG rating is applied. Enhanced financial reporting would allow a greater correlation between activities and finances for each of the Headline Programmes/Projects.

Testing identified that there is currently slippage in time recorded against the delivery date for nine Programmes/Projects. Whilst this is currently highlighted in terms of RAG rating, reporting could be enhanced by providing a narrative indication within the Quarterly Monitoring report as to the level of slippage when compared to the original planned timescale. This would provide Members with a greater insight into the progress of projects, and enable greater scrutiny on projects which are significantly behind target.

RECOMMENDATION

As each of the Programmes/Projects move into full delivery, quarterly monitoring reports presented to the Joint Committee and Programme (Portfolio) Board should be developed to incorporate enhanced financial monitoring, including whether expenditure is in line with forecasts and whether grant drawn-down is in line with the agreed funding profile. Reporting would also benefit from enhanced data regarding delivery timescales. This would provide correlation and synergy between project progress and financial reporting.

Grade: Important

MANAGEMENT RESPONSE

Enhancements will be made to the project/programme financial monitoring as per recommendation from Q1 2023/24. This will be embedded with the existing quarterly monitoring arrangements, including the monitoring of forecasted/actual delivery timescales. In addition, the PoMO will continue to work with SROs and PMs to ensure the change management process is adhered to, with a particular focus on detailing financial and timescale changes in a timely manner.

Responsible Officer

Jonathan Burnes

Timescale for Action

Q1 2023/24

PROJECT MANAGEMENT

A defined Change Control Procedure is in place, and has been approved by the Joint Committee. During 2022-23, the PoMO received three change notifications. Internal Audit were advised that a formal Programme/Project change request is also anticipated to be received.

The Change Control Procedure states that “change control reporting will take place for all Swansea Bay City Deal Portfolio change and include full summarisation for significant change and notification only of minor change”. Determination of ‘significant’ changes to Programmes/Projects has not been made within the Procedure, with the Portfolio Manager advising this would relate to an instance where any of the Portfolio benefits were impacted, or a substantial change in the required funding (for example 10%).

Change notifications are managed at Programme/Project level, with a requirement for the PoMO to be notified for reporting purposes. Thresholds for changes to cost/time/quality have not been formally defined, which could result in ambiguity within Programmes/Projects as to whether a change notification is required to be submitted to the PoMO. The introduction of baseline thresholds would enable a consistency in approach across all Programmes/Projects and support the PoMO in gathering the necessary Programme/Project intelligence data.

RECOMMENDATION

The change notification process (including potential baseline thresholds) should be clearly defined, to provide clarity to Programmes/Projects as to when they need to comply with the change notification process, and bring consistency across the Portfolio.

Grade: Important

MANAGEMENT RESPONSE

The PoMO will clarify the process and continue to send a consistent message out to all SROs/PMs to submit change notifications, reducing ambiguity on the process. In addition, a review of the Change Control Procedure and thresholds will be undertaken through consultation with key SBCD stakeholders.

Responsible Officer

Jonathan Burnes

Timescale for Action

Q2 2023/24

IMPACT OF INFLATION AND CONSTRUCTION PRICE RISES

The PoMO are monitoring the impact of the current financial climate on the Portfolio. Increase in Cost of Construction is recorded as a red risk on the Portfolio Risk Register, as is 'Pressure on Construction Industry to meet demand'. Five projects also detail construction risks within the latest Highlight Report.

To ensure the Joint Committee remain apprised of the situation, the PoMO have introduced a Construction Impact Assessment Summary Report into the Quarterly Report which is submitted to Governance Boards. Joint Committee were advised in the November 2022 update that the PoMO had undertaken an assessment of the potential funding gap for the portfolio, following a request from the Programme (Portfolio) Board, and had identified a forecast funding gap of £31m as a result of inflation and increased construction costs. A detailed Construction Impact Assessment was also included as an appendix to the updated Business Case that was submitted to Joint Committee in April 2023.

A detailed update to Programme (Portfolio) Board took place in November 2022. Review of the paper presented identified that potential mitigating actions have been documented, and a qualitative assessment undertaken against these. However, there was no detail recorded of the quantitative impact of the mitigations. Given the volatility on the market, and the impact this could have on the Portfolio, regular detailed updates should be provided. Additionally, further detail regarding the funding gap, and potential mitigations, should be provided to Joint Committee, to allow Members to be fully apprised of the mitigating actions being taken by the PoMO, Programmes and Projects.

RECOMMENDATION

Regular updates on the impact of the current financial climate should be tabled as standing agenda items for the Programme (Portfolio) Board to enable regular monitoring on the impact of the current climate on the Portfolio. This should include periodic updates to the financial assessment, and regular review of the mitigating actions developed to ensure they are deliverable, and achieving the intended benefit. Periodic updates on the forecast pressure and mitigating actions should also be provided to the Joint Committee, to keep them fully apprised of the matter.

Grade: Important

MANAGEMENT RESPONSE

The rising costs and inflationary pressures will continue to be monitored and mitigated as a red risk to the SBCD Portfolio. The Monthly Construction Impact Assessment and Construction Cost Mitigation Assessment documents will be merged and reported to JC from Q1 2023/24. This will include all project/programme details on the financial pressures (risks and issues) and mitigating actions either planned or taking place.

