

20<sup>th</sup> May 2019

## Appraisal & Assurance Process

### Purpose of Report

Further to the approval of new governance arrangements, this paper:

- Provides details of the current principles and approach to LGF scheme appraisal,
- Reviews the strengths and weaknesses of the current approach, and
- Makes a recommendation for strengthening current arrangements whilst ensuring no compliance requirements are compromised.

### Thematic Priority

Cross cutting - governance.

### Freedom of Information

This paper will be made available under the MCA publication scheme.

### Recommendations

That the Board considers and approves the proposed option to strengthen the appraisal, assurance and decision-making processes based upon the options presented in section 2.4 of this report.

## 1. Introduction

- 1.1** The City Deal and Growth Deal process required LEPs and their Accountable Bodies to demonstrate conformance to implementing an assurance process which enables a value for money conclusion to be reached prior to investment decisions. Successive National Assurance Frameworks have increased the obligations on LEPs and their Accountable bodies to strengthen governance and assurance processes, and particularly focus on independence and transparency requirements.
- 1.2** The SCR approach to scheme evaluation and prioritisation resulted in SCR being awarded a greater than anticipated growth deal in 2014 and receiving the maximum flexibility over the funding allocation. To date MHCLG evaluations of the LEP and MCA has determined that local arrangements are compliant with the National Assurance Framework and that SCR is considered to be 'good' in all three areas of the review, Governance, Delivery and Strategy.
- 1.3** In December 2018 and January 2019, the MCA and LEP respectively approved new governance arrangements, agreeing that five Thematic Boards, accountable to the MCA and LEP, would be established. Each Board will have a defined thematic portfolio including distinct responsibilities for the Business Growth, Housing, Infrastructure, Skills and Employment and Transport programme. The Boards will also have a delegated authority to approve schemes with a value of less than £2 million.

Further to agreeing the establishment of the Thematic Boards, officers committed to reviewing the arrangements currently in place for the independent assurance of schemes. This review is summarised below in sections 2.1-2.3 and a recommendation option presented in section 2.4.

## **2. Proposal and justification**

**2.1** The current required assurance and appraisal process is based on the following principles:

- Independence
- Expertise
- Transparency
- Flexibility

The National Assurance Framework for LGF reviews these principles as the basis for the annual national audit of LEPs. The review undertaken firstly, clarifies strengths of the approach in the SCR model and then identifies potential weaknesses and offers an approach to how these could be addressed.

There are currently three different appraisal and eventual approval pathways in operation, for schemes seeking to access LGF. These are detailed in full in Appendix A to this report.

### **2.2 SCR Scheme assurance and appraisal strengths**

The strengths of the current model are detailed in sections 2.2.1 – 2.2.9 below:

- 2.2.1** The appraisal function is separate from the decision-making role undertaken by the LEP and/or MCA.
- 2.2.2** The assurance and appraisal of schemes is managed independently of the Scheme Promotor by officers of the SCR.
- 2.2.3** The SCR approach includes an Appraisal Panel, made up of the Statutory Officers of the Authority (or their designate), to ensure senior level oversight of the process and recommendations to decision makers.
- 2.2.4** The Appraisal Panel are supported by other relevant teams including the Programme Management Office and Contracts team. Any officer supporting or undertaking any aspect of the appraisal process is required to undergo HMT Green Book Better Business Cases approved accredited training for assessors (appraisal modules).
- 2.2.5** The technical appraisal of schemes is undertaken in conjunction with an independent and contracted team of experts known as the Central Independent Appraisal Team<sup>1</sup>(CIAT), thus is fully independent of Scheme Promotors and SCR Executive and ensures technical experts are informing the recommendation to decision makers.
- 2.2.6** The extension of the CIAT to five organisations from three, has provided increased technical capacity.
- 2.2.7** For business investment fund appraisal, expertise relating to banking, commercial financial and investment has been accessed via specialist membership of the BIF Panel.

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1. <sup>1</sup> In October 2018 the MCA approved entering into five contracts for the Central Independent Appraisal Team service with a combined potential value of circa £450k over the next 4 years. The use of this independent appraisal panel provides HMG the assurance that SCR is able to fully appraise its own growth deal programme to the standard required by government. SCR therefore is one of a number of LEP areas awarded enhanced flexibility over the management of LGF.

**2.2.8** The appraisal model, utilising a combination of SCR Officers and CIAT expertise, enables a flexible timetable to be implemented. Meetings are scheduled fortnightly but additional meetings to minimise any delays to a project's journey through the assurance process can be easily convened.

**2.2.9** The SCR appraisal approach conforms to both the National Assurance requirements and the Transparency Code of the authority and has been regularly subject to Internal and external audit and Scrutiny

### **2.3 SCR Scheme assurance and appraisal weaknesses**

The weaknesses of the current model are detailed in sections 2.3.1 – 2.3.9 below:

**2.3.1** Whilst the current appraisal model demonstrates independence from Scheme Promotors and decision makers, some LEPs have increased independence by nominating a LEP Board Member or other external expert to Chair the Appraisal Panel.

