



## Audit, Risk & Assurance Committee

<b>Date</b>	12 November 2019
<b>Report title</b>	Investment Programme Governance Audit Update
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<b>Report to be considered by</b>	Audit, Risk & Assurance Committee

### Recommendation(s) for action or decision:

#### Audit, Risk & Assurance Committee is recommended to:

- (1) Note the work that has been undertaken to date on the assurance framework and the decision-making process and the intent behind the proposed way forward.
- (2) Note the principles for delivering the revised decision-making process and Assurance Framework as outlined in this report.
- (3) Note that a progress report on delivery of these proposals will be brought to the 13th January 2020 meeting of ARAC.

## 1. Purpose of Report

1.1 The purpose of this report is to:

- 1) Provide details on the intent and proposed delivery of governance improvements to be delivered through a revised assurance framework and decision-making process.
- 2) Provide an update on how the revised assurance framework is being updated to reflect latest government guidance

1.2 The report will provide an overview to ARAC of the intended delivery route for delivering the proposed revisions to the Assurance Framework and the Decision-Making process referred to in the September 2019 ARAC report and further detailed in this report.

## 2. Summary

2.1 In September 2019 the Investment Programme Governance Audit Update report provided ARAC with an update on work undertaken to address previously agreed audit actions and provide details of proposals agreed by SLT to enhance the Assurance Framework through delivery of a number of key governance improvements.

2.2 These governance improvements have been directed by a number of drivers which have provided the rationale for delivery, these are:

- a) **Governance Review** – The Governance Review was an internal review of governance arrangements within the WMCA for the purpose of identifying areas for improvement and providing recommendations intended to deliver those improvements. The review sought to draw a number of conclusions on the existing governance structure and made evidenced based recommendations for future improvement.
- b) **National Local Growth Guidelines** – The National Local Growth Assurance Framework sets out Government’s guidance for places that are required to develop their own Local Assurance Framework. This applies to Mayoral Combined Authorities (MCAs).
- c) **Monitoring & Evaluation Requirements** – Monitoring and Evaluation is a government requirement and considered a standard component of development and delivery best practice. There are specific Monitoring and Evaluation requirements that inform certain deals and funding from Government, additionally Monitoring and Evaluation information is required at a strategic level to help inform the political stages of the decision-making process.
- d) **Her Majesty’s Government (HMG) Criteria** - Procedures, assurances and specified criteria defined by HMG under various funding programmes (eg Transforming Cities Fund, HIF) and negotiated deals (eg Housing Deal, Skills Deal)

2.3 In October SLT agreed to the development of a revised Decision-Making Process and Assurance Framework, the intent of which was to:

- deliver consistent and proportionate processes and decision-making
- ensure compliance with a Single Assurance Framework
- deliver increased confidence in the organisations ability to make sound evidence-based decisions

- deliver a process that is supportive to Portfolios and Directorates
- ensure earlier input to project development for Legal and Finance teams with requirement for all proposals to have legal and finance clearance on behalf of Section 151 Officer and Monitoring Officer
- ensure clarity on project sponsorship, SROs and accountable directors for each project and/or programme
- ensure earlier opportunities for cross portfolio developments and inclusive growth considerations

2.4 The work under development will also provide a response to the Governance Review observations and deliver a Decision-Making Process and Single Assurance Framework that will be compliant with the Governments National Local Growth Guidelines and Monitoring and Evaluation requirements. Additionally, this work will address the recent actions raised through ARAC around programme controls, financial management and risk management.

2.5 Further engagement and consultation will be undertaken with other important stakeholders including Investment Board and others involved in the existing process e.g. TAP and IAG

### **3. Revised Decision-Making Process**

3.1 Work is now underway to revise the Decision-Making Process and Assurance Framework in line with the key principles that have previously been agreed by SLT, those being:

