



Oldham
Council

Report to the Place, Economic Growth and Environment Scrutiny Board.

Assurance Framework on Grant Funded Programmes

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Reason for Report

The Council has been successful in obtaining capital grant funding from three sources administered by the Department of Levelling Up, Housing and Communities (DLUHC). These grant funding streams are detailed below:

- Future High Street Funds; expected grant related expenditure to be completed by 31 March 2024;
- Town Deals Fund; expected grant related expenditure to be completed by 31 March 2025 (the Future High Streets Fund and Town Deals Fund are collectively known as the Towns Fund); and
- Levelling Up Fund; expected grant related expenditure to be completed by 31 March 2025.

In addition, it is expected that there will be a further opportunity to bid for a further programme of Levelling Up Funding which has the potential to attract a further £20m in capital grant funding to the Council

This report outlines the review expected from the scrutiny function in respect of the guidance issued by DLUHC on overseeing these grant programmes.

Executive Summary

The Permanent Secretary at DLUHC is the Accountable Officer for any grant spend on the Future High Streets Fund, Town Deals Fund and Levelling Up Fund. It has been reported in the Local Government financial press that the oversight of grant funds including those linked into Levelling Up were subject to enhanced scrutiny by His Majesty's Treasury.

On 16 June 2023 DLUHC issued guidance (Levelling Up Funds Local Authority Assurance Framework) which clarified the oversight that DLUHC expects regarding the grant schemes. It sets out a common approach as to how DLUHC will assure the use of the funds in scope (from an Oldham perspective these are as detailed above, the Levelling Up Fund, Town Deal Funds and Future High Street Funds (the latter two are collectively known as Towns Fund)).

The Framework sets standards in line with the principles of Managing Public Money (MPM) with regard to regularity, propriety and securing value for money. It provides DLUHC, His Majesty's Government (HMG) and more widely stakeholders and the public with the necessary assurances that grant recipients have the policies and procedures in place to ensure the robust stewardship of public money.

The key points from the guidance in relation to Oldham are:

- In accordance with the Cabinet Office Government Functional Standards, the Assurance Framework provides for 3 separate and defined levels of assurance referred to as the three lines of defence;
- The first line of defence should be delivered at an operational management level. This is specified as the Chief Finance Officer. In Oldham this is the Director of Finance. This officer has the responsibility for the delivery of HMG investment, through the agreed projects, with propriety, regularity and value for money;
- When signing the assurance letter and statement of grant usage the Chief Finance Officer will be required to provide written confirmation that they have actively undertaken all necessary checks to ensure proper administration regarding the funding programme, particularly with regard to financial administration and transparency of governance;
- The second line of defence will be independent of the first line of defence and will be undertaken by DLUHC. It will require Local Authorities to engage with and provide supporting information in response to further assurance activity undertaken by DLUHC and other Government departments;
- The third line of defence will be undertaken by an independent audit or an independent body to secure an "objective opinion on the effectiveness of governance, risk management and internal controls".

The guidance implies that these grant funded projects are reviewed in line with the Council's arrangements for scrutiny. Should the Council be selected for a more detailed

review as set out in the second/ third line of defence then the level of scrutiny undertaken will be reviewed.

For the financial year 2023/24 it is suggested that two reports be submitted by Officers to this Scrutiny Board. This report setting out the Assurance Framework and a further report to the meeting on 19 March 2024 setting out progress in relation to each of the funding streams/capital expenditure programmes in line with the basis upon which the funding has been approved, i.e based on forecast outcomes, milestones and financial profiles.

For the municipal year 2024/25 it is recommended that a further 2 reports outlining the progress on the oversight of these grant programmes are included in the workplan of this Committee.

Recommendation

That the Place, Economic Growth and Environment Scrutiny Board:

- 1) Notes their responsibility to undertake scrutiny on the detailed grant programmes
- 2) Considers the incorporation of a review on progress on the Future High Streets Fund, Town Deals Fund and Levelling Up Fund twice in a municipal year.

