

## INTERNAL AUDIT REPORT

**FROM:** Audit and Risk Manager                      **SUBJECT:** Economic Development

**TO:** Head of Development Services                      **DATE:** 31 March 2015  
Economic Development and  
Regeneration Manager

**C.C.** Chief Executive  
Deputy Chief Executive (AJ)  
Deputy Chief Executive (BH)  
Head of Finance

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### 1. Introduction

- 1.1. In accordance with the Audit Plan for 2014/15, an examination of the above subject area has been completed recently and this report is intended to present the findings and conclusions for information and action where appropriate.
- 1.2. Wherever possible, results obtained have been discussed with the staff involved in the various procedures examined and their views are incorporated, where appropriate, in any recommendations made. My thanks are extended to all concerned for the help and co-operation received during the audit.

### 2. Scope and Objectives of Audit

- 2.1. The primary purpose of the examination was to report a level of assurance on the adequacy of structures and processes to deliver the Council's economic development and regeneration functions economically, efficiency and effectively.
- 2.2. However, in the light of initial discussions on the scoping of the examination, it was agreed that a measure of consultancy would be instilled into the review aimed at informing the concurrent internal review of the service.
- 2.3. For assurance purposes, an evidential risk-based overview considered the relevant structures and processes in the context of the following themes:
- § policies, strategies and strategic programmes;
  - § roles and responsibilities (including relevant partnerships and joint working arrangements);
  - § performance and improvement.

- 2.4 The examination focused on functions discharged by the Economic Regeneration and Development Team in Development Services, but excluded the role of the Estates Manager and Team roles in event management as they are reviewed as separate audit assignments.
- 2.5 The selection of areas for more detailed examination was influenced partly by previous history of internal audit coverage and partly by perception of consultancy value based on ongoing discussions with the principal officer contact. With this in mind, particular attention was given to:
- § analysis of income and expenditure trends for all relevant cost centres over the past five years;
  - § partnership governance assessment of the Destination Management Organisation (DMO) 'Shakespeare's England';
  - § review of town centre management and applicable partnerships.
- 2.6 The findings are based on discussions with relevant staff and reference to available documents, records and financial data. The principal officer contact was Joe Baconnet, Economic Development and Regeneration Manager.

### 3 Findings

#### 3.1 Strategic Framework

- 3.1.1 The examination coincided with an internal review of the Economic Development and Regeneration Team's role being undertaken as part of a series of measures in place to take forward the 'Prosperity Agenda'.
- 3.1.2 Of the five priority themes in the Sustainable Community Strategy, the Council resolved that the 'Prosperity' theme would be at the Strategy's heart with the other four expected to contribute towards the 'Prosperity Agenda'. The actual development of the 'Prosperity Agenda' is in its early stages at the time of this report – the first authoritative assessment of the Council's activities to deliver the 'Agenda' and measures to take it forward were only reported to Executive in November 2014.
- 3.1.3 This helps to explain one observation that emerged early on in the examination – that the high profile given to the 'Prosperity' theme (and economic development aspects of it) is not visibly reflected in the corporate frameworks expected to ensure its delivery (e.g. support strategies, service planning, risk management).
- 3.1.4 A further development that has also given impetus for re-examination of the Economic Development and Regeneration Team's role is the advent of the Coventry and Warwickshire Local Enterprise Partnership (CWLEP) which came into being in 2011. This is one of the major partnerships subject to Members' scrutiny and as such did not warrant evaluation within the scope of this examination.

- 3.1.5 It is interesting to note, however, part of the commentary contained within the governance checklist completed as part of the scrutiny regime which reads “.....existing staff resource and corporate projects will ultimately be aligned with the delivery of CWLEP objectives”. These objectives are now enshrined in the Strategic Economic Plan (CWSEP) submitted to central government in March 2014.
- 3.1.6 It is this alignment that is seen as key to determining future structures and processes for the economic, efficient and effective delivery of economic development and regeneration functions. The adoption of a ‘Prosperity’ strategy for the Council (aligned to the CWSEP as applicable) is seen as a fundamental pre-requisite to this (it has been advised that the formulation of such a strategy is in progress at the time of this report).
- 3.1.8 Other work in progress at the time of the audit includes the formulation of a new Tourism Strategy in line with the partnering agreement that established the Destination Management Organisation (Shakespeare’s England).
- 3.2 Roles and Responsibilities
- 3.2.1 Disregarding the functions not covered in this examination, the Council’s role in economic development and regeneration can be roughly summarised as a mixture of:
- § direct provision of enterprise resources;
  - § officer and Member engagement with the business community;
  - § representation on (and underlying financial and professional support support to) partnerships;
  - § initiation and management of projects and initiatives (including exploitation of external funding opportunities where applicable).
- 3.2.2 From a financial perspective, the budgeted gross annual revenue cost for 2015/16 in respect of the above activities shows at approximately £900,000 with income generated in the region of £250,000 (mainly from provision of enterprise resources). Less quantifiable is the incidental value from the activities supporting the local economy, including impact on other Council income such as business rates, car parking and leisure facilities.
- 3.2.3 The structure of the Economic Development and Regeneration Team reflects the traditional focus on influencing economic activity (including tourism and town centre management) combined with more recent inroads into enterprise development which have attracted considerable external funding.
- 3.2.4 A role recognised as under-developed (per the Prosperity Agenda report) is the capture of external funding for the local economy, in which there have been missed opportunities. To remedy this, a proposal to commission some additional expert resource has been approved.

