



Audit considerations for UKSPF, LUF and ADP projects

Corporate Priority:	Delivering sustainable and inclusive growth in Melton
Relevant Ward Member(s):	All
Date of consultation with Ward Member(s):	n/a
Exempt Information:	No

1 Summary

- 1.1 The Chair of the Audit & Standards Committee has requested that a report be submitted to the March audit and standards committee setting out an overview of the project lifecycle in respect of the key strategic regeneration projects being delivered by external grants funding such as UK Shared Prosperity Fund (UKSPF), Levelling Up Fund (LUF) and Business Rate Pool (BRP) funding to support the Asset Development Programme (ADP).
- 1.2 This report outlines how audit assurance will be managed for these projects. It sets a scene for the audit plan for 2023/24 by identifying key risks so the audit provision that is being made is focussed in the right areas. The report also identifies the role of the scrutiny committee in shaping these projects.
- 1.3 Internal audit arrangements are proposed for each of these projects based on the risks involved and organisational impact on materialisation of those risks.

2 Recommendation(s)

That Committee:

- 2.1 Note and provide comments (as appropriate) on the proposed arrangements for audit assurance and the potential future involvement of the internal audit team for the key strategic regeneration projects funded through external grant funding.

3 Reason for Recommendations

- 3.1 'Delivering sustainable and inclusive growth in Melton' and 'Ensuring the right conditions to support delivery' are identified as key priorities in the Council's Corporate Strategy 2020-2024.
- 3.2 The interventions delivered through these external grant-funded projects will help develop the Council's assets, generate income and reduce expenditure as well as regenerate the town centre, create a destination offer within the town, encourage inward investment, and create additional jobs in key economic sectors such as tourism and food production.
- 3.3 While the benefits delivered through these projects will have a high level of positive impact on the Council, town centre as well as the economy of the Borough, the negative impact of non-delivery and non-compliance could potentially be very high as well. Therefore, it is important to ensure good level of assurance at all stages of these projects with direct oversight of members and specifically the Audit and Standards Committee.

4 Background

- 4.1 The Council has been successful in the past four years in receiving external grants funding to deliver the key corporate priority of delivering sustainable growth in Melton.
- 4.2 The projects funded through such grants include:
- UK Shared Prosperity Fund (UKSPF) to deliver a range of projects to support the business and communities - £1.19m
 - Levelling Up Fund (LUF) for the delivery of the Stockyard - £11.85m (£10.1m LUF grant)
 - Delivery of the Asset Development Programme (ADP) - £0.875m (£0.5m Business Rates Pool)
- 4.3 The Council is legally bound to ensure these projects are delivered in compliance with the grant conditions and are subject to audit and monitoring procedures of the funding bodies.
- 4.4 It is important for the Council to ensure these projects and programmes are delivered in accordance with the Council's internal policies and procedures and the internal audit team will play a key role in supporting the project teams in managing the risks.
- 4.5 It is to note that these grants will be subject to external audit from the funding bodies to ensure compliance with grant conditions which will need to align with any internal arrangements.
- 4.6 All these projects are being delivered as per the Council's project management toolkit with oversight of the senior leadership team. The Scrutiny Committee has had an ongoing role in shaping these projects so far and will continue to monitor the progress and provide steer for future direction of these projects.
- 4.7 The delivery of these projects involves external stakeholders and partners who have a role in influencing them, but the Council and the Cabinet remain the decision making body for all actions.
- 4.8 These projects are aligned with the Corporate Strategy and contribute towards key priorities for the Council. They are also complimentary to each other and together they are envisaged to add value to the Council's efforts in supporting the economy and communities of Melton.

5 Main Considerations

5.1 UK Shared Prosperity Fund (UKSPF):

- 5.1.1 Following the successful submission of a UKSPF investment plan MBC received confirmation in December 2022 that it had secured the £1.19m investment and is now able to begin delivery of this plan. The two-year work programme is due to end March 2025. Work has commenced to deliver the projects that are part of the 1st year delivery. The details of investment plan with clear allocation of funding, governance arrangement and risk management are included in the report approved by the Cabinet on the 8th March 2023.
- 5.1.2 The investment plan consists of a detailed action plan identifying over 20 activities across a wide range of services, delivering the Council's shaping places and helping people priorities. Taking into account the considerable amount of work involved in delivering, monitoring, reporting, and evaluating the investment plan, the Council had requested additional funding to ensure sufficient capacity for this work which has been approved. A new post for Assistant Director for Regeneration & UKSPF Delivery is established to create focus and senior level oversight for the delivery of this programme. A vacant project officer post in Regeneration team which was kept vacant until now to achieve a financial saving has now been recruited from the 1st March 2023 to enable additional capacity within the Regeneration team to deliver this ambitious programme.
- 5.1.3 The key risk for this project is delivery of multiple small-scale projects on time and in compliance with grant conditions. Considering the variety of activities, imminent delivery and tight timescales, it is proposed for the internal audit team to be involved in the project from the start to embed the audit work in the project and cover the initiation stage. It is also proposed to undertake two formal reviews – one at the mid-point of the programme towards the end of financial year 2023-24 and another one towards the closure of the project at the end of 2024-25.