1 Grant Programmes Assurance Framework

- 1.1 On 16 June 2023 DLUHC issued guidance (Levelling Up Funds Local Authority Assurance Framework) which clarified the oversight DLUHC expects regarding the grant schemes falling within the remit of Levelling Up. It sets out a common approach to how DLUHC will assure the use of the funds in scope (from an Oldham perspective these are the Levelling Up Fund, Town Deals Fund and Future High Street Fund).
- 1.2 The Framework sets standards in line with the principles of Managing Public Money (MPM) with regard to regularity, propriety and securing value for money. It provides DLUHC, His Majesty's Government (HMG) and more widely stakeholders and the public with the necessary assurances that grant recipients have the policies and procedures in place to ensure the robust stewardship of public money.
- 1.3 This guidance expands the previous assurance regime implemented by DLUHC whereby the Chief Financial Officer was required to certify a statement of estimated grant usage twice per annum. It follows a reported challenge to DLUHC from HM Treasury about its processes on the administration of capital grants for which it has departmental responsibility.
- 1.4 As advised above, there are three capital grant programmes for which this Scrutiny Board may be expected to provide oversight under this Assurance Framework. These are:
- Future High Street Funds (FHSF); expected grant related expenditure to be completed by 31 March 2024;
 - Town Deals Fund (TDF); expected grant related expenditure to be completed by 31 March 2025 (the FHSF and the TDF are collectively known as the Towns Fund); and
 - Levelling Up Fund; expected grant related expenditure to be completed by 31 March 2025.

In addition, it is expected that there will be a further opportunity to bid for a further programme of Levelling Up Funding which has the potential to attract a further £20m in capital grant funding to the Council. As Oldham Council is a priority 1 area in terms of bidding it will have a reasonable chance of securing funding subject to it identifying appropriate schemes.

- 1.5 It is important to note that when grant funding has been awarded for the Future High Streets Fund and Levelling Up Fund, there is a requirement for a Local Authority to agree a Memorandum of Understanding (MOU) with DLUHC setting out what is expected of grant recipients with regard to issues such as:
- Eligible expenditure;
 - Reporting;
 - Accountability and assurance;
 - Monitoring and evaluation;
 - Branding and communication; and
 - Performance management.

The Council has signed such MOU's.

1.6 Whilst the FHSF element of the Towns Fund is subject to a Memorandum of Understanding between DLUHC and the Council, the Town Deal is an agreement in principle between Government, the Accountable Body (the Council) and the Town Deal Board, confirmed in a Heads of Terms (HoT). The HoT is signed by the Chair of the Town Deal Board, the accountable body (the Council) and the Minister for Levelling UP. DLUHC therefore provides funding to Oldham through the Council to the Town Deal Board. As such the responsibility of the Council as Accountable Body is clear.

2 Assurance Framework

Principles of the Assurance Framework

2.1 A key element of the Central Government Assurance Framework is the role of the Accountable Officer. For DLUHC this is the Permanent Secretary who for each of the grant funding regimes is required to sign an Assurance Statement. To discharge this requirement “The Levelling Up Funds Local Authority Assurance Framework” (to which a link is provided as Appendix 1 to this report) has been developed. The guidance acknowledges the principles of the Framework.

2.2 The key points from the guidance in relation to Oldham are:

- In accordance with the Cabinet Office Government Functional Standards, the Assurance Framework provides for 3 separate and defined levels of assurance referred to as the 3 lines of defence;
- The first line of defence should be delivered at an operational management level. This is specified to be the Chief Finance Officer who for Oldham is the Director of Finance. This officer has the responsibility for His Majesty’s Government (HMG) investment, through the agreed projects, with propriety, regularity, and value for money, particularly with regard to financial administration and transparency of governance. When signing the assurance letter and statement of grant usage the Chief Finance Officer will be required to provide written confirmation, they have undertaken all necessary checks to ensure proper administration regarding the funding programme;
- The second line of defence will be independent of the first line of defence and will be undertaken by DLUHC. It will require Local Authorities to engage with and provide supporting information in response to further assurance activity undertaken by DLUHC and other Government departments;
- The third line of defence will be undertaken by an independent audit, or an independent body provided via Central Government to secure an “objective opinion on the effectiveness of governance, risk management and internal controls”.

2.3 The guidance implies that these grant funded projects are reviewed in line with the Council’s arrangements for scrutiny. Should the Council be selected for a more detailed review as set out in the second line of defence, then the level and effectiveness of scrutiny undertaken will be reviewed.

2.4 For the financial year 2023/24 it is suggested that two reports be submitted by Officers to this Scrutiny Board. This report setting out the responsibilities expected via the Assurance Framework with a further report to the meeting on 19 March 2024 setting out the progress on delivering the three funding streams/capital expenditure programmes in line with the basis upon which the funding has been approved, i.e. based on forecast outcomes, milestones and financial profiles.

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- 2.5 In respect of the municipal year 2024/25 it is recommended that a further 2 reports outlining the progress on the oversight of these grant programmes are included in the future workplan.