- Process becomes active once in principle funding and/or powers have been identified and secured.
- Proposals will be consistent with WMCA Strategic Objectives, WMCA Annual Plan, Directorate approved business plans and any relevant national policy
- Directors will get support (where appropriate and necessary) from a central resource as part of the early stage development of their projects and programmes and be able to call in expert external support to assist project review and due diligence. This replaces activity previously undertaken through TAP, and supports a transparent, proportionate and consistent approach across the organisation to project development.
- Legal, Finance and Assurance will be engaged earlier in the process, giving Directors a clear and standardised sign off point. The intention is to provide consistent consideration of delivery and investment risks.
- IAG will become the Investment Panel which will identify key lines of enquiry to inform the Investment Board. They will consider VfM and any recommendations made to Investment Board, assisted where necessary by specialist external expertise.
- The Investment Panel would be advisory and would also provide clear observations and recommendations (not a transcript or decisions) to the SRO/Accountable Director on their case paper so that they can amend the paper to take account of those before submission to Investment Board. Those observations and recommendations would also be submitted to Investment Board as an appendix to the Board paper too to inform their decision making and ensure complete transparency.
- Investment Panel meetings may be required but the ambition will be to create an on-demand service to make the process as frictionless as possible.
- Streamlined process with Investment Board and WMCA Board engaged as per delegation levels
- Process will be applied in a way which is proportionate to the nature of the project

- 3.2 The revised Decision-Making Process will apply to all projects and investments, not just Investment Programme to ensure that there is proper oversight of all such activity however a proportionate approach will be applied to all non-capital projects. There is a residual ability for WMCA Board to direct derogations from the process when these are considered necessary or appropriate.