- 3.2.5 Roles and responsibilities relating to the Destination Management Organisation and Town Centre Partnerships are considered further in Sections 3.5 and 3.6 respectively.
- 3.3 Performance and Improvement
- 3.3.1 An operational plan is produced for the Economic Development and Regeneration Team as a reference point for individual and Team level performance monitoring.
- 3.3.2 At higher level, the picture on performance reporting becomes patchy and fragmented. From a review of senior management and Member reporting the only examples found that deal with this area are:
- § verbal updates to Overview and Scrutiny Committee on the CWLEP by the Council Leader;
  - § progress on specific projects and initiatives Portfolio Holder Statements;
  - § occasional stage reports to progress individual projects, the most recent relevant examples being the Destination Management Organisation and the digital gaming hub at 26 Hamilton Terrace.
- 3.3.3 While the Prosperity Agenda report refers to existing data sources and analysis on the local economy, no evidence could be found of these being formally reported to senior management or Members. In any case, they are themselves recognised in the report as being of insufficient scope and detail to measure performance over the full spectrum of the local economy. The commissioning of more comprehensive analysis and reporting is being pursued as part of the Team Operational Plan.
- 3.3.4 Developments on the strategic front are expected to influence the way that performance will be monitored and reported in future. Ideally, this should aim to integrate all reporting to Members and senior management under the Prosperity Agenda banner.
- 3.3.5 The analysis of income and expenditure trends did not reveal any issues warranting comment here. Overall, the direct costs have remained generally steady except for a slight 'spike' in employee costs in 2012/13 due to redundancies.
- 3.3.6 Most noticeable from the analysis is a considerable increase in the levels of income in respect of the Althorpe Enterprise Hub and Court Street Arches from 2012/13 onwards.
- 3.5 Destination Management Organisation
- 3.5.1 The partnership was formed in 2013 to establish a Destination Management Organisation (DMO) recognised by VisitEngland as the representative tourism body for the South Warwickshire area.

- 3.5.2 From the Council's perspective, the partnership represents a grant funding and 'in kind' support obligation to the DMO (formed as a company limited by guarantee). The amount of grant committed for the first three years is £75,000 per annum.
- 3.5.3 Evaluation of the partnership using the standard audit checklist indicated generally strong governance and accountability, subject to a few issues emerging. The key provisions are enshrined in a formal Deed of Agreement (sealed in July 2013) and the Articles of Association for the DMO company. The version of the Articles of Association seen is undated, but it is indicated from feedback and records seen that the company's incorporation became effective from September 2013 or shortly before.
- 3.5.4 A key accountability mechanism is the effective requirement under the Deed of Agreement for the DMO to submit quarterly reports to the Head of Development Services setting out the activities and use of funding. Copies of reports going back to January 2014 have been furnished demonstrating that this is being adhered to by the DMO. The only variation to the Agreement is the establishment of a bi-monthly reporting frequency to align with the frequency of the Board meetings.
- 3.5.5 It is also a requirement for the DMO to submit a copy of its annual accounts to the Head of Development Services. A draft set of accounts for the year ended 31<sup>st</sup> August 2014 was received the following October for consultation and acceptance prior to submission to the DMO Board in December for approval (a copy was forwarded to the Head of Finance for comments). At the time of the audit, the approved final accounts were yet to be forwarded (the Board had resolved to invoke Section 477(1) of the Companies Act enabling the DMO to dispense with statutory audit of the accounts).
- 3.5.6 Records seen show initial trading activity between October 2012 to August 2013 (i.e. prior to incorporation of the DMO), but it is advised that this was managed directly by Stratford-upon-Avon District Council.
- 3.5.7 It has been advised that appropriate feedback on the reports and accounts had been given through Development Services (with input from the Head of Finance on the accounts). The question was raised, however, as to whether the reports and accounts are feeding into a tangible scrutiny process at senior management and Member level. It was acknowledged in response that a formal scrutiny arrangement is warranted and it is anticipated that this will be in the form of annual reporting to one or both (or joint) Scrutiny Committees.

