

North Lanarkshire Council Report

Audit and Scrutiny Panel

approval noting

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Audit Scotland/Accounts Commission report: City Region and Growth Deals

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Executive Summary

The purpose of this report is to present elected members with the findings of the joint Auditor General and Accounts Commission report '*City Region and Growth Deals*' and management assessment of, and responses to, the issues raised by the report.

The national audit report published in January 2020 provides a high-level overview of 'City Deals' in Scotland including how deals are made and fit with wider economic policy, an early assessment of the management, governance and accountability structures at local and national level and a review of progress to date including risks and plans to measure the impact of deals.

This report also contains management responses to the issues raised and recommendations made in the audit report which are intended to provide the Panel with assurance that the Council is aware of, and is responding appropriately to, the issues and risks identified by the Auditor General and the Accounts Commission.

The full Auditor General / Accounts Commission report can be found at https://www.audit-scotland.gov.uk/uploads/docs/report/2020/nr_200116_city_deals.pdf

This report was originally intended to be submitted to the Panel meeting in March 2020.

Recommendations

The Panel is invited to:

- a) note the key findings of the Accounts Commission report and the management response to the issues raised by the report; and
 - b) consider whether a further report should be required to be submitted to a future meeting in order to obtain assurance that any actions arising from the matters raised by the Accounts Commission have been appropriately progressed by management.
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The Plan for North Lanarkshire:

Priority: All priorities

Ambition statement All ambition statements

1. Background

- 1.1 The UK Government introduced City Deals in England in 2011, working with city councils and other councils within city regions. Under these deals, national government agreed to give additional funding and powers to cities and their regions to allow them to play a leading role in promoting the growth of city region economies.
 - 1.2 In August 2014, the UK Government and the Scottish Government jointly announced the first City Region Deal in Scotland for the Glasgow City Region. Under the deal, the eight councils in the Glasgow City Region agreed to work together to manage an infrastructure investment programme. This featured an initial list of projects, at a total cost of £1 billion over 20 years, to promote the growth of the local economy. Since then, all areas of Scotland have signed, or are working towards signing, either a City Region Deal or, for regions that do not have a city, a Growth Deal. In this report, we refer to them all as 'deals'.
 - 1.3 All deals are different and are intended to be based on local circumstances and priorities. In Scotland, all signed deals are agreements between the UK Government, the Scottish Government, councils and sometimes other partners, such as local business representatives, and universities. They are long-term programmes, with funding committed for 10-20 years.
 - 1.4 The Auditor General / Accounts Commission report provides an early assessment of deals in Scotland. It looks at the introduction of deals and addresses:
 - why the Scottish Government adopted the deal approach to economic growth and how it fits with its wider economic policy;
 - how deals are made and give an early assessment of the management, governance and accountability structures at national and local level; and
 - progress to date, risks and plans to measure the impact of deals.
 - 1.5 As deals in Scotland run over periods of up to 20 years and are at an early stage, with most projects still being developed, the current report did not consider whether deals are achieving what they have been set up to deliver, or the progress or impact of the individual projects that make up the deals.
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2. Report

Key messages and findings

- 2.1 The audit report's key messages are as follows:
 - £5.2 billion has been committed so far to supporting economic development in all parts of Scotland through City Region and Growth Deals. This money comes from the UK and Scottish governments, councils and their partner organisations. Four deals have been signed to date and eight are in development.
 - Deals bring additional long-term funding for regional economic development. They have enabled economic development projects that may otherwise not have gone ahead. Deals have also been a catalyst for increased collaboration between councils and their partners.
 - Deals have been developed against an evolving policy backdrop. All individual deals include output measures, such as new jobs created. But, five years after signing the first deal, the Scottish Government has not set out how it will measure their long-term success, how it will know if deals are value for money, or how deals will contribute to the outcomes in the National Performance Framework. This means opportunities for the deals to take account of the national outcomes may have already been missed, although there is still scope to make sure existing and future deals contribute to national outcomes.

- Each deal is made up of a number of projects, largely comprising infrastructure improvements. It is not clear why some projects are selected and approved for funding and others are not. Local communities have also had very little involvement in the deal process. These factors limit transparency and the ability to hold public bodies to account for their deal spending.
- Governance and scrutiny arrangements are in place at national and deal level. Accountability and scrutiny arrangements are still evolving and it remains untested how accountability will work in practice. There is also a risk around the capacity of councils and their partners to deliver deal projects against a challenging backdrop for the public sector.