### Revised Project Development Process

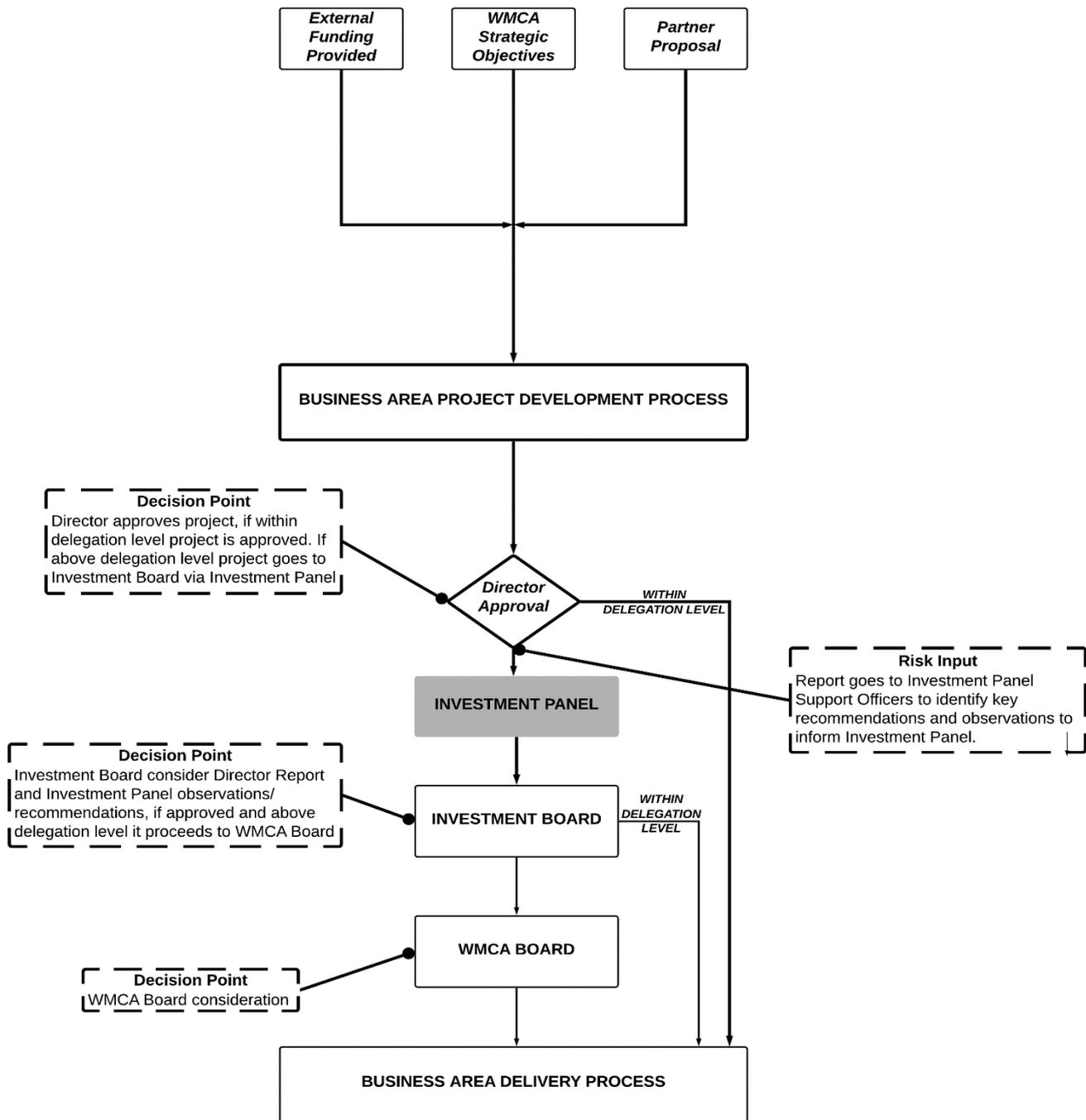
- 3.3 SLT have recommended that the project development process currently overseen through TAP can be improved by being devolved into Directorates/Portfolios so that they can control the tempo and ensure the relevant expertise is applied to project development and testing. In order for this to be delivered SLT has recommended that certain CA wide standards be applied to all projects and that an objective assurance clearance is provided at the end of development in order to allow that project to progress to the next step, that being Director approval. Further detail on the process leading to Director approval is given below however, in summary, it will require the Director to be satisfied that for a project or programme to proceed it must have met the requirements set by the decision-making process including the involvement of relevant Assurance, Finance and Legal colleagues.
- 3.4 For this process to operate effectively it is proposed that the TAP process is replaced with the following:
- A. CA wide project register that outlines project detail beginning at concept stage and updated at set points of development and delivery phase
  - B. Development routes proportionally set out what elements of relevant Government recognised Business Case standards are required to be delivered
  - C. Identified cases must be completed consistently to relevant Government guidance requirements where relevant such as HMT Green Book
  - D. CA wide Project Development standards must be adhered to by all projects being developed
  - E. Objective and independent assurance sign off required to progress project to next step
- 3.5 A key requirement of a revised project development process is applying proportionality, in practice this would be delivered by having criteria which determines which development route needs to be applied for each project. For example a complex project may require 5 elements of the relevant Business Case model to be adhered to and completed whilst a simple low complexity project may only require 2 elements of the relevant Business Case model to be adhered to and completed. The intention is to ensure that the level of assurance sought will be proportionate to the complexity of the investment proposal
- 3.6 The work underway to progress this involves identifying the process and criteria for identifying routes and applying proportionality.
- 3.7 A further key requirement to making this process work effectively is having CA wide minimum project development standards to be applied to all projects in order to guarantee weaknesses identified by the Governance Review are addressed. These minimum standards are to be developed to ensure compliance with the following agreed principles:
- Relevant Government Guidance route compliance to ensure appropriate and proportionate programme controls are applied (such as HMT Green Book)
  - Rigour applied around the Her Majesty's Treasury (HMT) Value For Money process
  - Early Legal and Finance engagement to ensure appropriate legal and finance controls are applied
  - Early Risk and Investment engagement to ensure appropriate risk management controls are applied

- CA wide engagement points to avoid projects being developed in Portfolio isolation, provide wider CA opportunities for collaboration particularly regarding Inclusive Growth and ensure wider CA implications of proposals are understood, considered and addressed
  - Monitoring and Evaluation plans become standard requirement
  - Appropriate Constituent Council engagement
  - Appropriate external challenge
  - Change control record
  - Legal and Finance sign-off
  - Objective Assurance sign-off
- 3.8 All projects would require Assurance sign-off, this involves an objective assessment and sign off by a central out of Portfolio/ Directorate Assurance function that would confirm that the relevant route has been complied with and evidenced and that the CA minimum standards had been applied and evidenced. In practice this process would flow throughout project development with the function of Assurance sign-off being provided at the point before Director Approval is required.
- 3.9 Work is underway to develop the revised project development process, and ARAC is asked to note the direction of travel in relation to the principles for this process as set out in paragraphs 3.1 - 3.10 of this report for further development.