First Line of Defence

- 2.6 The Chief Financial Officer is the first line of defence and DLUHC will expect this Officer via the completion of the assurance letter and statement of grant usage, to provide written confirmation that they have undertaken all the necessary checks to ensure proper administration of the financial affairs of the funding programme.
- 2.7 The statement of grant usage is to be completed on an annual basis and has the requirements detailed below:
- Details of the checks that the Chief Finance Officer (or deputy) has taken to assure themselves that the Local Authority has in place the processes that ensure proper administration of its financial affairs relating to these grant funds .
 - Provision of responses to the required questions addressing the governance and transparency for grant management including procurement, conflict of interest, subsidy control/ state aid, counter fraud, and risk management.
- 2.8 The Chief Financial Officer will also complete an assurance letter which is addressed to the Permanent Secretary in their role as DLUHC Accounting Officer. In this letter the Chief Financial Officer must express an opinion on whether the individual grant programmes are being properly administered, and if not, provide information on their concerns with how the risks/ issues are to be resolved.

Proposed Assurance to be applied by the Director of Finance

- 2.9 To provide the assurance, it is proposed that the Director of Finance relies on the following for the financial year 2023/24 and future financial years:
- A report to the Place, Economic Growth and Environment Scrutiny Board on 19 March 2024 by the Executive Director for Place and Economic Growth on the progress made on the three grant programmes as outlined in this report. This will include the comments of the Director of Finance as the first line of defence. In future financial years it is envisaged this officer will produce two of these reports which will include the comments of the Director of Finance.
 - The integration of this guidance into the programme management arrangements overseen by the Place and Economic Growth Portfolio aligned to the operation of the Creating a Better Place Programme Board.
 - Appropriately published Electronic Decision Recording System Reports outlining the key decisions undertaken on project management to ensure they are taken in accordance with the Council's decision-making framework.
 - Finance and Contract Procedure Rules which are subject to regular updating and regular reviews to ensure that these are complied with;
 - An up to date suite of Counter Fraud Policies which are subject to appropriate review by the Audit Committee.
 - A targeted programme of internal audit work on the 3 grant funded programmes. The outcomes of any audit work will be reported to the Audit Committee as part of
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the routine reports. A summary of the findings will also be reported to this Committee on 19 March 2024 by the Executive Director for Place and Economic Growth and in the year-end report to this Scrutiny Committee for the municipal year 2024/25.

- A detailed analysis of the Subsidy Control implications for each project within the 3 capital grant programmes. This analysis should be completed by the project officers from the Place and Economic Growth Portfolio, Legal Services and the Procurement and Finance Teams.
- Regular reports to the Audit Committee including the regular updates provided on the issues either already identified or to be identified within the Annual Governance Statement. At present the potential risks to the capital programme and grant funding regime delivery have been identified as specific risks. This is due to increased costs and/ or the requirement to reprofile schemes and resulting in challenges to delivery within grant funding timelines;
- Oversight of this Scrutiny Board of the programme management arrangements in place for the Future High Streets Fund, Town Deals Fund and Levelling Up Fund capital grants regimes.

Second Line of Defence

- 2.10 The second line of defence will be undertaken by the Assurance and Compliance Team within DLUHC. It is important to note that the DLUHC is quite heavily reliant on the first line of defence, i.e., the information provided by the Chief Finance Officer and hence the robustness of the operational and management arrangements of a Local Authority.
- 2.11 DLUHC will take a risk based approach to the second line of defence with deep dives being undertaken based on a suite of risk factors and random sampling. Sample based deep dives will be undertaken using a random selection tool and will be established on an annual basis.
- 2.12 In addition to random sampling the determination of a need for a deep dive will involve the consideration of a series of risk triggers as detailed below for each separate capital grant programme:
- Any concerns of Chief Financial Officer highlighted via the Assurance Letter and Statement of Grant Usage;
 - Evidence that financial performance is not in line with the previous performance returns (note returns have to be submitted on a 6 monthly basis);
 - Concern that delivery performance is at risk based on the deliverability review undertaken twice a year;
 - Area led intelligence based on local relationships with DLUHC officials;
 - The External Auditor's annual report which is based upon the Authority's last certified published accounts as published on the website;
 - Assurance intelligence based on the shared intelligence of the various DLUHC teams overseeing the capital funding programmes.
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2.13 One key measure in determining whether to take a more detailed review will be if financial performance. Where the spend is either 40% below or above the quarterly threshold submitted for two quarters in succession a more detailed review is likely from DLUHC.