5.2 Levelling Up Fund (LUF):

- 5.2.1 In August 2022, Rutland County Council submitted a joint bid on behalf of both Melton Borough Council (MBC) and Rutland County Council (RCC) for £22.95m from the second round of the Levelling Up Fund (LUF). The Department for Levelling Up, Housing & Communities (DLUHC) confirmed in January 2023 the bid had been successful.
- 5.2.2 The bid required a lead authority to formally submit the bid on behalf of all partners. Rutland County Council (RCC) agreed to be the accountable body for the whole bid when it was submitted to the Government in August 2022. This means that Rutland County Council will be required to enter into a Memorandum of Understanding and sign the grant agreement with DLUHC, subject to Rutland County Council's securing the necessary approvals at their Council meeting on 27th March 2023. Concurrently, Melton Borough Council will need to enter into an agreement with Rutland County Council to allow them to transfer appropriate accountability and responsibilities for those projects within Melton. Melton Borough Council will receive £12.158m for the projects to be delivered within the Melton area, including the Stockyard development (£10.1m) and the refurbishment of the theatre by the SMB group college (£2m). The SMB Group will be required to enter an agreement with Melton Borough Council to receive their share of the grant funding and accept the risks associated with it. Details of governance arrangements and associated financial and legal risks are identified in the report approved by the Cabinet on the 8th March 2023.

- 5.2.3 An Assurance framework, with associated Guidance documentation, has been provided by Government to RCC as the accountable body for the programme. This was received on the 14th March 2023. This document is currently being considered by Officers at both Councils. It is expected that elements of this will inform the back-to-back legal agreement this Council signs with RCC to assume the responsibility for Melton's Projects. Legal expertise will be sought to better understand this framework and ascertain any risks associated with it before any back-to-back agreement is signed.
- 5.2.4 MBC and RCC share an internal audit provider. This will support both organisations to ensuring that the audit processes and procedures in place not only adhere to best practice in terms of both organisations requirements but also meet the relevant requirements as set out in the Governments Assurance framework. Audit have sight of the assurance framework that has been sent through to RCC which will enable them to provide guidance and support throughout programme delivery.
- 5.2.5 Currently the project costs and timescales for delivery are being reviewed to enable the Council to advise the Government of the most updated details, taking into account the changes in external factors such as economy, market condition, construction costs etc. It is proposed to keep monitoring this throughout the duration of the project and any changes are proposed to be reported through the agreed mechanism via RCC. The current timescales for delivery of the spend is by the end of March 2025 subject to amendments to the delivery programme agreed with the DLUHC in advance.
- 5.2.6 The Council will require a variety of skill sets and expertise to deliver the LUF projects. An analysis of all required skills has been undertaken which has identified the current availability of these skills within the Council and also highlighted the need for additional and external resources. To begin with, a capital project manager will be appointed to drive the delivery of this project with implementation on ground. This will be funded through the grants funding.
- 5.3 **Asset Development Programme (ADP)**
- 5.3.1 The Council approved the first phase of the Asset Development Programme (ADP) in January 2021 which seeks to maximise the value of the Council's assets, generating additional revenue or capital income, whilst also creating jobs, building homes, and strengthening community facilities. The Cabinet has considered and approved further details of the programme in relation to the development of Parkside, Phoenix House and the Cove Community Centre. The Scrutiny Committee has been involved in shaping the projects by attending participatory workshops and providing steer in relation to the direction of travel.
- 5.3.2 The key objectives of this programme include effective utilisation of assets, generation of revenue benefit or capital receipt and supporting economic growth and town centre vitality. The key risks for the Council in delivering this project are,
- managing communication and expectations from a range of stakeholders;
 - managing the scope of works with a clear focus on meeting the objectives; and
 - delivery of works in compliance with grants conditions as well as financial and contracts procedure rules.
- 5.3.3 This work involves development of Council owned assets with direct involvement and significant level of investment by the Council. The Council is reliant on its success to

achieve financial sustainability going forward. Due to these reasons, it is important that the Council delivers these works imminently in order to achieve the benefits.