#### Revised Decision Points

- 3.10 Once a project has been developed and provided with the required assurance sign off it is then required to be considered and approved by the relevant Portfolio Director(s). The purpose of this is to ensure that Directors are wholly responsible for the projects developed within their Directorates/ Portfolios, in providing approval Directors will be confirming that they accept responsibility for the quality of the project developed and for it taking it forward from this point forward.
- 3.11 Directors will be responsible for approving the final report that they then become accountable for, this report will be linked to an update within the CA project Register. Directors will then be responsible for taking this Report through the decision-making process or taking it through to delivery if within their delegation.
- 3.12 The key change to the decision-making process is the replacement of the Investment Advisory Group (IAG) with a new Investment Panel and supporting process. IAG was considered to be ineffective in highlighting investment and finance considerations within the project approvals pathway, the purpose of the proposed Investment Panel is to assist in improving proposals during the development phase as well as to support the required considerations of the funding decisions made at a political level by Investment Board.
- 3.13 Where a Director's report falls outside that Director's delegation the report will be submitted to the Investment Panel process, this will involve highlighting of the key risks and key lines of enquiry for the Investment Panel to focus upon.
- 3.14 The Panel membership is under development but from the Combined Authority, standing members will consist of the Director of Investment, S151 Officer, and the Monitoring Officer (or their representatives). The Panel will meet on demand in order to ensure that it does not delay the approvals pathway and will focus on reviewing the relevant papers and hearing from officers as appropriate for the purpose of developing advice, observations and recommendations on the proposal for the consideration of the Investment Board.