2.14 A deep dive review will involve an examination of:

- Key documentation such as the Terms of Reference, Programme Management Arrangements including agendas, oversight by Scrutiny Boards/Committees and risk policy.
- Counter Fraud oversight including managing conflicts of interest;
- Compliance with the Authority's own decision making framework which will include procurement protocols;
- Compliance with State Aid and Subsidy Control requirements.

2.15 It will involve the Local Authority providing evidence as requested and key meetings involving officers which will include the Director of Finance.

Third Line of Defence

2.16 The third line of defence is an independent review to secure an "objective opinion on the effectiveness of governance, risk management and internal controls". This will be undertaken by the Government Internal Audit Agency (GIAA) and will take the form of a review of the activity completed by DLUHC as the second line of defence. The GIAA will provide notice of their planned review and set out the scope and information required at the time.

Assurance for Members

2.17 The Council already has many of the requirements in place to provide assurance should it be requested by the second line of defence. The approach outlined in this report will give Members assurance about the robustness of the first line of defence. At Member level it will require appropriate liaison between the Audit Committee and Scrutiny Board to ensure the appropriate oversight of the capital grant programmes is undertaken.

3 Options/Alternatives

3.1 The Place, Economic Growth and Environment Scrutiny Board can:

- a) Undertake Scrutiny of the Grant Programmes for the Future High Streets Fund, Towns Fund and Levelling Up Fund by considering two reports per annum. This requirement has been included in the proposed work programme detailed elsewhere on the agenda.
- b) Choose not to undertake scrutiny twice a year of the 3 capital grant funded regimes, preferring to rely on reporting by exception should there be a challenge with regard to compliance with the DLUHC Assurance Framework.

4 Preferred Option

4.1 The preferred option is Option set out at 3.1(a) so that this Scrutiny Board to considers matters on the 3 capital grant programmes twice in a Municipal Year.

5 **Consultation**

5.1 N/A.

6 **Financial Implications**

6.1 The choice of the External Auditor's annual report as one key feature of the second line of defence is interesting given the well reported backlogs in External Auditors completing Local Authority audits and hence providing an opinion on accounts. There is at least one Local Authority which does not have its accounts certified for 2015/16.

6.2 This report sets out how it is proposed to support the undertaking of the first line of defence which is a responsibility of the Director of Finance. It will involve regular reports to both the Scrutiny Board and the Audit Committee with appropriate regular reviews of key policies to ensure they remain up to date.

6.3 The approach set out in the DLUHC Assurance Framework seems sensible. It is important to note that it has been introduced retrospectively and there is therefore a need to ensure future decisions balance the need to implement the schemes (some of which are complex) in line with the guidance in an extremely challenging timescale.

6.4 The risk to the Council should any of the 3 capital grant funding regimes covered by the DLUHC Assurance Framework go off track, is a potential loss of grant and increased requirement for Council resources to complete the schemes. There is also a reputational risk. The discipline required by the regular reporting of the grant funding regimes and reporting in relation to the Assurance Framework should provide an early warning if there are any perceived risks.

(Anne Ryans Director of Finance)

7 **Legal Services Comments**

7.1 N/A.

8 **Cooperative Agenda**

8.1 N/A.

9 **Human Resources Comments**

9.1 N/A.

10 **Risk Assessments**

10.1 The Annual Governance Statement to support the 2022/23 Draft Statement of Accounts alludes to the perceived risks on these capital grant funding programmes relating to the ability of the Council to deliver the projects in the required timescale. It is important that this risk is managed to prevent any loss of grant or additional cost to the Council.

(Mark Stenson)

11 **IT Implications**

11.1 N/A.

12 **Property Implications**

12.1 N/A.

13 **Procurement Implications**

13.1 N/A.

14 **Environmental and Health & Safety Implications**

14.1 N/A.

15 **Equality, community cohesion and crime implications**

15.1 N/A.

16 **Equality Impact Assessment Completed?**

16.1 None.

17 **Key Decision**

17.1 N/A.

18 **Forward Plan Reference**

18.1 N/A.

19 **Background Papers**

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Levelling Up Funds Local Authority Assurance Framework published by DLUHC on 16 June 2023 (DLUHC website)
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20 **Appendices**

20.1 Appendix 1; Link to the Levelling Up Funds Local Authority Assurance Framework

<https://www.gov.uk/government/publications/levelling-up-funds-local-authority-assurance-framework>