2.2 The Auditor General / Accounts Commission's recommendations are as follows:

The Scottish Government should:

- set clear aims and objectives for the overall deals programme, including how it will help to deliver inclusive growth;
- explain in medium and long-term financial plans how it will fund deals from its budget and how this relates to ongoing financial support for local government;
- develop arrangements for measuring the impact of the overall deals programme, in particular how it has taken account of outcomes set out in the National Performance Framework and whether it has achieved value for money; and
- clarify for partners how they should plan for and then measure and report on the impact of individual deals, including their delivery of inclusive growth. This is especially urgent for shorter-term deals that are already in the delivery stage.

Councils should:

- work with partners to agree clear and commonly understood lines of accountability, and how information on the progress of deals is reported to elected members and council partners;
- ensure deals are aligned with an agreed regional economic strategy, with input from a wide range of partners, and can demonstrate how they will help deliver national and local priorities for economic development;
- regularly review their governance, monitoring and risk management arrangements to ensure they are clear and operating effectively, and consider the ways that internal audit can provide assurance on this;
- regularly monitor the risk of partner funding not materialising as agreed and be aware of their own financial implications if that risk is realised;
- ensure a wide range of partners and stakeholders, including local businesses, voluntary organisations, communities and community planning partners, are involved in the deal development and agreement process and as the deal progresses;
- consider how they will measure the full long-term impact of the deal and whether it has achieved value for money. This should include consideration of arrangements for collecting and analysing data on different groups in their communities to allow the impact of deals on minority and disadvantaged groups to be evaluated;
- look at how deals affect their longer-term financial plans, capital programmes and borrowing strategies; and
- ensure that enough staff, money, expertise and skills are available to develop and deliver deals including sufficient project management capacity and expertise.

The Scottish Government and councils should:

- consider how best to make more information publicly available as to the reasons behind key decisions on funding and project selection for signed deals and those still in development, to promote understanding and support effective scrutiny;
- improve arrangements for sharing knowledge and learning across deals in the interest of improving the deal process; and
- regularly review the governance and accountability arrangements for deals to ensure they are clear and operate effectively.

2.3 Management responses to the Auditor General/Accounts Commission's recommendations to councils can be found at Appendix 2.

3. Management commentary

3.1 North Lanarkshire Council welcomed the analysis undertaken and our position in relation to the key issues highlighted by the Accounts Commission are detailed in Appendix 2 which have been provided by relevant senior management.

3.2 With the GCR City Deal being subject to its first successful Gateway Review in February 2020, a significant amount of work had been undertaken by the GCR PMO and member authorities which addresses the majority of points and recommendations raised. Indeed at the January 2020 GCR Commission on Economic Growth meeting, the Commission noted that while the audit report related to Scotland's City Deals in general, the report was, overall, complimentary regarding Glasgow City Region's arrangements.

3.3 Senior management within the Council consider the current governance arrangements in place to monitor the performance of the City Deal as appropriate and this is reinforced from recent internal audit reviews.

4. Equality and diversity

Fairer Scotland Duty

There is no requirement to carry out a Fairer Scotland assessment in this instance.

Equality Impact Assessment

There is no requirement to carry out an equality impact assessment in this instance.

5. Implications

Financial impact

None identified

HR/Policy/Legislative Impact

None identified

Environmental Impact

None identified

Risk impact

Any failure to operate effective City Deal arrangements could impact on and the achievement of the Council's economic priorities and ambitions.

6. Measures of success

6.1 The Council has adequate and effective arrangements in respect of City Deal to enable it to support the delivery of the Council's strategic priorities and ambitions.

7. Supporting Documents

Appendix 1 Scrutiny tool for councillors

Appendix 2 Audit recommendations and management response



Ken Adamson, Audit and Risk Manager

Appendix 1 City Region and Growth Deals: Scrutiny tool for councillors

This scrutiny tool captures some potential questions for councillors and relates to the Accounts Commission report '*City Region Growth Deals*'. It is designed to provide councillors with examples of questions they may wish to ask, to help them better understand their council's deal and to scrutinise performance.