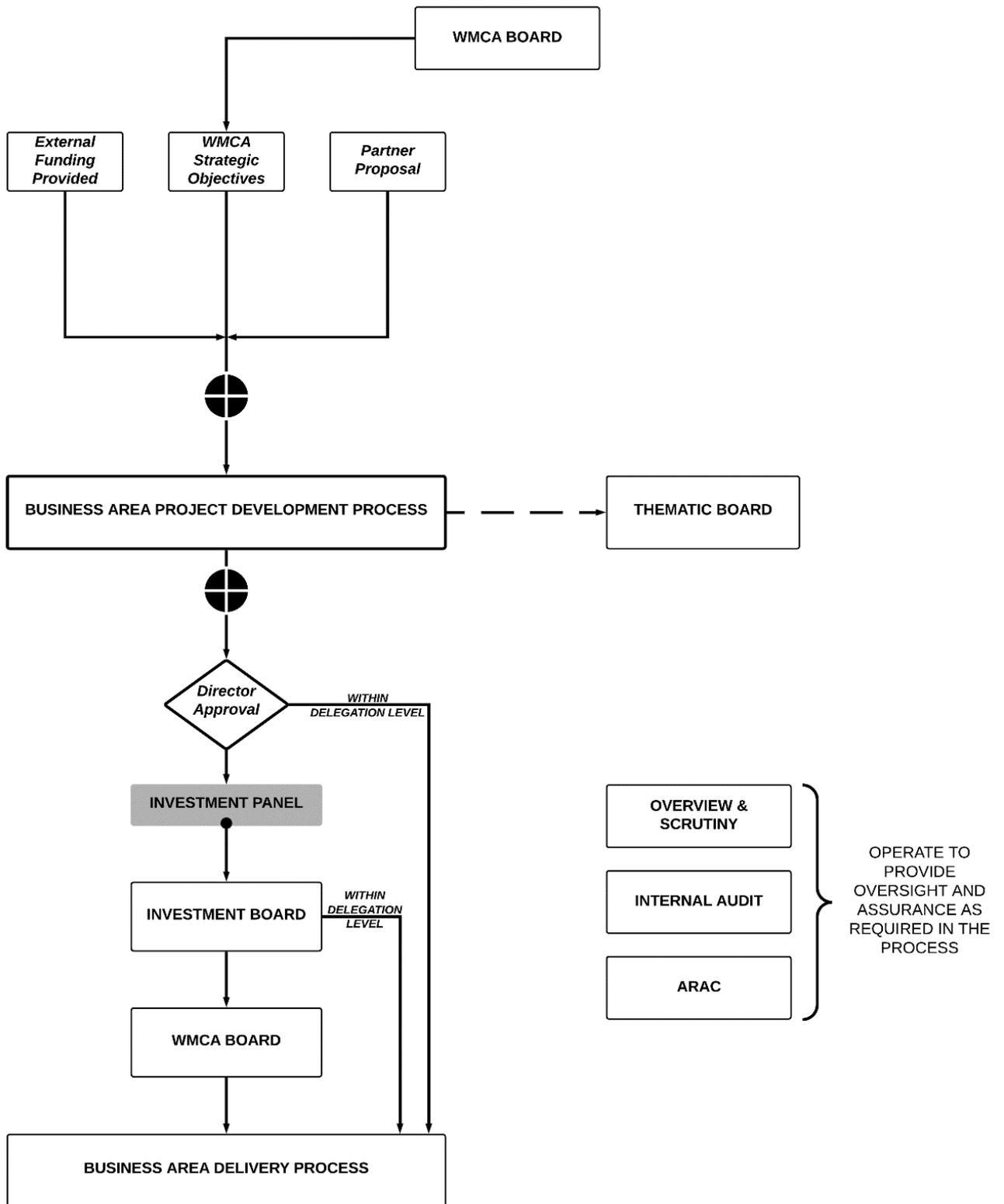
- 3.15 Investment Panel support officers will engage with those developing projects at an early stage as initial development routes for projects will highlight if that project will need to go through Investment Panel and Investment Board. This early engagement could identify the need for additional information or external challenge being needed in order to inform project/case paper development and Investment Panel and Board considerations.
- 3.16 The Investment Panel supports the Investment Board by adding an appendix to the Directors report when it is submitted to Investment Board which details their observations and any recommendations such as additional legal clauses or key areas the Board may wish to seek assurance on from the Director.
- 3.17 Investment Board will continue to meet monthly and will consider the Directors report and Investment Panel appendix, they will then question the Director and the SRO in order to determine if they wish to approve the project if it is within their delegation, or recommend to WMCA Board approval if it is above their delegation.
- 3.18 Work is underway to develop the revised processes associated with the decision points detailed in this report, ARAC is asked to note the progress in relation to the principles for this process as set out in paragraphs 3.11 - 3.20 of this report for further development.
- 3.19 These decision points are illustrated in the following diagram (which is in simplified form only and does not fully show all the steps required by the Assurance Framework):



### Formal Governance Mechanisms

- 3.20 The Decision-Making Process recommended by SLT involves a number of developments that could assist the formal governance processes of the WMCA, namely the operation of Thematic Boards, WMCA Board, and the Overview & Scrutiny Committee.
- 3.21 The intent of the Decision-Making Process in regards to formal governance arrangements of the CA is to build upon existing arrangements whilst ensuring that Boards and Committees are able to successfully undertake their core roles. It is about providing the appropriate data for each Board/ Committee and ensuring that all Thematic Boards fulfil some core roles which add value to the decision-making process.