Responsible Officer

Jonathan Burnes

Timescale for Action

Q1 2023/24

BUDGETARY CONTROL

There has been a staffing change within the financial management arrangements for Swansea Bay City Deal during 2022-23, with the departure of the Finance Manager in November 2022. Following an unsuccessful recruitment exercise to replace the Finance Manager, temporary arrangements have been developed, with an Interim Officer appointed, who is supported by members of Carmarthenshire County Council's Finance team.

The Joint Committee approved the five-year budget (2020-21 to 2024-25) for the administration and support functions of the Swansea Bay City Deal on 09 July 2020. Annual budgets are also presented to Joint Committee for approval. The 2022-23 budget was presented to the Programme (Portfolio) Board on 29 March 2022, and approved by the Joint Committee on 23 June 2022. At the time of the Internal Audit review a draft budget for the 2023-24 financial year had not been prepared. The 2023-24 draft budget is due to be presented to the Programme (Portfolio) Board on 16 May 2023. The 2022-23 financial year was the final year in which contributions were received from partner organisations to support the PoMO budget; with future years' budget to be funded via the top slice of grant funding.

Budget monitoring reports are submitted to the relevant Governance Boards on a quarterly basis to inform members of the current financial position. At the time of the audit review, it was predicted that the overall position for the PoMO and Accountable Body budget had slipped into an in-year deficit of c.£80k, due to a slip in funding to projects, which in turn reduces the amount that can be drawn down from the top slice. The Joint Committee were reassured that this position would resolve itself in future years as funding to projects accelerates.

RECOMMENDATION

The development of the Swansea Bay City Region budget for 2023-24 should be concluded at the earliest opportunity (recognising that a five-year budget has previously been approved by the Joint Committee). Moving forward, arrangements should be made to ensure that draft budgets are presented for approval prior to the start of the upcoming financial year.

Grade: Important

MANAGEMENT RESPONSE

Budget will be presented to the next Programme Board and JC, however the operation of the City Deal is based on the 5 year budget which has been previously presented to JC. Therefore the budget report will be an update on the 5 year budget.

The budget and the budget monitoring report does recognise the partner contributions have ended in the 2022/23 and the expectation is that the 1.5 % top slicing of funding will continue to fund the PoMO. This top slicing contribution has been lower in previous years than profile and will allow the additional funding moving forward.

A new Finance Manager has now been appointed, and is due to commence at the beginning of July 2023.

Responsible Officer

Chris Moore/Anthony Parnell

Timescale for Action

July 2023

GRANT FUNDING

Funding agreements stipulate that grant claims should be submitted by lead bodies on a quarterly basis, to allow funding to be distributed to programmes/projects.

Testing identified that only a small number of grant claim forms had been received during 2022-23; four in respect of Pembroke Dock Marine (one relating to Q4 2021-22 and three relating to Q1-Q3 2022-23) and one in respect of Supporting Innovation and Low Carbon Growth (SILCG).

Testing also identified that the grant claim forms are not always used consistently, when grant funding is transferred to Carmarthenshire County Council, with it identified that a grant claim form was used for one project, with a journal prepared and utilised for another. Assurance was provided, however, that the process details that both grant claim forms and journals are utilised.

Review of the grant claim forms for Pembroke Dock Marine and SILCG identified that the incorrect amount of grant funding was paid to Pembrokeshire County Council (for Pembroke Dock Marine), for the quarter three grant claim form, due to the incorrect figure being used for the 'gross grant eligible for release' when compared to the revised payment profile. This resulted in an over payment to Pembrokeshire County Council of £318.5k when compared to the payment profile for 2022-23.

The budget for PoMO and Accountable Body is supported by top slice funding of grant paid within each financial year; if insufficient grant funding is paid to Programmes/Projects within a financial year, there is a risk that sufficient top slice funding will not be generated to support the annual Portfolio Management Office budget. Whilst this risk will be alleviated in future years, as spending accelerates, it could place the in-year budgets in a precarious position through the usage of reserves to cover the short-term.

RECOMMENDATION

Grant claim forms should be used by all Programmes/Projects when requesting funding from Swansea Bay City Deal. Programmes/Projects in delivery should be advised that quarterly grant claims should be submitted, to allow funding to be distributed to lead bodies in a timely manner. Additionally, verification of the grant claim forms should be undertaken prior to payment being made, to ensure the total value of grant paid does not exceed the balances included within the payment profile.

Grade: Critical

MANAGEMENT RESPONSE

A reminder will be sent to Project Managers in respect of grant claim forms being submitted on a timely basis.

The slight over payment on the scheme, was due to the current lack of Finance Officer being post but also a misunderstanding on the value of the claims. This was identified at the time of payment and will be adjusted in the next claim.

Responsible Officer

Chris Moore/Anthony Parnell

Timescale for Action

Immediate

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 (Portfolio) 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 (Portfolio) 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 (Portfolio) 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
- Charlotte Hodges, Principal Auditor