Questions for councillors to consider What do I know? Do I need to ask further questions?	
The introduction of deals in Scotland	
1. Do you know what impact the council's deal is expected to have on local and national priorities?	
2. Do you feel you learn lessons from other councils and other deals about what works well??	
Making, managing and monitoring a deal	
3 Do you know the reasons why projects were selected and not selected for your deal?	
4 Has your council informed local communities?	
5 Do you know how much money your council is contributing to the deal?	
6 Has your council informed local communities?	
7 How is progress of the overall deal and individual projects reported to the council? Does this work well?	
8 Do you think the council has the capacity to deliver the deal?	
9 Do you know who the council's partners are?	
10 What engagement has the council had with partners when establishing and delivering the deal?	
11 What involvement have local communities had in the deal process? Is this appropriate?	
12 Are links with community planning plans such as Local Outcome Improvement Plans clear?	
13 What involvement have local businesses had in the deal process? Is this appropriate?	
14 Is there clarity on your role and responsibilities in relation to the deal? Do you need further guidance on how to fulfil your role?	
15 Does your council publish an annual report on the performance of the deal? Does this include progress against performance or outcomes? Does this include emerging risks?	
Impact of deals and risks to their successful delivery	
16 Do you see a clear link between the deal and priorities identified by local communities?	
17 Do you know how the council will measure the impact of the deal and deal projects?	
18 Will you be able to assess value for money?	
19 Has the council considered the impact of its financial commitment to the deal within its longer-term financial plans and borrowing strategy? Is this regularly reviewed?	

Appendix 2 Auditor General / Accounts Commission recommendations and management responses

Recommendations	Management response
Councils should:	
<ul style="list-style-type: none"> work with partners to agree clear and commonly understood lines of accountability, and how information on the progress of deals is reported to elected members and council partners; 	<p>GCR's governance structures and accountability arrangements are set out within the latest Assurance Framework (AF). The AF sets out key governance, assurance and programme management arrangements. It was updated and approved by Cabinet in October 2019 and shared with the UK and Scottish Governments for comment.</p> <p>Within North Lanarkshire the Enterprise and Growth Committee has full oversight of the City Deal Programme with the following three areas identified in its remit:</p> <ol style="list-style-type: none"> to scrutinise and approve the submission of all business cases for consideration by GCR Cabinet; to approve and monitor the implementation of City Deal Projects; and oversee the development of alternative and new infrastructure proposals and business cases for consideration by GCR Cabinet. <p>Performance and progress is also managed through adherence with NLC Project Management and reporting, a bespoke internal City Deal Board and further via quarterly programme reporting to the City Deal PMO.</p>
<ul style="list-style-type: none"> ensure deals are aligned with an agreed regional economic strategy, with input from a wide range of partners, and can demonstrate how they will help deliver national and local priorities for economic development; 	<p>The GCR Regional Economic Strategy (RES) and associated Action Plan is currently being refreshed and anticipated to be complete by November 2020.</p> <p>The individual Business Cases produced for all City Deal projects and the Programme Business Case (PBC) must set out their alignment to local, Scottish and UK strategic economic objectives. Future versions of the PBC and North Lanarkshire project business cases will be updated to show alignment and contribution to this refreshed RES.</p>
<ul style="list-style-type: none"> regularly review their governance, monitoring and risk management arrangements to ensure they are clear and operating effectively, and consider the ways that internal audit can provide assurance on this; 	<p>GCR has recently reviewed and refreshed its governance, monitoring and risk management arrangements with the updated Assurance Framework 2019 approved by Cabinet in October 2019. This has been fully embedded within the delivery of the North Lanarkshire City Deal Programme.</p> <p>The Councils Internal Audit team completed a review of programme governance arrangements in May 2019 which offered substantial assurance grading. All actions following this audit have been implemented by the Enterprise Projects Team who manage the City Deal programme.</p>

Appendix 2 Auditor General / Accounts Commission recommendations and management responses (continued)