- 3.22 Through the introduction of Monitoring and Evaluation plans and consistent performance reporting the Decision-Making Process will ensure that strategic data can be captured throughout the process in order to provide the required information to assess performance and delivery.
- 3.23 Strategic performance data can then be provided to the range of formal governance Boards and Committees to assist them in delivering their core functions. Strategic performance data can be provided to the WMCA Board in order to assist the Board with assessing whether or not the CA is delivering its strategic objectives. Strategic data can also be provided to the Overview and Scrutiny Committee in order to provide it with the required information to hold the Board and the Mayor to account in delivering those strategic objectives.
- 3.24 Additionally the capture of strategic data will allow a clear picture of performance and delivery impact to be developed to be reported to Government and partners on progress in delivering the strategic objectives of the CA, as well as Monitoring and Evaluation assessments of projects and programmes which informs continuous improvement for the CA.
- 3.25 The Decision-Making Process also proposes a set of core functions to be delivered by all Thematic Boards, these core functions are as follows:
- Oversight of project development pipeline
  - Development and oversight role in Annual Portfolio Business Plan
  - Consideration of any major portfolio policy change
  - Performance management role in delivery of projects
- 3.26 The creation of a CA Project Register before project development and updated at various phases throughout development provides an opportunity for Portfolio Project Registers to exist and for oversight of these registers to be provided by the relevant Thematic Boards. This ensures political oversight of project development processes and financial control and forecasting.
- 3.27 It is proposed that Thematic Boards all play a role in performance managing project and programme delivery, ensuring political challenge and accountability to Directorates/ Portfolios on delivery and success set against project objectives and M&E plans.
- 3.28 The requirement at the end of project development for a Director Approval and Report ensures that each Director is accountable for projects and programmes that have entered delivery phases.
- 3.29 Work is underway to develop the revised processes associated with the formal governance of the WMCA as detailed in this report, ARAC is asked to approve the principles for this process as set out in paragraphs 3.21 - 3.31 of this report.
- 3.30 The formal governance element of the Approvals Pathway can be demonstrated in the following diagram (which is in simplified form only and does not show the full detail of all Assurance Framework steps):



## **4. Revised Assurance Framework**

- 4.1 The September 2019 report to ARAC highlighted the work that has previously been undertaken to deliver an enhanced Assurance Framework. Work to develop further improvements and revisions to the Assurance Framework is developing well alongside a number of other governance improvement actions, however this work is dependent upon delivery of the Approvals Pathway outlined in this report as well as a number of significant other tasks such as establishment of the Strategic Hub.
- 4.2 In addition the Assurance Framework also requires revision in order to ensure that it is compliant with Governments National Local Growth guidelines. The National Local Growth Assurance Framework sets out Government's guidance for places that are required to develop their own Local Assurance Framework. This applies to Mayoral Combined Authorities (MCAs) with a Single Pot and Local Enterprise Partnerships (LEPs). This Framework replaces the previous LEP National Assurance Framework (November 2016) and Single Pot Assurance Framework (April 2016) and seeks to provide a common framework of understanding of the assurance required for local growth funding.
- 4.3 The National Local Growth Assurance Framework applies to all funding and investment decisions of the Combined Authority. It is a requirement of Central Government that the CA adhere to this and it will be measured against this at its 5 year gateway review.
- 4.4 It is necessary therefore to strengthen existing controls and ensure compliance with the recently updated guidance. SLT has therefore agreed that all projects and investments follow the Approvals Pathway and revised Assurance Framework and that it is applied proportionally in the case of non-capital projects. There is a residual ability for WMCA Board to direct derogations from the process when these are considered necessary or appropriate.

## **5. Next Steps**

- 5.1 Further development work is being carried out on these proposals and the purpose of bringing them to ARAC at this stage is demonstrate the work and direction of travel that is being carried out. This work is in response to a number of factors including Internal Audit recommendations and the need to develop these processes as the WMCA grows and matures. Consultation will be needed with a range of stakeholders leading to the point in time where we can present the revised processes and Framework for approval by the WMCA Board. ARAC and Investment Board will need to be sighted on the final proposals before they go forward.

## **6. Financial Implications**

- 6.1 The cost of implementing the changes detailed within the report are being managed within existing resources. There are no proposals to change financial delegations as a result of these proposals.

## **7. Legal Implications**

- 7.1 The WMCA is required to maintain an assurance framework which ensures that investment and spending decisions are made in the light of relevant considerations and proper stewardship of public monies is provided. This report outlines development work which is in progress with the overall objective of ensuring this objective continues to be met.

## **8. Equalities Implications**

- 8.1 There are no equalities implications arising from this report.

**9. Inclusive Growth Implications**

9.1 There are no inclusive growth implications arising from this report.

**10. Geographical Area of Report's Implications**

10.1 There are no geographical area implications arising from this report.

**11. Other Implications**

11.1 There are no other implications arising from this report.

**12. Schedule of Background Papers**

12.1 Not applicable.

**13. Appendix**

13.1 There are no appendices to this report.