- 5.3.4 This programme so far has been managed internally by the Corporate Property and Assets team. Based on the nature of works involved in future phases, further external expertise will be sought to help manage and deliver works on ground. Where possible, costs for additional resources are built into the forecast costs of works and the amount that may need to be borrowed by the Council. The key gap in existing skill sets include dedicated capital project management and construction project management capability to deliver large scale works. Managing this work alongside the day-to-day operation of the service is likely to create capacity issues. To overcome these challenges, a dedicated project manager with relevant skills will be appointed for future phases of works following further cabinet approvals in Summer 2023.
- 5.3.5 The project management audit undertaken in February 2022 included the Asset Development Programme concluding substantial level of assurance for control environment with good compliance. While this result was reassuring, considering the high organisational impact of this project, it is proposed for internal audit to review the works during Q4 of 2023-24 and provide assurance for achieving the objectives set by the Council.

6 Options Considered

- 6.1 Not having audit assurance for the projects is not considered an option for the reasons discussed in this report.

7 Consultation

- 7.1 Details of consultation for individual projects are included in the cabinet reports attached in appendices.

8 Next Steps – Implementation and Communication

- 8.1 Agree the inclusion of works in the audit plan for the next two years and continue the work to implement projects in accordance with their approved programmes.

9 Financial Implications

- 9.1 Costs of the audit assignments are covered within the existing audit plan.

Financial Implications reviewed by: Director for Corporate Services

10 Legal and Governance Implications

- 10.1 Section 1 of the localism act 2011 gives the council the power to do anything that individuals may generally do and section 111 of the local government act 1972 gives a local authority power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.
- 10.2 The review via internal audit will help support the governance arrangements relating to the ongoing compliance of grant conditions and delivery of projects in relation to LUF, UKSPF and ADP.
- 10.3 **Levelling Up Fund** - Subject to Rutland County Council's approval on 27 March 2023, RCC will be the accountable body and will be required to agree and sign the Memorandum of Understanding and grant agreement in accordance with the terms and conditions. A separate back-to-back contractual agreement will then be signed by Melton

Borough Council in order to take on the responsibilities with regards to Melton Borough Council's portion of the bid. This agreement will set out the terms of the grant and the conditions for spending, including timescales and conditions for recovering funds that are not spent. Funds will need to be spent in accordance with the bid and any funding agreement. The council will be expected to provide evidence to demonstrate how the funding has been spent along with complying with the monitoring and assurances process through the LUF Executive Board.

- 10.4 **UKSPF** – Grant funding agreements will be required for all grants given by the Council via the UKSPF to both community groups and businesses.
- 10.5 **ADP** – advice is currently being provided in-house on all property work arising from this project.
- 10.6 Appropriate governance arrangements for the delivery of the levelling up projects will need to be established to align to government guidance and the Council's decision-making arrangements as set out in the Constitution.
- 10.7 Works, goods, and services must be procured in accordance with the Council's contract procedure rules.
- 10.8 Subsidy control advice has been sought to ensure the aspects of this bid are compliant with recent subsidy control guidelines.
- 10.9 Legal Services will be engaged at the earliest opportunity to review all agreements to ensure there is clarity on obligations and conditions placed upon the grant to minimise any risks to the Council.
- 10.10 Due to the complexity of some of the projects, external legal advice will be sought where applicable.

Legal Implications reviewed by: Monitoring Officer

11 Equality and Safeguarding Implications

- 11.1 Equalities and safeguarding impacts are a key consideration within delivery of each of the projects.

12 Community Safety Implications

- 12.1 NA

13 Environmental and Climate Change Implications

- 13.1 NA

14 Other Implications (where significant)

- 14.1 NA

15 Risk & Mitigation

Risk No	Risk Description	Likelihood	Impact	Risk
1	Over reliance on Audit function to pick up all assurance related risks creates potential for oversight during project delivery	Significant	Critical	Medium Risk

		Impact / Consequences			
		Negligible	Marginal	Critical	Catastrophic
Likelihood	Score/ definition	1	2	3	4
	6 Very High				
	5 High				
	4 Significant			1	
	3 Low				
	2 Very Low				
	1 Almost impossible				

Risk No	Mitigation
1	Management understand role of audit and accept responsibility as risk owners for project delivery

16 Background Papers

16.1 UKSPF update report to Cabinet – 8th March 2023 [Committee](#)

16.2 LUF update report to Cabinet – 8th March 2023 [Committee](#)

16.3 ADP update report to Cabinet – 8th February 2023 [Committee](#)

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