Recommendations	Management response
<p>Councils should:</p>	
<ul style="list-style-type: none"> regularly monitor the risk of partner funding not materialising as agreed and be aware of their own financial implications if that risk is realised; 	<p>A formal risk register is in place, for both the North Lanarkshire City Deal Programme and individual capital projects. The risk of external funding not materialising is included within these registers.</p> <p>Risks are formally considered and reviewed four-weekly by the Chief Executives' Group. Six-weekly by the North Lanarkshire City Deal Board and eight-weekly by Cabinet.</p> <p>An Audit of Risk Mitigation and Management was completed and reported in 2019. Internal Audit's recent Follow-Up Audit (January 2020) has reported that all four recommendations within the Risk Audit have been completed.</p> <p>A GCR Financial Strategy Group, consisting of the most senior Finance Officers from each Member Authority, is charged with monitoring the finances of the City Deal. The Group meets six-weekly to discuss and oversee the Programme budget and review Financial Risks.</p>
<ul style="list-style-type: none"> ensure a wide range of partners and stakeholders, including local businesses, voluntary organisations, communities and community planning partners, are involved in the deal development and agreement process and as the deal progresses; 	<p>The Glasgow City Region City Deal Programme Assembly exercise was completed in 2013/14. The process saw the Region's Member Authorities work together to identify a short-list of 21 projects (from a long-list of 80+ projects) which were appraised as providing the best economic, and distributional, benefits for the Region. The long-list of projects was compiled from project proposals which were put forward by each of the Member Authorities. These locally-generated proposals were developed within Member Authority areas, coming from their Local Development Plans and/or area masterplans. In addition to the consultation with businesses and communities which will have been undertaken by Member Authorities in the development of these local plans, ongoing engagement and consultation is undertaken at a local level as the project progresses e.g. in order to gain planning consent.</p>
<ul style="list-style-type: none"> consider how they will measure the full long-term impact of the deal and whether it has achieved value for money. This should include consideration of arrangements for collecting and analysing data on different groups in their communities to allow the impact of deals on minority and disadvantaged groups to be evaluated; 	<p>Glasgow City Region City Deal has clear targets for jobs and GVA. For each Outline Business Case (OBC) created by the Council, a full economic impact appraisal must be completed to demonstrate the benefit cost ratio from proposed investment, both with respect to employment and GVA impacts but also wider social and sustainability benefits.</p> <p>Following OBC approval all benefits are tracked by the PMO on a quarterly basis and reported to GCR Cabinet.</p>

Appendix 2 Auditor General / Accounts Commission recommendations and management responses (continued)

Recommendations	Management response
Councils should:	
<ul style="list-style-type: none"> look at how deals affect their longer-term financial plans, capital programmes and borrowing strategies; and 	<p>In GCR individual Member Authorities must receive local approval for their funding contribution (minimum of 14%) and their own Business Cases prior to submitting this to the GCR PMO for appraisal. The PBC sets out how Prudential Borrowing requirements are met, namely that debt financing costs will be met from Member Authority resources and be in line with the Prudential Borrowing Code.</p> <p>The Council's contributions to the revised North Lanarkshire City Deal infrastructure programme were approved by Policy and Strategy committee in March 2019 at £53.2m (26%). The programme is incorporated within the Council's Long-Term Financial Plan.</p>
<ul style="list-style-type: none"> ensure that enough staff, money, expertise and skills are available to develop and deliver deals including sufficient project management capacity and expertise. 	<p>Through the creation of the Enterprise Projects Team in 2015, the Council fully recognised the resource implications arising from the delivery of the City Deal programme. The staffing and expertise of this team have evolved as our knowledge of the requirements of the GCR PMO and Cabinet have evolved since that time. Staff and resource feature on the North Lanarkshire Programme Risk Register and are continually reviewed by the City Deal Board to ensure the needs of the programme are met.</p>
The Scottish Government and councils should:	
<ul style="list-style-type: none"> consider how best to make more information publicly available as to the reasons behind key decisions on funding and project selection for signed deals and those still in development, to promote understanding and support effective scrutiny; 	<p>An overview of the GCR Programme Assembly exercise is included within the GCR Programme Business Case. It includes the options framework and the Critical Success Factors.</p> <p>In March 2019 North Lanarkshire successfully realigned its City Deal infrastructure Programme to better align with the priorities of the Council to support the redevelopment of Ravenscraig.</p>
<ul style="list-style-type: none"> improve arrangements for sharing knowledge and learning across deals in the interest of improving the deal process; and 	<p>The GCR PMO engages in regular informal knowledge exchange meetings with staff in the other Scottish Deal PMOs. GCR PMO also engages with other UK cities with Growth Deals through the National Evaluation Panel Steering Group. This engagement is then feedback to all member authorities through the most appropriate GCR governance route or group.</p>
<ul style="list-style-type: none"> regularly review the governance and accountability arrangements for deals to ensure they are clear and operate effectively. 	<p>Both Governments have recently participated in the 2019 review of the GCR Assurance Framework and are supportive of their effectiveness and appropriateness.</p>