### **Risks**

***(1) Transparency and accountability for the DMO's operation and finances may be impaired.***

***(2) Expectations of reduced reliance on Council funding in future years may not be realised.***

### **Recommendation**

**Formal arrangements for scrutiny of DMO reports and accounts by senior management and Members should be established.**

- 3.5.8 A further issue arose concerning whether the Portfolio Holder's voting powers as a director of the DMO give rise to a potential conflict of interest. No record was found of an 'outside body' declaration on the published profile of the Councillor concerned. This was discussed with the Economic Development and Regeneration Manager who in turn raised the matter with the Deputy Monitoring Officer.
- 3.5.9 In subsequent feedback, it was confirmed that a declaration of interest had not been made and that this was being remedied with a direction barring voting at Executive on decisions concerning on the DMO.
- 3.6 Town Centre Partnerships
- 3.6.1 Partnerships supported by the Council have long been established as a mechanism for managing the town centres within the District. The approach has been to enter into a partnership for each of the towns of Royal Leamington Spa, Warwick and Kenilworth.
- 3.6.2 It was advised during the audit that the Royal Leamington Spa Town Centre Partnership has effectively dissolved, a situation attributed in great part to periods of insufficient staff resource available to service the Partnership. There is a recognised value in restoring some form of partnership arrangement to rebuild relationships and this is being pursued, although this may be with a more limited brief.
- 3.6.3 In the meantime, engagement with the business community is still manifest in support for the Royal Priors Centre forum and the Business Improvement District (BID) along with continued contact with individual businesses and former partner organisations.
- 3.6.4 Given the above, the evaluation focused on the Warwick and Kenilworth Partnerships. As well as the standard partnership checklists, a statement of principles contained in the job description for the Town Development Officer posts also proved a useful point of reference.
- 3.6.5 In the checklists, both partnerships are defined as informal. Some divergence was noticed in this context however, in that there is a documented constitution for the Kenilworth Partnership based on a Partnership Board and defined themed working groups. Attendance at meetings is restricted to Board members and working group chairs.
- 3.6.6 By contrast, the Warwick Partnership brands itself as a 'Management Group' rather than using the term 'Partnership'. Although it has a core membership of representatives along similar lines to Kenilworth, the Group adopts an 'open house' approach to its meetings.
- 3.6.7 On mentioning this divergence in discussions it was responded that, although there is a recognised value in a more harmonised partnership approach between the town centres, perceptions of what works best for them inevitably differs among the key 'players'.
- 3.6.8 In both partnerships, the matters discussed at meetings are appropriately recorded.

- 3.6.9 The expectation in the job description to 'identify and formulate a vision, strategy and action plan' suggests some pretension of status for the partnerships that goes well beyond their acknowledged purpose. In reality, the important element is the action plan as this is seen as an essential point of reference for demonstrating delivery of the partnerships' objectives.
- 3.6.10 This area has suffered neglect in recent years and neither of the partnerships has a formally adopted action plan at the time of this report (since 2010 for Warwick and 2013 for Kenilworth). A three-year action plan for Warwick has been completed in draft and is currently subject to consultation prior to adoption. An action plan for Kenilworth is currently under development.

## **4 Conclusions**

- 4.1 Within the scope of the examination, the findings confirm generally robust structures and processes in place to manage economic development and regeneration functions on a day-to-day basis. While there are issues identified regarding the town centre partnerships, it is recognised that these are being addressed effectively.
- 4.2 Certain issues emerged regarding the Destination Management Organisation, although overall the governance arrangements for the partnership were adjudged as mainly sound.
- 4.3 At a strategic level, the Prosperity Agenda has spawned a developmental process that brings economic development and regeneration functions more into the spotlight. The advent of the Local Enterprise Partnership and submission of their Strategic Economic Plan have established a sub-regional strategic framework that the functions should now be seeking to align with.
- 4.4 There is a clear commitment to translate the Prosperity Agenda into a strategic programme which is expected to provide a foundation for this alignment. Ideally, this should also establish an integrated performance reporting framework to replace what currently comes across as a fragmented and piecemeal approach to senior management and Member reporting on economic development and regeneration activity.
- 4.5 Taken as a whole, the findings are seen as giving SUBSTANTIAL assurance that that the control environment is suitably robust to deliver the applicable functions economically, efficiently and effectively and to manage the risks arising.

## **5 Management Action**

- 5.1 The recommendation in respect of scrutiny of the Destination Management Organisation is reproduced in the Action Plan together with the management response.

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