**2.3.2** The BIF Panel (no longer in existence under the new governance arrangements) lacked the separation between appraisal and decision making as the BIF Panel both reviewed schemes and made decisions on schemes under £2m in value.

**2.3.3** The removal of the BIF Panel in the new governance arrangements, risks the loss of the banking, commercial finance and investment specialist capability in the appraisal process of the LGF-BIF schemes.

**2.3.4** The current model has the potential, for reasons of either confidentiality or perceived conflicts of interest, to redact too much information from the scheme summary and appraisal summary which could hamper the decision-making role.

### **2.4 Proposed option for consideration**

In light of the strengths of the current approach but in recognition of the identified weaknesses the following approach is recommended for consideration.

**2.4.1** Appoint an independent Chair of the Appraisal Panel from either:

- the LEP Board (potentially the Vice Chair with the programme portfolio)
- a pool of LEP Board Members, recognising the requirement to maintain the separation between appraisal and decision-making or
- a different independent expert.

**2.4.2** Ensure no loss of banking, commercial financial or investment expertise within the appraisal process by either:

- expanding the current CIAT framework to include business expertise,
- co-opting the existing experts from the BIF Panel to the Appraisal Panel, or
- identifying new technical specialists in this field and co-opting them on to the Appraisal Panel.

**2.4.3** Produce, for decision makers, of a more detailed scheme overview and appraisal summary in addition to a clear assurance opinion and enable access to full business cases and appraisal recommendations. Noting the need to balance commercially confidential information with transparency requirements for publication of papers

**2.4.4** Formalise and publish dates for assurance panels to be at least monthly or maintain the current 2 weekly approach. Noting the frequency may be affected by the decision to appoint an independent Chair

### 3. Consideration of alternative approaches

- 3.1 Do nothing – continue with the current arrangements. This is a potential especially as the model has been found to be fully compliant with expectations. This has been discounted however as the new governance arrangements necessitate steps are taken to maintain the technical expertise previously on the BIF Panel, and to look at information required in the delegated decision model
- 3.2 Do something – The recommendation detailed in section 2.4 maintains the majority of the current approach but identifies actions to mitigate against identified weaknesses.
- 3.3 Do more – An alternative is to put in place a fully independent model of assurance by procuring a fully outsourced service. This has been discounted as would increase the costs associated with appraisal, would make the Statutory Officers of the Authority more removed from programme decisions and would increase the risks of compliance.

### 4. Implications

- 4.1 **Financial**  
The costs of enhancing the independent appraisal of schemes is managed within the overall envelope of the LGF programme and therefore any costs associated with increasing the pool of appraisal experts can be met by the programme.
- 4.2 **Legal**  
Any changes will have to maintain compliance with the National Assurance Framework and the MCA Constitution.
- 4.3 **Risk Management**  
Robust assurance and appraisal processes are vital in ensuring the MCA manages financial risk effectively.
- 4.4 **Equality, Diversity and Social Inclusion**  
There are no equality, diversity or social inclusion implications to revising Assurance and Appraisal Panel arrangements.

### 5. Communications

- 5.1 The Assurance Framework will be updated to reflect any governance changes agreed by the LEP and MCA. This will be published on the SCR websites and all partners will be made aware of these changes, where necessary.

### 6. Appendices/Annexes

- 6.1 **Appendix A** – Current arrangements for LGF

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Background papers used in the preparation of this report are available for inspection at: 11 Broad Street West, Sheffield S1 2BQ

Other sources and references:

- National Assurance Framework
- SCR Assurance and Accountability Framework

## Appendix A LGF Current Approach

### 1.0 Local Growth Fund Appraisal and Assurance Routeways

- 1.1 There are currently three different pathways in operation, for schemes seeking to access LGF, to undergo appraisal and eventual approval or otherwise. Further details regarding current arrangements can be found in **Appendix A**.
- 1.1.1 LGF schemes (Infrastructure, skills capital and transport)**  
Schemes that have been accepted into the LGF pipeline by the LEP, undergo independent appraisal, by the Appraisal Panel.  
The recommendation of the Appraisal Panel is submitted to the relevant Executive Board for endorsement.  
The Executive Board then makes a recommendation to the MCA.  
Originally the ESFA undertook the independent appraisal of skills capital investment but this was stopped in 2017.
- 1.1.2 LGF Housing schemes (Housing Fund)**  
Schemes are independently appraised, by the Appraisal Panel. Schemes are then submitted to the Housing Board for a decision or for endorsement to the MCA.  
Approved investments of up to £2m are enacted by the Head of Paid Service (or his delegate) and reported to the MCA.  
Investments of £2m and above are endorsed by the Board and presented to the MCA for decision.
- 1.1.3 LGF Business Investment Fund (BIF) schemes**  
BIF applications were independently appraised, by the Access to Finance Centre of Expertise (AFCoE) advisors and the contracted Managing Agent.  
Schemes were presented to a BIF panel made up of commercial and financial specialists, the Managing Authority (SCC), a lead CEX and the SCR Exec S73 delegate.  
For schemes under £2m in value, the BIF Panel was a decision-making body, instructing the S73 delegate to progress the offer of a grant or loan.  
Schemes greater than £2m in value were presented to the MCA for a decision.